



Finding Unity in Division.

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## *Abstract*

The Idea of political blocs and unions have always been for me one of fascination and intrigue. Different cultures, ethnicities, religion and languages co-existing and working towards shared goals and values brings optimism that dangers facing a variety of nations can be tackled together, for example climate change. There is still despite many advances in liberalistic taught and practices towards globalization and international cohesion a lingering element of realism which threatens the idea of a multi-national political bloc and the ideals such a bloc stands for. Within the European Union we have seen fissures appear on the surface of what is often hailed as a model example of what a political union should aspire to be , these include the recent migrant crisis and the currently ongoing COVID 19 crisis which has shined a spotlight on these divisions. The EU however is built on a solid foundation of institutions and shared values which has allowed it to ride the wave of multiple crises since its inception. The EU is not a lone political union in this age of ever-growing globalization with other examples include ASEAN, the African Union and the focus point of this paper Mercosur. I wish to focus on Mercosur as the bloc of countries share many similar traits in relation to religion, language and cultures which should allow for enhanced political cooperation and economic cohesion but to this point has not, why? That is what this paper intends to shed light on, namely why has Mercosur despite the many shared values and goals that member states have, continued to falter in increasing political and economic integration despite the underlying similarities that exist. This paper aims to report on the developments of Mercosur as a union from its historic goals to its present challenges and ultimately investigate the present issues that continue to hold back the Mercosur bloc towards achieving the same level of success in the context of political and economic integration which other political unions have achieved such as the European Union.

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## **1. Introduction**

### **1.1 How did Mercosur come to be?**

Mercosur is a trade bloc comprising the south American nations of Argentina, Brazil, Paraguay and Uruguay as full member states of the bloc. Venezuela is a member however the country was suspended as a full member state in 2016 as political upheaval in the country accelerated. Bolivia is a nation in the process of joining the bloc however at the time of writing this report the nation is still not a full member state. The nations of Chile, Columbia, Ecuador, Guyana, Peru, and Suriname are associated member states while there existing two observer member states which are Mexico and New Zealand. The first attempts of creating an economic customs union came during the second world war at the time Brazil and Argentina were both negotiating the prospects of an economic union between both economies however diplomatic differences in relation to the ongoing world war stalled these talks. Immediately after the second world war when the global political system began to stabilize it became apparent that the need for closer economic integration amongst south American state was vital for the future economic prospects of the nations in the region. After initially witnessing the processes of the newly founded European coal and steel community (EEC) the prospects for a similar measure began to gain traction in the ideas of leaders throughout the region.<sup>1</sup> In 1960 the treaty of Montevideo was signed which created the Latin American free trade association (ALALC). Most measures enacted by the treaty were left to the discretion of sole individual states which initially complimented member states well however this practice ran into trouble as the lack of mutual concessions and a general decrease in internal trade led to the treaty being revised in 1980 in what was known simply as the Treaty of Montevideo II. The signing of the second treaty of Montevideo led to the creation of the Latin American Integration Association (ALADI) which set out to increase economic and to a limited extent political integration between the following 11 nations Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela. The treaty failed in establishing a comprehensive free trade area, instead an economic preference zone was established which did increase economic cohesion but

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<sup>1</sup> The Mercosur Experience and theories of Regional integration, Ricardo, Carlos

ultimately failed at the time to replicate the desired similar practice being set forth in the EU in relation to a free trade area.

Eventually the wish to establish a common market was realized with the creation of the Southern common market or Mercosur (Mercosul in Portuguese) between the two largest nations in south America; Argentina and Brazil. The treaty of Asuncion signed in 1991 saw both Paraguay and Uruguay join this common market and the first iteration of what we today refer to as Mercosur was established. <sup>2</sup>

### ***1.2 Why didn't others join?***

While Argentina, Brazil, Paraguay and Uruguay were now a part of a common market, many other nations in south America remained outside and this remains the case today. Chile has aligned itself with the economies of the Pacific Ocean and approved the establishment of the trans-pacific partnership agreement which eventually faltered due to a withdrawal from the United States by the Trump administration, the largest economy of the agreement. Chile has a free trade agreement with the USA, Canada, Mexico, Korea and China allowing the country to offset the necessity of joining Mercosur for the immediate future as this action would jeopardize Chile's existing Free trade agreements. Ecuador began preliminary discussion about joining Mercosur in 2013 however these negotiations are ongoing, and no concrete date or plan of accession has been brought forward at this time. In 2011 the president of Peru at the time Ollanta Humala when asked about the prospects of Peruvian membership simply commented that due to economic reasons Peru is not yet ready to join Mercosur.<sup>3</sup> Colombia has entered into a number of trade negotiations with Mercosur but for the moment it is likely that the country will remain just an export partner and associated member of the bloc as the desire for independent economic policy is strong in the Colombian government.

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<sup>2</sup> Mercosur , South America fractious trade bloc , Council on Foreign relations , available at <https://www.cfr.org/background/mercotur-south-americas-fractious-trade-bloc>

<sup>3</sup> Humala: Peru not ready for Mercosur , UPI (04/06/11) Available at <https://www.upi.com/Energy-News/2011/06/14/Humala-Peru-not-ready-for-Mercosur/91961308089963/>



*Green (Full Members – Argentina, Brazil, Paraguay, Uruguay)*

*Red (Suspended Member- Venezuela)*

*Light Green (Ascension country – Bolivia)*

*Yellow (Associated States – Columbia, Chile, Ecuador, Peru, Guyana, Suriname)*

## **Research Question**

Despite the number of similarities amongst Mercosur member states , the bloc still has not integrated to the extent of other more diverse political unions such as the EU , economically it would appear from the onset that these nations don't need to be a part of Mercosur therefore is Mercosur a success?

## **2. Methodology**

This section will begin by explaining the methodology of the thesis and the further framework for the analysis of the question “*Why has Mercosur failed to reach the level of integration seen in other political unions?*” which will include conclusion drawn from the thesis report. I will begin by explaining the ontology and epistemology which will then lead to the discussion of the applied theories intended to be used as a framework for the research of this project.

Considerations about the collection of the data used to justify this project will then be taken into this project and drawing on the specific cases within each of the full member states of the Mercosur bloc which are Argentina, Brazil, Paraguay and Uruguay. This thesis takes a realism approach as ontology which will assume that countries operating within the Mercosur bloc are acting based on the principals of the realism theory which places an emphasis on the nation state and the said nation state acting in defense of its own individual interest. Realism reflects the individual nations obligation to its citizens to ensure that it acts in the interest of the nation state they inhabit. Many observers can point to the success of political unions such as the European Union as an example of post realism co-operation however one can also point to the continued self-interest actions of EU member states as examples of continued realism taught with recent

examples including Hungary's refusal to accept migrants and the continued debate about a post corona financial bonds system. In this sense I feel that realism is still a crucial element of national state action in the international arena which will relate to the Mercosur bloc within this thesis. This thesis thus assumes that nation states acting within the Mercosur bloc are acting in the rational interest of themselves over the Collaboratory efforts of the bloc as a whole.

### *Choice of Subject*

The decision to choose the subject of Mercosur and the divisions of the bloc comes from the current events surrounding Mercosur and international co-operation. I am referring to the current EU-Mercosur free trade agreement negotiations which are shining a light on both the capacity of Mercosur to negotiation as a united bloc and the limitations and fears outside organisations have of Mercosur in relation to environmental protection and food safety. These are challenges which push Mercosur to co-operate internally in order to achieve the grand prize of a free trade agreement with the EU which if achieved would be the largest free trade agreement ever negotiated. This give Mercosur increased scrutiny in the media and in the political arena which makes the current time a perfect opportunity to explore the divisions of Mercosur and what holds the bloc back from attaining the similar success we have seen in other political blocs such as the EU.

### *Choice of Analysis*

A collection of reports revolving around the current EU-Mercosur Free trade agreement will allow me to gain a perspective of how the Mercosur bloc is perceived from an outside perspective. Reports and analysis from within the Mercosur bloc will also give the perspective of how the bloc operates internally and the confidence respective government have in the bloc ability to act as a unified political bloc. The ongoing EU-Mercosur free trade agreement negotiations have shined the spotlight on the Mercosur bloc which was also compounded by Brazils inefficiencies in tackling the amazon rainforest fires which lead to a diplomatic dispute between Brazil and France which is one of the highlights of the agreement negotiation thus far.

## *Choice of Data*

This thesis will incorporate a mixture of quantitatively and qualitative datasets with the before mention qualitative data coming in the form of reports and the qualitative data coming in the form of economic data to investigate the impacts of Mercosur on member states national economics and trade. Other figures such as unemployment, GDP, GPP and inflation will be taken into account to give an overview of how the economic situation of each member state has evolved since membership. Internal trade will give an account of how well the original goals of Mercosur bloc hold up today in 2020.

