

THE OPPENHEIMER REPORT

Mercosur trade bloc in limbo

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MONTEVIDEO, Uruguay -- South America's 15-year-old Mercosur trade bloc -- made up of Brazil, Argentina, Uruguay, Paraguay and Venezuela -- recently inaugurated a European Union-styled regional parliament here amid hopes by many Uruguayans that this capital will become "the Brussels of South America."

But talking with Uruguayans across the political spectrum this week, I didn't find many optimists about the future of the regional parliament or -- for that matter -- of the trade bloc as a whole. Many fear that the recent admission of Venezuela will turn Mercosur into an increasingly political -- rather than economic -- group.

"The original purpose, which was to create an economic and commercial bloc, has been totally betrayed," former Uruguayan President Luis Alberto Lacalle, one of the founders of the trade bloc in 1991, told me. "Today, they are talking about the 'Mercosur position' at the United Nations, the 'Mercosur position' at the Organization of American States, etc. We never contemplated that when we created it."

The 90-seat Mercosur Parliament, or Parlasur, which will hold its second session here later this month, is made up of 18 active congress members of each member country. Venezuela's 18 delegates will temporarily have voice but no vote because Venezuela's full membership in Mercosur has yet to be ratified by the Brazilian and Paraguayan congresses.

Parlasur legislators will be able to issue sense-of-the-parliament resolutions and to commission studies, but will not have supranational powers to legislate over national congresses.

STUMBLING BLOCKS

Mercosur is recovering from a near-debacle earlier in the past decade, when the 1999 Brazilian devaluation caused inter-regional trade to plummet. In 2006, trade between the four original Mercosur members -- Venezuela joined the bloc late last year -- reached \$20.6 billion, nearly twice its 2002 low of \$10.6 billion, according to the Latin American Integration Association (ALADI).

But Mercosur's smallest members, Uruguay and Paraguay, complain that virtually all that growth is accounted for by bilateral trade between Brazil and Argentina, and that regional economic integration is not going anywhere.

"There is a total lack of coordination in economic policies within Mercosur," Danilo Astori, Uruguay's economy minister, told me in an interview.

Uruguay complains that -- in what makes a mockery of regional integration efforts -- Argentina is blocking key border bridges because of a dispute over the environmental impact of a \$1.2 billion Finnish-owned paper mill being built on the Uruguayan side of the border, causing huge damage to Uruguay's tourism industry. And both Argentina and Brazil are putting all kinds of hurdles to Uruguayan exports of bicycles, rice and hundreds of other products, Uruguay says.

While Uruguay's exports to fellow Mercosur countries reached nearly 50 percent of this country's total exports in the late 1990s, the percentage has fallen to less than 20 percent today. In 2006, Uruguay ran a \$1 billion trade deficit with Argentina and Brazil combined.

Astori said that Uruguay would like a free-trade agreement with the United States, but added that Argentina and Brazil are prohibiting Mercosur member countries from entering deals with Washington individually. With a mixture of resignation and resolve, he said, "Uruguay can't get out of Mercosur, but it can't be a Mercosur prisoner, either."

While Lacalle complains that, instead of solving its trade issues Mercosur is "putting a political hat on them," officials of President Tabaré Vázquez's left-of-center government argue that the regional parliament could actually help untangle existing trade disputes.

Since Parlasur's legislators are members of their respective national congresses, they could push the integration agenda there. That would be important, because about 60 percent of Mercosur's trade rules have not been ratified by the congresses of the bloc's member countries, they say.

THE CHALLENGE AHEAD

My opinion: Mercosur is in limbo. South American countries want to emulate Europe's successful economic integration experience, but they are doing it in reverse: While the European Union started as a carbon and steel agreement and consolidated its economic integration before moving on to create political institutions, Mercosur is building political institutions without having implemented its most basic economic agreements.

If the new Parlasur parliament helps get each country's congress to remove trade barriers in the region, it will be a welcome development. If not, it will become just another Latin American integration bureaucracy, and a joke.