

# BULLETIN

No. 76 (293) • July 22, 2011 • © PISM

Editors: Marcin Zaborowski (Editor-in-Chief), Agnieszka Kopeć (Executive Editor),  
Łukasz Adamski, Beata Górka-Winter, Artur Gradziuk, Leszek Jesień,  
Beata Wojna, Ernest Wyciszkwicz

---

## Recent Developments in Mercosur: Brazil's Perspective

Bartłomiej Znojek

*Mercosur has long been the most important project of economic integration in South America. Significant asymmetries between member states and different views on integration have been contributing to a slow pace of consolidating the bloc. Currently an uncompleted customs union, Mercosur has been persistently seeking to be relevant to its members and foreign partners. The development of the bloc has always strongly depended on Brazil, which has been instrumental in shaping the agenda and institutional framework while using Mercosur as a useful vehicle to carry out its own regional and global ambitions.*

Established in 1991 and provided with institutional structure in 1994, Mercosur (the Common Market of the South) has promptly become the most important economic cooperation project in South America. Nonetheless, the major task of its founding members (Argentina, Brazil, Paraguay and Uruguay) to set up a common market has never been accomplished. Further consolidation has been marked by a slow pace, frequent trade disputes and various tests to the continuity of the organization. Currently, Mercosur is described as an imperfect customs union with common external tariffs weakened by many individual exceptions. During Mercosur's 20 years of existence, the four member states have been struggling continuously to make the project relevant to themselves and attractive for partners abroad. The last such attempt took place in June 2011 during the Mercosur summit in Paraguay.

**Main Considerations of the Summit.** The high-level meetings in June concluded with a few declarations referring to a broad range of issues. Among them were uniting economic growth with social justice, coordination in some specific sectors (for example, the manufacturing industry) and a key role for human rights in the integration processes. The final communiqués also included such longstanding issues as the need to consolidate the customs union and improve the free movement of goods.

The persistent issue of concern, however, remains the deep asymmetries that have been hindering the integration of Mercosur since the very beginning of the bloc. A vast gap is seen, especially between the much smaller economies of Paraguay and Uruguay on one side and Argentina and Brazil on the other. Brazil alone is far more potent than the bloc's remaining counterparts. At present, Brazil generates more than 80% of Mercosur GDP and accounts for more than 72% of Mercosur trade. Brazilian trade with the other Mercosur partners amounts to 10%, while the overall intraregional exchange of goods amounts to only about 17%. The marginal position of Paraguay and Uruguay is represented by their 2.5% and 3.4% shares, respectively, of Mercosur's trade. The most important instrument of tightening the distance between the economies has been the Fund for Structural Convergence of Mercosur (FOCEM) established in 2005. In the previous two years it enjoyed a budget of \$1.1 billion, financing 37 projects. Paraguay received 75% of the available financial resources.

While struggling with internal weakness, Mercosur has been looking forward to closer and preferential commercial ties with various international partners. During the summit, consultations on possible agreements with Canada and Japan were held. Nonetheless, the member states called for first reaching a prompt conclusion of the negotiation on the association agreement with the EU. Meaningfully, during the discussions, China's commercial expansion in South America was underlined. The member states decided to study possible ways and means to control and limit the massive inflow of cheap manufactured goods from southeast Asia that are hindering Mercosur industry. Despite

frequent calls by member states to strengthen Mercosur, the shape of the bloc visibly reflects the prevalence of integration visions built on the traditional approach to safeguarding sovereignty. This is particularly the case for Brazil, which always has been strongly influencing the development of the bloc.

**Brazil and Mercosur.** Initially, Brazilian political elites saw the organization as an important initiative to bring about political stability as well as one that would help amplify economic opportunities for the region and boost its attractiveness in a globalizing economy. Vocal in defending national sovereignty, Brazil preferred keeping the level of institutionalization minimal and promoting intergovernmental dialogue, especially through presidential diplomacy (meetings of the heads of states) which it sees as the most effective way to make commitments and resolve disputes. It also has been slow to recognize the concerns of smaller partners about the problem of asymmetries. Nevertheless, it still has been backing solutions that avoid the installation of a supranational authority. One of these was promoting the further expansion of Mercosur instead of deepening its integration. A prominent example was the support for Venezuela's bid for full membership in 2006 (the decision still is pending approval by the Paraguayan parliament). At the same time, the Brazilian government used the bloc to strengthen its position when negotiating the Free Trade Area of the Americas, which was sponsored by the U.S. government, and discussing a bi-regional association agreement with the EU.

In last decade, two important processes have been determining Brazil's interest in Mercosur. The first was a shift of the government's integration focus toward the continent. The main fruit of that step was the establishment in 2008 of the Union of South American Nations (Unasur), an initiative that has led to Mercosur becoming relatively less important. The second process was the rise of Brazil as one of the main emerging economies, which motivated Brazilian elites to seize the opportunity to maximize its international position.

For the government of Dilma Rousseff, Mercosur and Unasur are high priority regional integration projects. It is aware of the weaknesses of Mercosur but looks forward to further strengthening the organization. This means continuing to follow the path of intergovernmental cooperation with a minimum of institutionalization as well as expanding Mercosur towards other South American countries (for example, to Bolivia and Ecuador). Rousseff underlines the importance of tackling asymmetry and coordinating responses to social problems. Still, it treats Mercosur as a vehicle to strengthen its own position in the region and in relations with other international partners. Brazil wants to be seen as a promoter of regional integration and, hence, the guarantor of the political and socio-economic stability of the continent.

The last high-level meeting has shown that while, paradoxically, Mercosur's rationale and effectiveness have been repeatedly questioned, the member states, Brazil in particular, have been determined in their efforts to find continued relevance for the organization. While frequent negative views about the excessive rhetoric and low effectiveness of the summits are well justified, one should admit that Mercosur has elaborated a considerable set of ways and means to embrace a broad range of issues of regional concern.

**Recommendations for Poland.** Importantly for the EU, Mercosur sees the European bloc as an attractive partner. Its four member states have shown recent and clear interest in concluding the ongoing bi-regional negotiations on an association agreement. The prospects for promptly reaching consensus are rather pessimistic, however, because of significant concerns about the negative consequences of opening Mercosur's markets. Although Latin America has never been an important area of interest for Polish foreign policy, the current presidency of the EU Council could be used by Poland to strengthen its own image among the political and business elites from the Mercosur member states. Under the Lisbon Treaty, the role of the rotating presidency of the EU in external relations has been significantly limited. Nonetheless, it can exercise some decisive functions in trade (e.g., introducing topics for debate). This will be important in the context of the next EU–Mercosur negotiating round planned for the last quarter of 2011. While Poland is likely to secure the interests of its farmers, it could show openness to discussions of how to balance the benefits and costs of a potential bi-regional agreement. Presidential prerogatives will not allow Poland to play any exposed role during the 5<sup>th</sup> EU–Brazil summit (on 4 October in Brussels). However, the function of the presidency may be useful in attracting the attention of Brazilian officials to Poland and for discussion about the possibilities of fostering bilateral relations, particularly commercial ones. Overall, if successful, the Polish presidency may contribute to improving the image of Poland as an influential country in the EU that is attractive for foreign countries, including Latin American states.