## *Primary Data Collection*

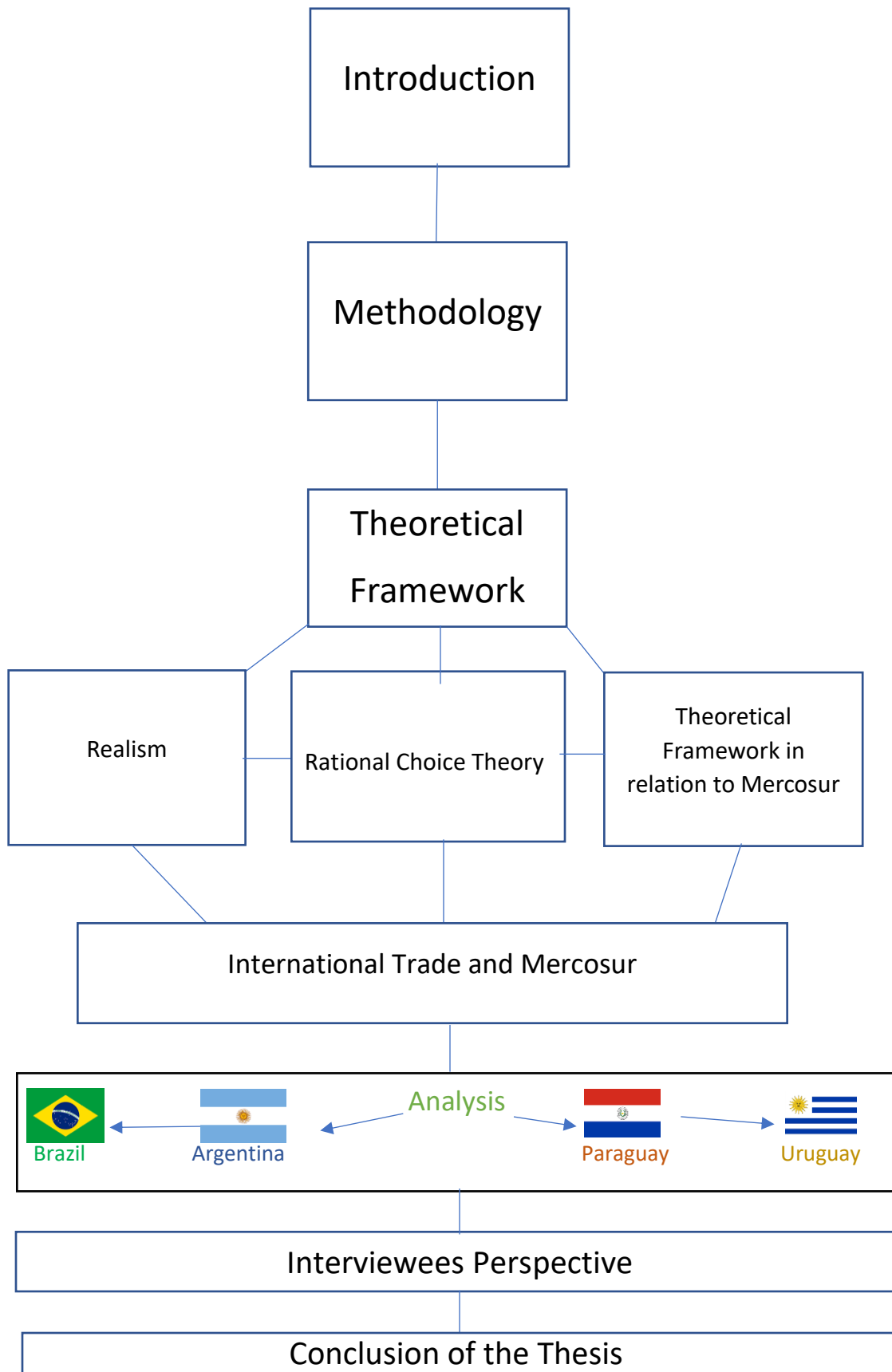
Two interviews were undergone during the process of writing this thesis, these interviews were conducted with members of a consulting company which has consultants working on the Mercosur-EU Free trade agreement data collection and forecasting processes and on regional issues related to Mercosur member states. The purpose of these interviews was to discuss from the perspective of Individuals who have studied and now work in the Latin American market and to gather the taut of each of the individuals in relation to the Mercosur bloc and how they view it growing or further dividing in the future. Four interviews with citizens of each of the full member states ; Argentina , Brazil, Uruguay and Paraguay help to compound the gathering of a public perceptive however it must be noted that the process of doing this with one individual is difficult and largely reflective of their own personal experiences which means I will be comparing their answers with public opinion surveys conducted in the respected countries about their confidence in the Mercosur project. Interviews from the four citizens of the member states took place in a less formal fashion and mirrored a general conversation on the topic.

## *Secondary Data Collection*

As the choice of this Thesis draws on the inner divisions which acts as stumbling blocks for the integration of Mercosur. The EU and Eurostat has been readily recruiting data from the Mercosur bloc as local lobby groups in the perspective member states have put pressure on national governments to ensure that their perspective economic sectors aren't negatively impacted by the free trade agreement with farmers and environmentalist in particular voicing concerns. Realism hence fits this method of data collection as it investigates the personal and national concerns of Mercosur both within and outside the bloc. A common practice in each nation is to highlight the valued concerns of the citizens about the Mercosur bloc which draws on a media trend in the countries of the Mercosur bloc to typically perceive Mercosur with suspicion which needs to be noted during the primary data collection process.

## *Project structure*

Following the methodology chapter this thesis will begin to explore the theoretical framework of the thesis and greater explore the role of realism not only in the context of this thesis but in the context of the Mercosur bloc as a whole. This will then draw on the analysis section which will highlight the past and ongoing disputes and hopes for the Mercosur bloc before drawing on a final conclusion about the health of the political union and how it may evolve in the future. An international trade section helps to understand the economic reliability of member states of being a part of the Mercosur bloc which will help compound the findings of the analysis section.



### 3. Theoretical Framework

#### Realism

##### An Overview

Realism which can also be referred to as political realism is a branch of international relation taught and theory which places an emphasis on the competitive and conflictual side of international politics. Typically, the theory of realism offers a stark contrast to the schools of thought of liberalism. Realists consider the principal actors in the international arena to be the nation state which are concerned about their own security causing them to act in their own national interests and struggle for power. Realism often places an emphasis on human greed and concern for self-interests and views international cooperation largely as an exercise to shore up national power domestically. Realism has evolved as a theory throughout the idea of a nation state and further international relations into the contemporary realist thought which will incorporate many of the tenets used in the analysis and conclusion of this paper and will be touched on later in this section. To begin we must give an account of Machiavelli's critique of tradition <sup>4</sup>

##### Machiavelli's Critique of moral tradition

Niccolò Machiavelli challenged the well-established traditional norms of the society of his time and in doing so helped to lay the groundwork for the realism theory that we know today.

Machiavellism is a more radical field of view of politics which places little emphasis on the morality involved in politics and in a sense fails to distinguish between morality in the political decision making process instead focusing on the end goal of a political maneuver as the main object that politicians should focus on. Machiavelli (1532) in his book *The Prince* argued the survival of the state can only be insured through a firm hand of governance. Machiavelli's advocates that the sole responsibility of the states is to ensure its own survival in an international arena which seeks to undermine this ability. The ramifications of this field of thought has played out throughout contemporary European history with the second world war demonstrating many of the tenants of Machiavelli's such as survival of the state through all means (*Operation Barbarossa saw unimaginable suffering from soviet citizens in the aim of state preservation*) and the lack of morality and ethics employed in political decisions such as the holocaust and the

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<sup>4</sup> Machiavelli's critique of humanism and the ambivalences of modernity, Yoran, Hanan, Imprint Academic, 2010.

German invasion of weaker nations such as The Netherlands and Poland. These tenants are a recent phenomenon and still play a role in political decision making today albeit not as extreme as once was the case, morality today plays a larger role with international bodies such as the United Nations available to ensure morality and human rights are respected , however such cases as Syria and Yemen present the limitations today of ensuring morality is a tenant of the international political arena. <sup>5</sup>

## *Contemporary Realism*

Contemporary realism is the most recent brand of taught through the theory of realism and plays a more integrated role in the understanding of decisions made politically both internationally and domestically. Hans J Morgenthau developed realism into the comprehensive political theory we mostly refer to today. Morgenthau plays an emphasis on human nature and the human mindset which revolves around selfishness, the lust for power and an inherent desire to dominate. Morgenthau highlights six principals to summaries the theory of realism in an effort to develop the theory as a key tool in the decision-making process that is undertaken in international politics. <sup>6</sup>

- Politics is governed by objective laws that are hugely influenced by inherent human nature
- *Concept of Interest:* The concept of interest defined as power imposes intellectual discipline upon the observer, infuses rational order into the subject matter of politics, and thus makes the theoretical understanding of politics possible.
- Realism assumes that its key concept of interest defined as power is an objective category which is universally valid
- Political realism is aware of the moral significance of political action. It is also aware of the ineluctable tension between the moral command and the requirements of successful political action

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<sup>5</sup> Machivellis critique of tradition , Femia , Joseph , Librarie Diaz Available at <https://journals.openedition.org/ress/2554>

<sup>6</sup> Hans J. Morgenthau, *Politics Among Nations: The Struggle for Power and Peace*, Fifth Edition, Revised, (New York: Alfred A. Knopf, 1978, pp. 4-15

- Political realism refuses to identify the moral aspirations of a particular nation with the moral laws that govern the universe. As it distinguishes between truth and opinion, so it distinguishes between truth and idolatry
- It cannot be subordinated to ethics. However, ethics does still play a role in politics. “A man who was nothing but ‘political man’ would be a beast<sup>7</sup>”

Although Morgenthau shares some of the same characteristics of the Machiavelli’s school of thought there are key differences such as Ethics, which Morgenthau states plays a role in politics which offers a contrast to Machiavelli’s. Human lust for power plays a large role in political decision making however rationality through ethics ensure that morality plays a role in political decision making through Morgenthau’s school of thought. Rational decisions however largely will further reflect the desire to retain power with decisions that weaken powerful positions being anomalies in the international arena.

Morgenthau’s realism through his book *Politics amongst nations*<sup>8</sup> has become a standard book in the influence of international politics and explaining the processes that are taken into account in each decision. The cold war saw many tenants of realism prop up into the international arena however as the cold war receded and a new international order was established the rise of organisations which by virtue contradict many tenants of the realism theory such as the EU and Mercosur has led to a revision of realism as a theory of international relations with neorealism becoming an increasingly popular field of thought.

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<sup>7</sup> Hans J. Morgenthau, *Politics Among Nations: The Struggle for Power and Peace*, Fifth Edition, Revised, (New York: Alfred A. Knopf, 1978,. Available at <https://www.mtholyoke.edu/acad/intrel/morg6.htm>

## Neorealism and Waltz

Neorealism or structural realism is a theory of realism in international relations which states that the role of power is the most important factor in the international political arena. The theory came predominantly from Kenneth Waltz in his book *Theory of International Politics*<sup>9</sup> as a response to Morgenthau's rooted struggle for power being inherent to the human mindset to one which focuses more on microeconomics and international dialogue. He relates political nation-state to firms operating in the market with inherently the same desire, to survive. Waltz argues that by paying attention solely to the individual state through moral and economic issues, classical realist fails to account for the international system which incorporates wider political and sociological practices. Waltz places an emphasis on the decision-making process of nations state not being acted upon by a desire solely for power by any means but by decisions taken in the international arena which threaten the power currently held by the nation state. Consequently, Waltz views power and the behavior of the state in a way that differs from classical realists. Morgenthau views power was both a means and an end, and rational state behavior was understood as simply the course of action that would accumulate the most power. In contrast, neorealists assume that the fundamental interest of each state is security and would therefore concentrate on the distribution of power to ensure the survival of the state.

According to Waltz, the behavior of states over centuries may be explained through the constraints placed on states in the international arena. A structure of the system can first be defined by organisations then by the distribution of power across the nation state which helps to ensure its survival.



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<sup>9</sup> The Theory of International Politics , Waltz , Kenneth , 1979 ,University of California Berkley Available at [https://dl1.cuni.cz/pluginfile.php/486328/mod\\_resource/content/0/Kenneth%20N.%20Waltz%20Theory%20of%20International%20Politics%20Addison-Wesley%20series%20in%20political%20science%20%20%20%201979.pdf](https://dl1.cuni.cz/pluginfile.php/486328/mod_resource/content/0/Kenneth%20N.%20Waltz%20Theory%20of%20International%20Politics%20Addison-Wesley%20series%20in%20political%20science%20%20%20%201979.pdf)

## Realism through Game Theory

The concept of sub game perfect equilibrium (SGPE) is a perfection of the concept of Nash equilibrium, for extensive game models [Fudenberg, D. and J. Tirole (1991)].<sup>10</sup> Game theory is a mathematical field of taught that relates to the analysis of strategies and policies. The context of game theory come from a competitive arena or situation where the player is aiming for the best-case scenario for themselves. The player in this sense is the nation state, the nation state in international Trade, relations, and military readiness which all relate to the power of the player and their ability to apply situations that lead to the best-case scenario of the player. Realism in the sense that it advocates for the survival of the state relates to game theory as decisions taken to preserve the power of the state mirror many decisions taken in the context of game theory. Game theory will be touched on throughout this thesis when discussing policy and trade conducted between member states of Mercosur and how it relates back to acting in the self-interest of the state which acts as the sole most important actor.

*Table.1 An Example of Game Theory in international trade with respect to Mercosur*

		
	Mercosur	
	Co-operate	Defect
Co-Operate	(\$15, \$15)	(\$5, \$25)
Defect	(\$25, \$5)	(\$10, \$10)

Here we can see that it is mutually beneficial for Brazil to Co-operate with Argentina as it results in the best-case scenario for both nations (\$15, \$15) if both fail to trade this results in the worst-case scenario (\$10, \$10)

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<sup>10</sup> Fudenberg, D, G. Ellison y J.Tirole (1991). Game Theory, MIT Press, Cambridge

## *Rational choice theory*

Rational choice theory relates to gaining an understanding of the economic behaviors and further societal behaviors of individuals. Rational choice theory assumes that an individual will have preferences in their decision-making processes. The preferences can at times include alternative options which seek to obtain a similar goal. Rational availability of information affects this process as individuals with a ready supply of information will be influenced in the decision-making process through rational choice theory. Rational choice is also affected by the present challenges and problems facing the individuals whether it be through professional or personal means. Importers will be more likely to advocate for free trade as it results in less barriers to trade for their firms hence this is the rational choice for them to make however some such as farmers who may be afraid of oversupply in the market may advocate against free trade as this is the rational choice to them. We can observe this theory play out in the current EU-Mercosur trade negotiations which will be discussed in a later section of this thesis with rational choices taken from each actor effecting negotiations. Rational choice Theory has been used by economist to analysis the consumption habits of individuals and these habits extend to political decisions taken by elected officials. Rational choice theory states that when a nation states is faced with two options the choice will always reflect the rational choice to choose the option that best helps the nation state to achieve its goals. This would appear from the onset as a normal thing however nation states have been made to make decisions against their rational wishes such as de-colonisation. In the case of Mercosur the rational choice for Paraguay may be to align itself with the two larger economies of Argentina and Brazil and secure free access to their markets however for Argentina they may be a fear that Paraguayan agriculture could disrupt the larger Argentinian domestic market therefore the rational choice for Argentina would be to limit this from happening, we see rational choices and compromises play out throughout International trade deals and concessions to these rational choices have a large influence on eventual bilateral and trade relations between nation states. Rational choice theory will be used to explain some of the decisions taken by members of the Mercosur bloc and how these decisions will ultimately affect the future prospects for a united Mercosur political bloc.<sup>11</sup>

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<sup>11</sup> The Rational choice approach to politics, : A challenge to democratic theory . Petracca , Mark

## *Theoretical Framework in relation to the founding of Mercosur*

Realism plays a role in the original foundation of the Mercosur bloc despite going against many tenants of the realist theory. After the second world war attempts were made by Argentina and Brazil to form a customs union due to both nations being the largest economies in south America and having the largest populations on the South American continent. Barriers to trade and divisions have helped back the mass development of the south American continent as seen in the united customs and political bloc of the United States in the north. When Mercosur was formally created through the treaty of Asuncion in 1991 there were a number of achievements the treaty was praised for pushing forward and obtaining these included

- The free movement of goods and services between countries through the elimination of customs duties and non-tariff barriers to trade such as quotas. This was also brought in with of a common external tariff system and the adoption of a common commercial policy towards third nations and economic blocs

This would entail a movement towards a more liberalistic movement for the member states however the pursuit of a trade agreement between these blocs come from a more realism approach. The economies of each member state in the 80s were struggling severely through a debt crisis with Argentina being heavily affected. A common tariff and trade area were undoubtedly in the favor of the political forces of each member state as it was envisioned that it would tie the economies together in much the same way we see in the EU , I will further discuss the success of this initiative in the international trade section.

- Products originating in the territory of a signatory country will have, in another signatory country, the same treatment applied to products of national origin

This essentially helped to establish the concept of a “Mercosurian customs union” as goods from each member states were given the same treatment as goods produced domestically this in theory should lead to increase economic integration however this also will be touched on in the international trade section.

- The coordination of foreign trade, agricultural, industrial, fiscal, monetary, foreign exchange and capital policies, of others that are agreed, in order to ensure adequate conditions of competition between members, with the commitment of these countries to harmonize their legislation, especially in areas of general importance, to strengthen the integration process

Economies seeking trade deals with third countries now have to take into account the rest of the Mercosur bloc as the ability to negotiate independently has been taken away , this does in turn give smaller countries like Paraguay and Uruguay a bigger voice on the international stage to advocate for favorable trade conditions that take into account the economic situation domestically , this is comparable to Denmark gaining free trade agreements through the EU with countries such as Singapore and Vietnam , being a part of the EU helps to make these deals possible for Danish producers. What is vital about these political structures is that the bloc acts as a unified voice, failure to do so will lead to prolonged trade negotiations that may lead to unwilling compromises from smaller nations.

- In relations with non-signatory countries, members of the bloc will ensure equal conditions of trade. In this way, they will apply their national laws to inhibit imports whose prices are influenced by subsidies, dumping or any other unfair practice. At the same time, the bloc's countries will coordinate their respective national policies in order to develop common rules on trade competition

This ensures the integrity of the bloc , it wouldn't make sense to have a customs union where one nation cant implement trade tariffs that favor them over other member states this is not to say that competitive taxes can't be implemented , we see in the EU that Ireland and Hungary <sup>12</sup> have some of the lowest corporation taxes in the world compared to the rest of the bloc which is a torn in the side for French and German corporations this is allowed as internal taxation remains in the hands of the national legislator , overseas trade is the responsibility of the bloc as a whole which refers back to Mercosur who now has to implemented a harmonized international trading system.

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<sup>12</sup> Is Ireland a Tax haven ? Investopedia , Gorton , David available at <https://www.investopedia.com/ask/answers/060316/why-ireland-sometimes-referred-tax-haven.asp>

#### *4. International Trade and Mercosur*

A key metric when determining the effectiveness of a trade bloc is examining internal trade and analyzing how much each member state has benefited from membership off the bloc in doing this I intend draw a cost- comparative analysis of the four member states and draw a qualitative conclusion about the effectiveness of the blocs internal market, factors to take into account will be based on International trade metrics and how they relate to Mercosur , in this context it includes.

- Export partners
- Quantity of Exports
- Comparative with similar economies in ASEAN and the EU
- Largest Traded product between the economies (Unit Value)

These metrics will help to give an understanding about the reliance of Mercosur membership to member states which in turns allows for a further understanding of the health of the bloc which will be further discussed in the analysis section. The lack of a common currency coupled with typically protectionist economies should also be taken into consideration.

Mercosur as a trading bloc has achieved a free trade agreement with Israel in 2007 followed by Palestine in 2011 after each member state recognized the Palestinian state. Since then however the bloc has failed to achieve a free trade agreement with a third country partner despite negotiations with the EU being over a decade old and the largely open economy of Singapore's Free trade negotiations stalling highlighted issues the Mercosur bloc has in negotiating as a single unit. Mercosur has also recently been dealt a blow as the country of Argentina has decided to move away from Free trade negotiations as a part of Mercosur to focus on domestic economic issues and the coronavirus.<sup>13</sup>

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<sup>13</sup> Singapore in Talks with Mercosur FTA after Argentina pull out , The Strait Times , Available at <https://www.straitstimes.com/business/economy/spore-in-touch-with-mercotur-bloc-on-fta-talks-after-argentina-pullout>

## Argentina and International Trade in Relation to Mercosur

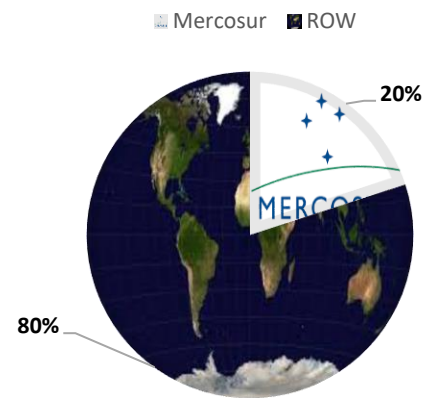
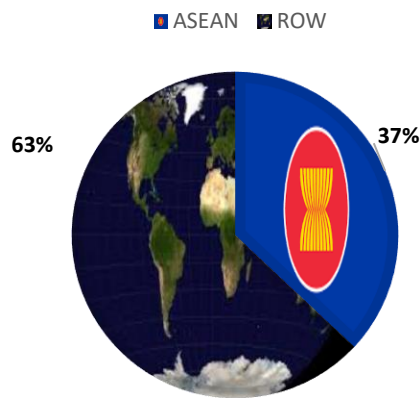
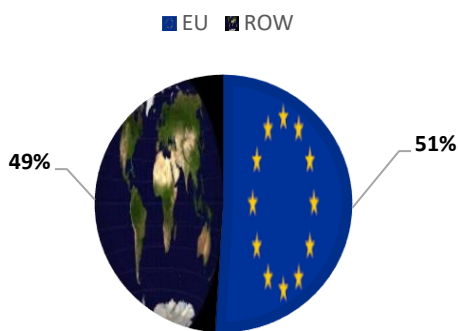
As the second largest economy in the Mercosur bloc what occurs in the Argentinian market will have wide scale ramifications for the health of the bloc. Argentina's export and import partners are also key in determining the health of Mercosur.

The top five largest Economies that trade with Argentina are Brazil (16%) China, The USA, Chile and Vietnam <sup>14</sup> Interestingly the countries of Egypt and Algeria are bigger destination countries for Argentinian goods then Paraguay and Uruguay. Mercosur as a whole accounts for roughly 20% of Argentina's exports which is relatively small considering the size of the Brazilian market and the favorable terms of trade Argentina has with Mercosur member states. For context, let's compare Argentina with the second largest economies of ASEAN and The EU which are Thailand and France. <sup>151617</sup>

France and The EU

Thailand and ASEAN

Argentina and Mercosur



As we Can observe from the above Graphs Argentina is much less reliant on Mercosur then other nations operating in a similar trade bloc system of a similar status in terms of GDP relative to the size of the trading bloc they are associated with.

<sup>14</sup> OEC Argentina, available at <https://oec.world/en/profile/country/arg/>

<sup>15</sup> ITC Trade Map , Argentina 2015-2020 , Available at [https://www.trademap.org/Country\\_SelProductCountry\\_T](https://www.trademap.org/Country_SelProductCountry_T)

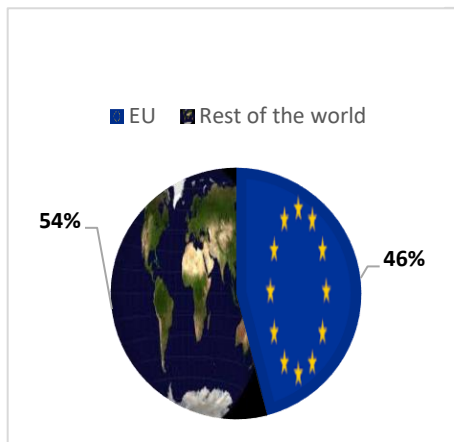
<sup>16</sup> OEC Thailand, Available at <https://oec.world/en/profile/country/tha/>

<sup>17</sup> OEC France, Available at <https://oec.world/en/profile/country/fra/>

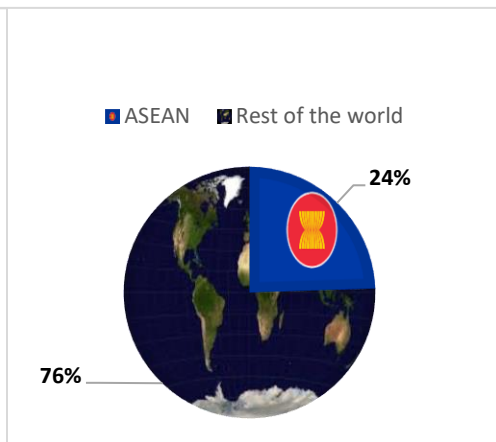
## *Brazil and International Trade in Relation to Mercosur*

As the largest economy in Mercosur combined with having by far the largest population, the trading patterns of Brazil will act as a good indicator for the health of the internal market of Mercosur. The top five destinations for Brazilian goods are China, The USA, Argentina, The Netherlands and Japan. From the onset it can be observed that Brazil exports to a wide variety of economies with that said let's examine how the country trades with the outside world in relation to Mercosur, I will use Germany and Indonesia as examples in this context as they are the largest economies in their respective political and economic blocs.<sup>181920</sup>

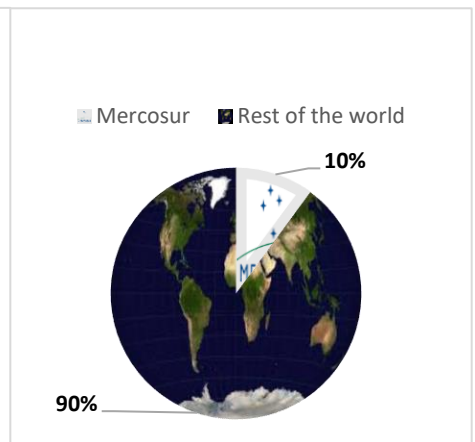
Germany and The EU



Indonesia and ASEAN



Brazil and Mercosur



As observed above, the Brazilian economy is also like Argentina much less reliant on trade within Mercosur for its exports, in fact Brazil sends more goods to China (22%) and The United States (11%) than other member states of Mercosur, this in turn leads to a situation where favorable trade terms with these nations at the mercy of Mercosur could become a possibility, it at least tends to point out that Brazil will face less consequences from Mercosur dissolving than the largest economies of other political unions such as Germany in the EU and Indonesia in ASEAN.

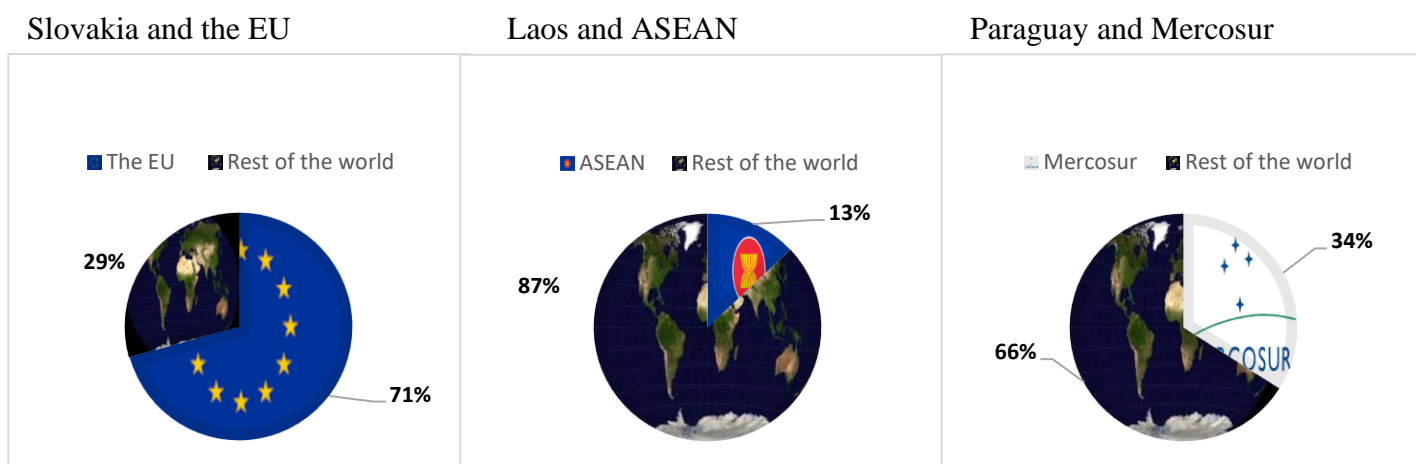
<sup>18</sup> OEC Brazil, Available at <https://oec.world/en/profile/country/bra/>

<sup>19</sup> OEC Germany, Available at <https://oec.world/en/profile/country/deu/>

<sup>20</sup> OEC Indonesia, Available at <https://oec.world/en/profile/country/idn/>

## Paraguay and International Trade in Relation to Mercosur

As Paraguay has the smallest economy in the Mercosur bloc combined with being landlocked between the two largest member states, Argentina and Brazil it would make sense that Mercosur membership is imperative to the Paraguayan economy as the population of Paraguay is only six million I will compare them with populations of a similar size in other Political unions in this case Laos in ASEAN and Slovakia in The EU. These countries are also both landlocked which plays a large role in International trading patterns. <sup>212223</sup>



As observed, with the exception of Laos which trade heavily with China (58%) the economies of both Slovakia and Paraguay rely hugely from being members of a larger political and economic organisations. Paraguay therefore is less likely to move towards leaving Mercosur as the economic damage to the country is more significant for them, this in turn reduces populist rhetoric against membership. Although Paraguay is landlocked between two member states of Mercosur which plays a large role in explaining the reliance on these markets it still benefits hugely as barriers to trade such as Quotas and tariffs from Argentina and Brazil would devastate the domestic Paraguayan economy.

<sup>21</sup> OEC, Paraguay, Available at <https://oec.world/en/profile/country/pry/>

<sup>22</sup> OEC, Laos, Available at <https://oec.world/en/profile/country/lao/>

<sup>23</sup> OEC, Slovakia <https://oec.world/en/profile/country/svk/>

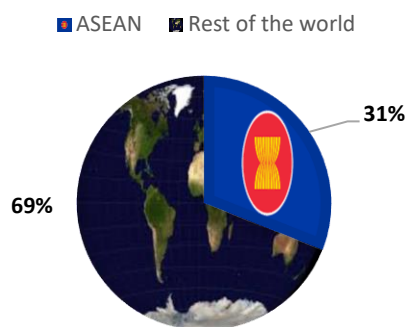
## Uruguay and International Trade in relation to Mercosur

Uruguay has the highest GDP per capita in Mercosur and is generally more developed than other member states although the market is low with a population of just 3.3 million centered around the capital city of Montevideo. Uruguay's main exports revolve around agricultural goods which in turn would lead to the assumption of high demand from Mercosur member states as the Buenos Aires metropolitan area combined with the cities of Rio de Janeiro and Sao Paulo being within the vicinity of Uruguay however the graphs tell a different story. I will be comparing Uruguay with Singapore and Denmark for this example <sup>242526</sup>

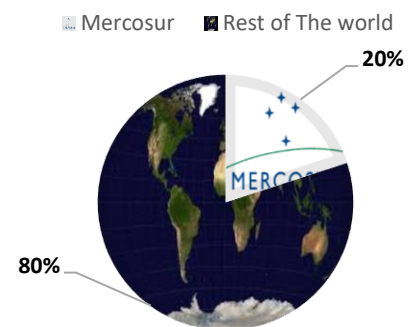
Denmark and the EU



Singapore and ASEAN



Uruguay and Mercosur



As observed, Uruguay does rely heavily on Mercosur but not to the extent of Paraguay, it does have room to maneuver in some regards. The country exports more goods to China (23%) and has threatened to pull out of Mercosur in the past to achieve a free trade agreement with The USA. <sup>27</sup>

<sup>24</sup> OEC Uruguay, Available at <https://oec.world/en/profile/country/ury/>

<sup>25</sup> OEC Singapore, Available at <https://oec.world/en/profile/country/sgp/>

<sup>26</sup> OEC Denmark, Available at <https://oec.world/en/profile/country/dnk/>

<sup>27</sup> Mercosur's delayed case of free trade fever, Gedan, Benjamin, Americas Quarterly, Available at <https://www.americasquarterly.org/article/mercosurs-delayed-case-of-free-trade-fever/>

After observing the trading patterns for each Mercosur member states it becomes apparent that Argentina and Brazil are less reliant on each other for the economic sustainability of their markets , this may be a crossover of the traditionally protectionist nature of the member states of the bloc, trade is increasing between Mercosur member state year on year however the rest of the world continues to play the pivotal role in Mercosur's domestic markets. This in turn creates scenarios that allow for member states to rationally negotiate an exit from Mercosur, perhaps with the exception of Paraguay who is much more reliant on Mercosur than other member state. As noted the countries of Germany and France rely heavily on trade within the EU for their domestic markets which helps to tie these economies together in a sense of togetherness and necessity this mindset isn't strong in Mercosur and the fact that three member states send 80% of their goods to markets outside of Mercosur compound the lack of economic togetherness. Argentina recently pulled away from free trade agreement negotiations to focus on its internal market which puts a hold on the ability of Mercosur to affectively negotiation free trade agreements at the moment. This in turn has created an identity crisis within Mercosur in terms of economics which is still playing out today.<sup>28</sup> There have been talks to move the bloc from its present state as a customs union towards a free trade area, this in turn would allow current member states to negotiate their own free trade negotiations. Argentina traditionally has been against this move as the domestic economy of Argentina benefits currently from the high barriers to trade at the detriment of the rest of the Mercosur bloc , as Argentina has pulled out of negotiations it is possible that a swift reform of the trading nature of Mercosur could take place as other member state rush to draft new free trade agreements with beneficial terms to their domestic economies this period could bring an end to the idea of Mercosur as a political unit and towards a simple free trade area in much the same way the original EEC operated before

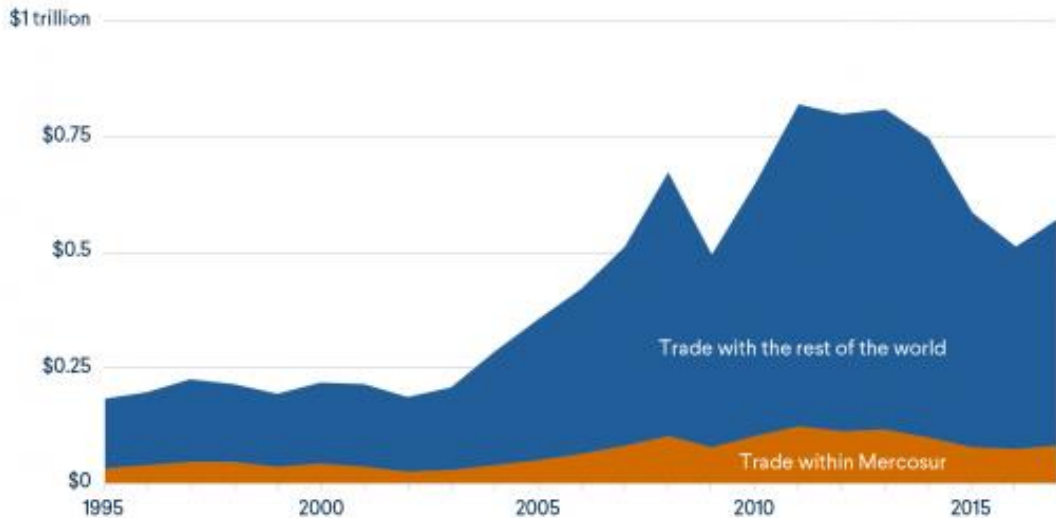
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<sup>28</sup> More flexible trade rules await Mercosur after Argentina pullout , Koop Fermin , Buenos Aires Times , Available at <https://www.batimes.com.ar/news/economy/more-flexible-trade-rules-await-mercosur-after-argentina-pullout.phtml>

morphing into the present EU model.

### Mercosur's Trade Has Grown, Albeit Unevenly

Trade in goods, current dollars



Source: UN Conference on Trade and Development.

COUNCIL on  
FOREIGN  
RELATIONS

Source: UN Conference on trade and development, Council on foreign relations,

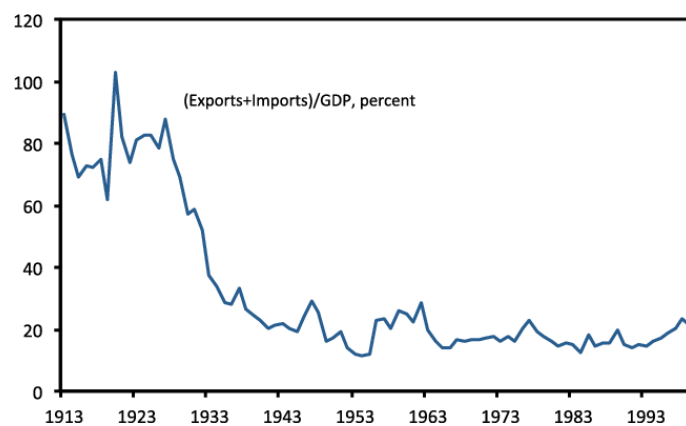
As observed in Earlier charts, trade within Mercosur continues to be dwarfed by trade with the rest of the world which is further demonstrated in the above graph.

## 5. Analysis

### *Argentina and Mercosur*

#### *The Argentina Paradox*

According to American economist Simon Kuznets there are four types of macro economies, Developed, Underdeveloped, Japan and Argentina. Argentina in this case has been the focus of many macroeconomist as the economic situation in the country confounds many of them.<sup>29</sup> During the 20<sup>th</sup> century Argentina transitioned from one of the richer nations of the world into a middle-income economy in a transition that still today continues to confound economist. A challenging economic and political climate are typically viewed as the reasons for this transition however an evolving global trading system which became less reliant on Argentinian goods combined with protectionist economic policies and runaway inflation also helps to explain why Argentina transition so drastically away from a high-income economy.



Right; (The share of Trade as a percentage of GDP Continued to decline for much of the 20<sup>th</sup> century, with membership of Mercosur being one of the first steps towards opening the economy and reversing this trend)

<sup>29</sup> The Macroeconomic situation of Argentina and Japan continues to confound macroeconomists, The Economist , Available at <https://www.economist.com/finance-and-economics/2019/03/28/how-argentina-and-japan-continue-to-confound-macroeconomists>

## *Economic Overview*

Argentina is a key member of the Mercosur bloc, it is the second largest economy, population and land area nation in the bloc combined with being located in a strategic location which stretches to the cone of South America. Since 1984 there have been talks between Argentina and Brazil to strengthen integration between the two countries and remove barriers to trade. The signature of Buenos Aires in 1990 help to lay down the foundations for the eventual treaty of Asuncion in 1991 which formally created the Mercosur bloc as it exists in its present form. Argentina benefits from having abundant natural resources and had a quality of life index that rivalled most developed nations in the post-world war 2 era , however decades of political upheaval combined with an economy that has been through recession by recession with one of the most unstable currencies in the world has had its toll on the country. Between 1975 – 1990 the economy was plagued with stagflation. Per capita income in Argentina was twice as high as Brazil in 1975 which demonstrates how further the economy was compared to rest of the continent. The military dictatorship of Martinez de Hoz caused output from the country to significantly decline which lead to the end of Argentina's import-substitution economic model, Argentina was forced to liberalize the economy and lower barriers to trade or risk running out of goods and services in the country combined with a great depression. The levels of debt in the country presented a looming economic crisis which culminated into an era of economic uncertainty, military adventures in the failed capturing of the Falkland Islands combined with high levels of emigration led to an overwhelmingly negative perception of Argentina on the world stage during the 80s. The 90s saw a gradual opening up of the Argentinian economy through the creation of Mercosur and the relaxation of trade barriers with the rest of the world , still Argentina's economy continued to struggle and in 1998 a major recession hit the country as low international prices for agricultural goods combined with an already weak currency took its toll on the economy of the country. The IMF formally granted a 7.2 billion-dollar three-year standby agreement to help the Argentinian economy stay afloat this loan evolved into a 42-billion-dollar bailout with many macroeconomic strings attached. Between 1998-2002 the economy of Argentina had contracted by 20%, one of the worse performing economies in the world. Mercosur could do little to help the Argentinian economy as the lack of a central bank, common currency or political body meant the bloc had to rely on Argentina sorting out its

problems domestically and through the IMF. We see the importance of domestic economic issues take president over international agreements in Argentina today with the country pulling out of Free trade negotiations with Mercosur and third countries to focus on its domestic economy and COVID-19. Mercosur thus acts as a trading mechanism only so far as it allows Argentina to trade within the internal market more effectively however the country has demonstrated it that the bloc plays second fiddle to domestic issues.<sup>30</sup>

### *Political relationship between Argentina and Mercosur*

Argentina and Brazil had put aside a traditionally rivalry to create the Mercosur bloc however initially trade between the two economies didn't rapidly increase. There was a desire to accelerate integration. As Argentina had failed in the Falkland's war combined with the fall of military governments in both Argentina and Brazil the fear of invasion between Mercosur members states evaporated which allowed for further integration of the countries. After the first five years of Mercosur and a number of summits eventually the Argentinian and Brazilian economies began to integrate. Automotive, Banking and steel producers in both countries agreed to cooperate and priorities decision making processes that benefit both economies. One of the consequences of this was the integration of Ford and Volkswagen into a new company Autolatina which was created as a consequence of the further integration of Mercosur's economies. Despite this encouraging process many problems continued to plague the bloc and with relation to Argentina these included that the leaders of Mercosur member states continued to have direct responsibility for its operation rather than delegating responsibility to a supranational bureaucracy. Argentina was suffering from economic recession for many of the first years of Mercosur which moved the priority from consecutive Argentinean governments away from Mercosur and solely on domestic issues. The Menem government issued a number of quotas and tariffs on Brazilian goods entering the country, a direct contradiction of the treaty of Asuncion which led to Paraguay threatening to leave the bloc and Argentina backing down. Argentina has continued to fail to integrate its consumer protection, environmental protection and labour regulatory framework to the levels of other member states, while Brazil has rigorous laws in this regard. Many of the framework of the Mercosur bloc rely on the balance of

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<sup>30</sup> Why Argentina keeps finding itself in a debt crisis , Bloomberg , Gillespe ,Patrick , Bloomberg , Available at <https://www.bloomberg.com/graphics/2019-new-economy-drivers-and-disrupters/argentina.html>

Argentina and Brazil's political agenda and we see this diversion even today with Argentina pulling out of Mercosur Free trade agreements negotiations. Bolsonaro in Brazil has been a stern critic of the far-left Fernandez government.<sup>31</sup> While Brazil seeks to press ahead with trade liberalization – including a controversial idea to unilaterally reduce tariffs – Argentina is likely to prefer a more cautious, gradual approach. The possibility of a downgrade from a customs union to a free trade area is a possibility as the governments of Argentina and Brazil converge from economic policies. Other issues such as Venezuela and the rise of China in Latin America has divided these two nations and has led to further questions about the viability of Mercosur in its present state. Argentina is likely to continue having economic problems in the future which will continue to influence the ability of Mercosur to continue in its present state.

## *Brazil and Mercosur*

### *An Unbalanced giant*

As the largest economy, land area and population in the Mercosur bloc the country of Brazil plays a large role in shaping and defining the bloc of Mercosur. Mercosur without Brazil would be vastly different organisations however it is through the sheer size of Brazil compared to the rest of the bloc that unbalances begin to appear. Brazil benefits from its large production base and abundant resources combined with a far larger market than the rest of Mercosur. Mercosur is important to Brazil within the Latin American market but less so in an international setting, 60% of Brazil's foreign direct investments in Latin America are to fellow Mercosur states<sup>32</sup> Brazil's sheer size gives it room to maneuver in internal negotiation about the direction of the bloc as the country pulling out would drastically alter the bloc's agenda and organizational structure.

### *Economic Overview*

Brazil entered the 20<sup>th</sup> century as an economy typically known as a “coffee economy” the economy of the country had become reliant of the trade of coffee; Brazil was at one point exporting almost half of the world's coffee supply. This trend lasted until 1930 when the

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<sup>31</sup> Implement EU-Mercosur trade deal swiftly say Bolsonaro , Iglesias , Simone , Bloomberg , Available at <https://www.bloomberg.com/news/articles/2019-12-05/implement-eu-mercotur-trade-deal-swiftly-says-bolsonaro>

<sup>32</sup> Routledge handbook of Latin America, Dominguez , Jorge, Pg 145 , Available at

economy entered an era of political and economic upheaval. Brazil operated under an import substitution model which resulted in rapid economic growth during the late 40s and 50s however this model was tested in the 1960s when stagflation began to affect the economy and the record levels of growth seen in the 1950s began to fade away. Between the 1960s the economy had begun to contract which resulted in reforming the import-substitution model of the economy towards opening the economy to foreign capital. Eventually the import-substitution model shifted towards a neoliberalism economic approach as the protectionist measures of the Brazilian economy continued to hold back growth, this was one of the problems the Brazilian economy aimed to tackle through the creation of Mercosur. Brazil's economically has a far higher GDP than the rest of Mercosur with the country having the 9<sup>th</sup> largest economy in the world compared to Argentina which is the world's 28<sup>th</sup> largest. In the last 10 years Brazil has had a trade surplus of over \$87 billion over the other three members of Mercosur and Mercosur buys about half of Brazilian produced automobiles.<sup>33</sup> The economic woes of Argentina are having a toll on the Brazilian economy with an estimated 0.5% of economic growth wiped off the Brazilian economy as a direct result of the situation in Buenos Aires. Brazil as a member of the BRICS alliance between China, India, Russia and South Africa was touted as potential economic superpower and hosting the Olympics and world cup during the 2010s was viewed as propelling the country forward towards this aim, however political infighting combined with economic inequality in the country has held back these ambitious goals, due to the country failing to address internal issues there are often protests however these are typically aimed at the Brazilian government with Mercosur rarely being a target, Mercosur isn't even polled by major Brazilian pollsters which further demonstrates that problems in Brazil aren't being blamed on the bloc.<sup>34</sup>

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<sup>33</sup> A Latin American Brexit? Analyzing Brazil's threat on Mercosur, Bloomberg, Iglesias, Simone, available at <https://www.bloomberg.com/news/articles/2019-09-14/a-latin-american-brex-it-analyzing-brazil-s-threat-on-merc-sur>

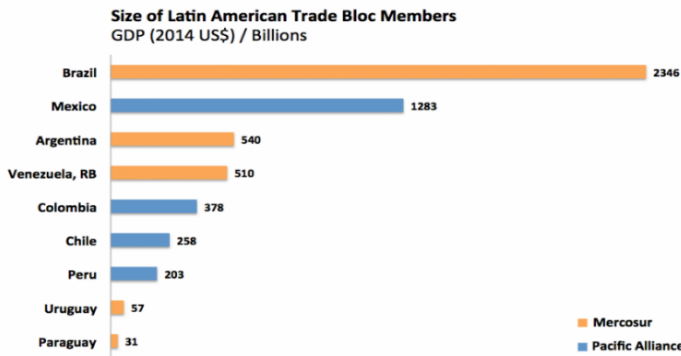
<sup>34</sup> Does Mercosur trade deal mean Brazil will finally open up?, Americas Quarterly, available at <https://www.americasquarterly.org/article/does-the-merc-sur-trade-deal-mean-brazil-will-finally-open-up/>

## *Political Relationship between Brazil and Mercosur*

Traditionally Argentina and Brazil have been rivals both economically and politically with Argentina typically having a higher standard of living in a trend that has been reversing in recent year. Andy Kolm in his book *Mercosur and Brazil: A European perspective*<sup>35</sup> states that “*Brazil is not another Latin American country, other Latin American countries view Brazil as the natural leader of the region*” Through Mercosur Brazil has managed to entice European investments into the country and Mercosur acts as the main instrument of negotiation between Brazilian and European policy makers. Brazil has to balance its own economic needs with those of the rest of the Mercosur bloc and politically this has presented problems which have sprung up repeatedly within the Mercosur – EU Free trade agreement negotiations. Populism has been a key trait in Brazilian politics on both the left and right of the political spectrum however only the right of the country under Bolsonaro alliance for Brazil party has been openly critical of the Mercosur trading system with many previous administrations in the country largely steering clear from it as Mercosur is traditionally not a hot button issue in the country compared to the internal economic problems citizens face. Bolsonaro has been an open critic of the length of time it has taken for the EU and Mercosur to reach a free trade agreement combined with what he calls cumbersome requirements from the EU , This together with internal disagreements within the bloc about common external tariffs and the election of the left wing Fernandez government in Argentina has caused Brazil to threaten to leave the Mercosur bloc. Brazil’s economy is much more internally oriented rather than regionally and while regional partners do make up a large percentage of Brazil’s exports it isn’t significant to the point that Brazil is reliant on Mercosur. This in turn highlights a large problem in the Mercosur bloc ,reliability for it would be unfathomable to think that a German leader would leave the EU because they disagreed with the French electorates decision yet we can see this play out in Mercosur and the divisions of the bloc are layer bear , with this said Mercosur lacks a balancing act to Brazil , collectively the countries of Argentina , Paraguay , Uruguay still are dwarfed by Brazil economically and in terms of the size of the market . While the EU has France to balance Germany combined with a collective of large economies such as Italy and Spain there is no such balance in Mercosur.

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<sup>35</sup> *Mercosur and Brazil : A European perspective* Kolm , Andy , Available at <https://www.jstor.org/stable/3095825?seq=1>



(Source; Size of Latin American trade bloc members: The World Bank)

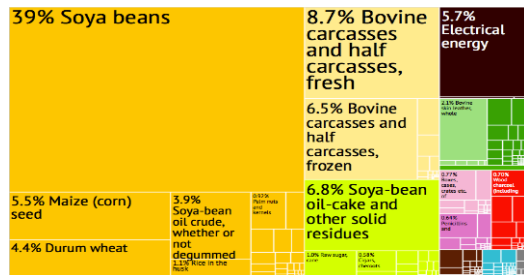
(Right: Brazil by far accounts for the majority of the GDP of Mercosur, which gives it room to leverage this over other members to gain favorable political terms)

## *Paraguay and Mercosur*

### *Economic Overview*

Paraguay has traditionally been one of the smaller economies of Latin America which an industrial base based around agriculture production. During the 1970s the country witnessed its “miracle decade” which saw year on year GDP growth rates at times exceeding 7% which made it Latin Americas fastest growing economy. However, much of this was in the agriculture sector as the price of agricultural commodities had risen significantly in the 70s, by the end of the miracle decade the country still remained one of the less industrialized in Latin America combined with competition for land in the country alienating farmers. During the 80s and leading up until joining the Mercosur bloc the country continued to open up sectors of the economy however by the time of joining Mercosur the country continued to have the strictest protectionist policies out of the four member states. Paraguay’s participation in Mercosur is largely due to a need for the country to continually have access to the two larger member states of Argentina and Brazil. The primary gain for Paraguay was the reduction in tariffs and the elimination of export taxes between the country and other Mercosur member states. Paraguay performed well in the exportation of cotton to other Mercosur member states in particular as this was one of the few goods that Paraguay had a comparative advantage in. However, Paraguayan exports of meat and coffee suffered as competition from Mercosur posed a significant market challenge. Joining Mercosur also meant that Paraguay had to compete with in an internal market that was larger than its domestic market with generally better infrastructure, the business climate of Paraguay also remains less regulated then other member states with the country generally having the lowest wages in the bloc. Paraguay has a young population combined with a

comprehensive agricultural base however the lack of raw minerals combined with political instability has held back the economy and Mercosur has yet to fully industrialize the country which remains behind the rest of the Mercosur bloc.<sup>36</sup>



Right;( Most of Paraguay's exports revolves around agricultural goods)

### *Political Relationship between Paraguay and Mercosur*

Politically Paraguay originally faced many pressures to leave the Mercosur bloc from farmers in the country worried about the increased competition from larger member states however these fears eventually subsided and Paraguayans began to contend with the idea that the country had to open up the economy in order to spur growth and move away from being one of the poorest nations in Latin America , Paraguay being landlocked and generally hard to reach also had to seek favorable trade terms with Argentina and Brazil to as a gateway into the country, symbolically the founding treaty of Mercosur was signed in the Paraguayan capital of Asuncion which cemented the country as a founding member of the bloc. Paraguay has butted heads with Mercosur on many occasions which culminated with Paraguay being suspended from the bloc in 2012, this as a result of what was deemed to be a democratic backsliding in the country, the bloc didn't however impose any economic sanctions on the country and the country was readmitted in 2013 , it is speculated that Paraguay may have been suspended and taken away its voting rights as the country was staunchly against the entry of Venezuela to the bloc while Brazil was in favor.<sup>37</sup> Venezuela joined the bloc regardless of Paraguay's concerns and subsequently has been suspended indefinitely due to political instability in the country. Paraguay remains the poorest country in the bloc and is reliant on trade with Mercosur to keep its domestic economy going , looking forward it is likely that Bolivia will join as a full member states with its full member

<sup>36</sup> Paraguays strong economic growth drives away shadows of history , the financial times , available at <https://www.ft.com/content/efa8ecf0-7e0c-11e9-8b5c-33d0560f039c>

<sup>37</sup> Mercosur welcomes Venezuela , suspends Paraguay , Flor Ana , Reuters , Available at <https://www.reuters.com/article/us-mercosur/mercosur-welcomes-venezuela-suspends-paraguay-idUSBRE85S1JT20120629>

state status requiring the ratification of the Brazilian congress , once this occurs Paraguay will be completely surrounded by Mercosur Member states which will only further but pressure on the country to comply with Mercosur regulations , even at time where it harms domestic producers in the country . Paraguay is still growing and is today a lower-middle income economy , the country also has abundant energy resource through its hydroelectricity project which allows the country to increasingly export energy to energy starved neighbors , this development may allow Paraguay to grow influence in the bloc and assert pressures for the benefits of its own domestic agenda however today the country remains under pressure to comply with Mercosur. <sup>38</sup>

## *Uruguay and Mercosur*

### *The Richest member*

Uruguay is located sand wedge between Argentina and Brazil with a large coastline that gives it access to international waters. Montevideo is the heart of the country and roughly 44% of the population Uruguay live in the city. Uruguay ranks high in human development and generally has the highest standard of living in the Mercosur bloc. As a small country located between both Buenos Aires and the populated Brazilian coastline markets. Corruption is lower in Uruguay then other Latin American nations combined with having a larger middle class then most of its neighbors allows Uruguay to have considerable influence in the bloc which far outweighs its position as the smallest member of the bloc.

### *Economic overview*

Uruguay avoided many of the internal problems that plagued the Argentinian economy towards the end of the 20<sup>th</sup> century. Uruguay has remained one of the most developed nations in Latin America. Agriculture is a key element of the economy of Uruguay with beef and soybeans being largely exported from the country. Uruguay also has a large amount of mining resources such as basalt and dolomite despite these trends the country is still heavily effect on the economic health of its two larger neighbors. The economic troubles in Argentina at the turn of the millennium resulted in the Uruguayan banking crisis of 2002 which was one of the biggest economic crisis to

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<sup>38</sup> Paraguay-Mercosur Growth prospects , World bank ,1993 , Available at <http://documents.worldbank.org/curated/en/268101468285318021/pdf/multi0page.pdf>

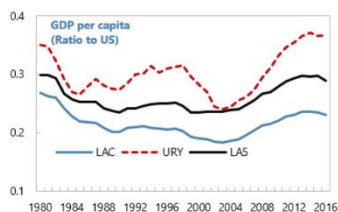
have inflicted the country despite this the country has remained largely economically and politically stable which encourages investments into the country , one of the largest indicators of the rate of development in Uruguay is the unemployment rate which fell from 40% in 2004 down to 6.2% in 2016 due to increased societal reforms and the economic openness of the country. The country of Uruguay is typically more open to free trade agreements and neoliberalism than other member who traditionally held protectionist trading policies, this at times has caused tensions which culminated with Uruguay threatening to leave the bloc to pursue free trade agreements with the US and China, these fears subsided as free trade negotiations with the EU began to accelerate and Uruguay's faith in Mercosur to achieve ambitious free trade agreements was restored. China has sought free trade agreements with Chile, Peru and Costa Rica which further puts pressure on Uruguay to do the same. Professor of international trade at the university of Montevideo analyzed the situation by stating

*“Food-producing countries like Uruguay need agreements with Asian countries such as China, since their rivals export to Asia on preferential terms, the commercial policy interests of the Mercosur countries are radically different. They do not have the same incentives for agreements,”* <sup>39</sup>

Issues such as this define the economic relationship Uruguay has with the rest of Mercosur.

#### Raising incomes

Uruguay has been converging to advanced country income levels faster than its regional peers.



Sources: IMF FAD Expenditure Assessment Tool (EAT), World Economic Outlook, World Development Indicators, IMF Investment and Capital Stock Dataset, World Economic Forum, World Bank, Doing Business Indicators, UNICEF, UNESCO, World Governance Indicators by Daniel Kaufmann (Natural Resource Governance Institute and Brookings Institution) and Aart Kraay (World Bank), and IMF staff calculations.  
Notes: LAS = Brazil, Chile, Colombia, Mexico, Peru; LAC = Latin America and the Caribbean.

INTERNATIONAL MONETARY FUND

Right (GDP per capita in Uruguay is growing faster than countries in its vicinity)

Source – The International Monetary fund

<sup>39</sup> Uruguay seeks alliance with China, challenging Mercosur, Koop , Fermin , Dialogo chino , available at <https://dialogochino.net/en/trade-investment/12277-uruguay-seeks-alliance-with-china-challenging-mercador/>

## *Political relationship between Uruguay and Mercosur*

Politically Mercosur was viewed as a successful measure in the country as it was hoped that it would bring the two larger member states of Argentina and Brazil closer aligned to Uruguay's economic model of open economic and neoliberalism. Uruguay and the stability of the country was often cited as a model other country in the region should aspire too. While Argentina and Brazil continued to have limits to international trade and barriers to trade internally the markets were open which was a huge success for Uruguay. Uruguay helped to enforce a mandate for democracy into the Mercosur framework something seen in Uruguay as crucial to ensuring the countries around them remained democratic and didn't slide back into military dictatorships. Uruguay main political hurdle within the Mercosur bloc refers to its operation and its ability to get free trade agreements, an ideological debate has opened up in recent years with the country of Uruguay being far more open to international trade agreements then the larger economies of Argentina and Brazil , the running of Mercosur has also presented challenges with many Uruguayan politicians calling for a reform of the Mercosur bloc from its current state as a customs union towards a free trade area which allows Uruguay to set free trade agreements on its own terms with third countries. Recently Uruguay placed host to a China-Mercosur dialogue in Montevideo with many analysts claiming China had purposely chosen to have the dialogue in Uruguay as they were the most open to having a free trade agreement with them and may lobby for the rest of Mercosur to do the same. Uruguay is a supportive member of allowing for a third neutral institution to govern the Mercosur bloc in much the same way the European commission operates in the EU however this hasn't been reciprocated by other members of the bloc.

## 6. Interviewees Perspective

For the interviews in relation to this thesis I contacted members of a consultant business team operating in the Americas with two experts focusing on Latin American trade. The interviews were conducted in order to get a professional opinion on the situation in Mercosur from professionals that are used to dealing with trade into the bloc and analyzing the political situation in the respective member states. I also contacted four individuals from the respective member states to get their opinion on Mercosur, this however is a very limited analysis was conducted more to gather if people are aware of Mercosur as a bloc rather than a detailed analysis of their opinion on the subject. The questions asked to the two members of the consultant team concerned firstly

- The massive trade imbalance within the bloc in relation to Brazil and the rest of Mercosur
- The threat of a member state leaving the bloc
- The sole biggest advantage and disadvantage that Mercosur membership has brought to the respective member states.

Interview One:

*1. Certainly Brazil has a large advantage in the sense of how big the country is , this does give the country the leverage to exert influence in this regard however the other member states haven't been afraid to stand up for themselves , one example that would stand out is Paraguay pushing for customs reforms are having them granted by Mercosur.*

*2. Personally I don't think a country would leave in a hurry , I think what is more likely will be a reform of Mercosur that's gives member states more rights to draft their own trade agreements, this ability may be undermined if the EU-Mercosur trade deal goes through though.*

*3. Of course the biggest advantage has been the removal of trade barriers between the countries , for a country like Paraguay not having free access to the Argentina and Brazil markets would cripple them , Bolivia is there only other neighbor but Bolivian population centres are located far away from Paraguay so it need Argentina and Brazil to stay open. Biggest disadvantage would be the inability from member states to negotiate trade deals to their own specifications,*

*Uruguay is more concerned about agriculture than Brazil, but Brazil is bigger, so its priorities usually take precedence.*

Interview 2: 1. *It's expected that Brazil would be the biggest economy, but other member states were obviously aware of that before joining. Typically, Brazil is open to concessions that help support to neighbouring economies however the Bolsonaro administration could be the start of this declining, it's too early to tell at the moment.*

2. *If Brazil or Argentina left that would largely be it, these are the backbone of Mercosur and only exists to please one side and the other, if Argentina left it wouldn't make sense for Brazil to stay and accept concessions to trade to appease Uruguay and Paraguay with that said despite Bolsonaro in Brazil I can't see them leaving, maybe reforming but not leaving.*

3. *Biggest advantage is having no tariffs or barriers between the countries, they could have just done a free trade area, why they went towards a more politically union doesn't make much sense to me however maybe the conditions at the founding were different. Biggest disadvantage would be the inefficiency of Mercosur, it just isn't efficient enough to bring massive economic reform. They have a parliament where each member gets the same number of seats despite the population of Brazil being 50x bigger than Uruguay, the parliament is only a token gesture really to compare Mercosur to the EU isn't effective, they are drastically different in many regards.*

For the interviews for the four citizens of these countries I chose two general questions which focused less on the finer details of Mercosur and more on the general opinion of the bloc as a whole.

- What is your general opinion of Mercosur if any?
- Do you want your country to increase cooperation with Argentina, Brazil, Paraguay, Uruguay (Home nation removed respectfully)?

Brazilian citizen:

*1. No big opinions on it, It's written on my passport but many Brazilians are more concerned with what's happening in front of them, I doubt many in general would care all that much about Mercosur*

2. *We should cooperate with them of course they are our neighbors however we can't lose sight of what is happening in Brazil which as I said is the main concern for people living in the country , I doubt many living in Rio care about the situation in Paraguay or Uruguay , maybe in Argentina but that through rivalry rather than anything else.*

#### Argentinian citizen

1. *Mercosur is often viewed as something that only concerns the rich and businessmen, not many people would care all that much about it or have pride in it like Europeans have of the EU.*
2. *We need to cooperate, but Brazil often doesn't show respect to Argentina with Bolsonaro not being popular here all that much, still we can't ignore them.*

#### Uruguay citizen

1. *Mercosur is often associated with Argentina from what I get from people living in Montevideo, many people just look at it as a way to increase trade, but most people aren't too concerned about it generally*
2. *We need to cooperate but Uruguay is special I think , its small but people here I think are more productive maybe I'm wrong , I think we need to stand up for ourselves a little more in the region but Argentina is always someone we cooperate with I mean Buenos Aires is right beside us and its good for our economy.*

#### Paraguay citizen

1. *We are a small country and things are poor there, Mercosur is not significant to many people in the population, farmers mainly see it as a way to sell to bigger and richer countries, but the average Paraguayan doesn't care that much generally.*
2. *Of course, we need to, Brazil and Argentina surround us so we need to be on a good relationship with them however we will always worry about problems in our own country before worrying about cooperating with them.*

## *7. Conclusion of the Thesis*

### *Political viability of Mercosur in its present state.*

This thesis set out to analysis the political and economic differences with the Mercosur member states in order to draw a final conclusion about the health of the bloc and what the future may hold for it , throughout this thesis I got a glimpse of the ever evolving state of the bloc from Argentina pulling out of future trade negotiations (Exception of the EU – Mercosur FTA) and Brazil threatening to leave the bloc due to the political situation in Argentina it is clear that many obstacles remain in the way from Mercosur, it does however reflect that perhaps from my own insight that a EU model of supranational cooperation shouldn't be applied to Mercosur as the dynamic and cultural differences of the population make it its own specific case which requires its own process and structure . The EU has the commission , a parliament and a council while Mercosur has a parliament and a rotating presidency system , the bloc does have a parliament however each country has the same amount of representatives despite the population , this would be accepted in Europe for instance the idea that Ireland and Germany would have the same number of MEPs would harm the process of integration and perhaps this is true also of Mercosur this also comes back to the point that massive reforms would be needed to excel Mercosur to the level of integration seen in Europe but this model isn't desired generally. We have seen throughout Latin American history in general that attempts to formally unify member states despite their many cultural, linguistic and religious similarities have failed from the Bolivar wars and the dissolution of Gran Columbia to the more recent failure of the Union of south American states (USAR) to increase integration it is clear that realism , the looking out for the states own interest despite the numerous left wing governments in Latin America has been a highlighted feature of government processes in the region. Citizens of Mercosur have Mercosur written on their passports, they are free to travel, study, work and retire in each other's countries yet the concept of "Mercosurian pride" is alien to many residents. Most pollsters in the respective member states don't even ask voters of their opinions of Mercosur and there isn't a common togetherness that is found in Europe. European values are often the cornerstone of policy making in Europe compounded by decades of internal struggles between democracy and authoritarianism which isn't as profound in Mercosur member states who typically acted in an insular fashion with only mild posturing to other nations. "Mercosur Values" can be difficult to quantify given

that Brazil represents 86% of the population so by extension “Brazilian Values” may supplant Mercosurian ones. It comes back to a key question in relation to politics namely “Do I feel pride in Mercosur” and while the interview done in this Thesis are extremely limited and not overly representative of the wider population it is clear that Mercosur isn’t a priority for many citizens from the numerous reports and articles mentioned in the thesis as a political conversation in member states it is rarely mentioned as a populist rallying point rather internal economic issues take precedent. Many countries still continue to work on internal economic development and citizens don’t have the luxury of worrying about problems in neighbouring countries like in the EU. Mercosur also doesn’t have its own “commission” to enact neutral legislation with powers being retained by respective governments, there are no directives and countries in Mercosur take pride in their independence and it’s hard to imagine a scenario where Brazil could override Argentinian laws without a large backlash. In conclusion to the political element of Mercosur I find it unhelpful to compare the bloc to the EU or even ASEAN. Many articles and reports about Mercosur tend to have an overly negative view of the bloc as ineffective, corrupt and a block for the development of member states however the dynamic situational circumstances of the history of these nations make it much more difficult to enact and traditional rivalries have been difficult to overcome, Europe experienced a war which ultimately brought them together however this isn’t the case for Mercosur from a personal perspective I find political initiatives within the bloc to be held back by realist actors that states enact to protect their own viability, the Bolsonaro government exerts many of these traits and as Brazil is by far the largest member this resonates throughout the bloc. Political unity isn’t impossible of course and the ever-globalizing world will make it necessary for nations to integrate to compete effectively, Denmark wouldn’t be taken as serious on a global stage if it was outside the EU and this concept will apply to smaller nations in Mercosur too. In order to tackle this nation will have to put aside realism practices and achieve a level of unity on the continent not seen since Simon Bolivar’s brief nation of Gran Columbia.

## *Conclusion of the Thesis*

### *Economic viability of Mercosur in its present state.*

Mercosur at its core was created to increase economic competitiveness for the economies of member states, on top of that it was intended to act as the economic vehicle to propel the economies of the member states towards a state of economic development and more importantly growth, economic viability at its core for Mercosur comes from the reliance of the bloc in relation to the total GDP and trade of member states. We have seen the nature of the ever globalized world shift international trading patterns away from internal Latin American markets towards growing and established markets such as the USA and China, China being a destination for Brazilian goods per unit value then the rest of Mercosur combined this creates a consensus that leaving Mercosur wouldn't be the economic nightmare scenario envisioned if a member was to leave the EU. Repeatedly member states have demonstrated their willingness to use the threat of leaving as a leverage tool to obtain favorable economic conditions such as Uruguay urging Mercosur to open up to free trade agreements or lose Uruguay as a member state. Mercosur continues to lag in its ability to secure free trade agreements around the world, the grand prize currently being a free trade agreement with the EU which has been under negotiation for over a decade now. In a sense I believe the outcome of the EU free trade agreement will act as the benchmark for the future of Mercosur, is it likely that countries such as Uruguay will continue to sit back and watch enviously across the continent at rivals Chile and Peru securing trade deals with the USA and China while they remained locked into the Mercosur bloc?, Securing the free trade agreement with the EU will demonstrate that Mercosur has the ability to pull off such deals on a global stage and may enact a renewed sense of optimism throughout the bloc which has been lacking due to the economic situation in Argentina and the political situation in Brazil. Mercosur lacks some of the more characteristic measures of an economic bloc namely a common currency, fiscal and monetary union and a central bank. The idea of a Mercosur common currency isn't new a proposed currency known as the "Gaucho" was envisioned for the bloc however political disagreements and the establishment of the Brazilian real currency effectively put the notion of a common currency to bed. The conditions to form a common currency union are formidable and at present it is difficult to envision how countries member states would effectively implement them however the need to have a common currency may not be necessary but

rather a political measure to enhance cooperation. ASEAN, NAFTA and until 2002 The EU operated their common markets effectively without a common currency and considering currency fluctuations. There may be an argument that a common currency could sow divisions as seen in the Greek , Irish and Portuguese bailout which created resentment for the Euro currency as states could no longer devalue their currencies and export their way out of a recession something common for Mercosur nations to engage in. The IMF in many regards acts as the sole economic mediator in the region with Mercosur operating as more of a trading front then a mechanism to reform internal economic disparities. In this sense the economic case for further integration should be put on hold until the bloc demonstrates its effectiveness on the world stage only then when the economies are tied to the free trade agreement through Mercosur and a renowned sense of reliability on Mercosur for internal economic cohesion should the notion of further economic cohesion through a common currency , fiscal and monetary union be proposed personally I believe this is many years away should it ever be implemented.

## *Conclusion of the Thesis*

### *A final note*

The recipe for political unity drafted by the European union has no doubt been successful in Europe however the “spillover effect” to other regions has been less so , many factors account for this and it could be a thesis in its own right but generally the EU is very balanced , has politically neutral bodies with legislative powers and a history of recent internal conflict which act as scars that push members towards cooperation. Mercosur on the other hand has none of these features yet is commonly compared with the EU which I find to be unhelpful , the history of colonisation combined with the overarching size of Brazil compared to the rest of the bloc creates a recipe the Mercosur itself will have to design . Steps towards political and economic unity remain to be taken and finishing up on this thesis gives me a renewed hope that Mercosur can be successful if success is measure more on the effectiveness of the bloc to increase the standards of living for member states and less on its ability to act as political union. Standards of living continues to grow in member states and whether this is due to Mercosur or general international trade and globalization is an unhelpful grey question. Mercosur has blocs in front of it in the forms of an identity crisis through comparison and a lack of reliability for member states

but if it evolves past this then the bloc may enjoy a successful future , realism remains largely the creed of action for member states but this may decrease in the future as integration grows between member states. In the end it will be up to member states to decide on how to both balance the bloc , increase internal trade and gain free trade agreements around the world , achieving all three of these objectives will in my opinion allow for Mercosur to be perceived as a success. achieving all three of these objectives will in my opinion allow for Mercosur to be perceived as a success.



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