CHAPTER 3
ORIGINS, CURRENT STATUS, AND FUTURE OF MERCOSUR

I. INTRODUCTION

On July 6, 1990, Presidents Carlos Menem of Argentina and Fernando Collor de Mello of Brazil signed the Act of Buenos Aires calling for the creation of a common market between their two countries by 1995. The date was specifically chosen to coincide with the end of both presidents’ respective terms in office and therefore emphasize the personal importance both men attached to the project. The broad, general guidelines for the establishment of this common market to be known as the Common Market of the South (MERCOSUR, or MERCOSUL in Portuguese) were included in the Latin American Integration Association (ALADI) Economic Complementation Agreement or Acuerdo de Complementación Económica (ACE) No. 14, signed in December 1990. Paraguayan and Uruguayan fears that they would be shut out of a common market between two of their largest trading partners caused both countries to ask to be included in the MERCOSUR process. This request resulted in the Treaty of Asuncion, which was signed by Argentina, Brazil, Paraguay, and Uruguay in the Paraguayan capital on March 26, 1991. The Treaty of Asuncion was later incorporated into the ALADI framework as ACE No. 18 in November 1991, following the treaty’s near unanimous ratification in the legislatures of all four member states. The Treaty of Asuncion, besides including two new countries in the MERCOSUR project, also expanded on ACE No. 14 by filling in some of the legal and institutional gaps found in the earlier document.

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1. The decision to bring the MERCOSUR process within the ALADI framework was reputedly done as a way to avoid the reporting requirements under the General Agreement on Tariffs and Trade (GATT), since ALADI had already been reported under the Enabling Clause. Regardless, the WTO Committee on International Trade and Development established a working group in 1993 to review MERCOSUR under both Article 24 of the GATT and the Enabling Clause.

2. According to figures supplied by the ALADI Secretariat in Montevideo, by 1990 nearly a third of Paraguay’s exports and approximately 30 percent of Uruguay’s exports went to Brazil. Together, Brazil and Argentina supplied almost 40 percent of Uruguay’s total imports and just under 30 percent of Paraguay’s imports.

3. Among the innovations of ACE No. 18 over ACE No. 14 were better defined rules of origin as well as a more effective dispute resolution mechanism. For its part, the provisions in ACE No. 18 were almost identical to those found in the Treaty of Asuncion, albeit the language in ACE No. 18 detailed with greater precision any exceptions to the general free trade scheme during the transition period.

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The original intention of MERCOSUR was to encourage each member state to specialize in producing those inputs in which it enjoyed a competitive advantage. The final good would then be exported outside the region as a product made in MERCOSUR. The Treaty of Asuncion mandates that the MERCOSUR common external tariff (CET) has to be at such a level so as to ensure that the final output of the member states is internationally competitive.

II. ARGENTINE-BRAZILIAN INTEGRATION AND ECONOMIC COOPERATION PROGRAM OF 1986

The idea of creating a common market between Argentina and Brazil was not the brainchild of either Presidents Menem or Collor de Mello. Previously, in November 1988, then Presidents Raul Alfonsin of Argentina and José Sarney of Brazil had signed the Treaty of Integration and Economic Cooperation. This agreement sought to transform Argentina and Brazil into a customs union by 1999. After 1999 both countries would begin taking further steps to transform the proposed customs union into a full-fledged common market.

The 1988 Treaty on Integration and Economic Cooperation was, in turn, an outgrowth of the Argentine-Brazilian Program for Integration and Economic Cooperation (PICAB), begun by Presidents Sarney and Alfonsin in 1986. The primary motive behind PICAB was to gradually open ever more sectors of Argentine-Brazilian trade to complete free trade and thereby improve each country’s respective economy through the concept of comparative advantages. The sectors that were particularly targeted included wheat, agro-industrial (including basic foodstuffs), capital goods, steel, automobile, aeronautics, communications, energy, surface and maritime transport, biotechnology, and nuclear power. The hope was that steady economic growth in a complementary fashion would help insure political stability for both nations as they emerged from years of harsh military rule and pent-up social demands. Although PICAB brought neither economic nor political stability to Argentina or Brazil, it did initiate the steady rise in total Argentine-Brazilian bilateral trade that continues to the present (albeit with a temporary contraction at the start of the 21st century). In addition, PICAB included a number of programs that supported the subsequent adoption of market-oriented economic policies in Argentina and Brazil during the 1990s. For example, PICAB insured Brazil of a steady supply of agro-industrial products, particularly grain imports, which allowed the country to begin dismantling its expensive agricultural subsidies program to wheat farmers in southern Brazil.

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4 This is acknowledged in the Treaty of Asuncion itself. The preamble states that one of the main reasons the MERCOSUR countries are trying to create a single, integrated market is that they wish to establish a more effective negotiating position to help ensure that their products will have better access into the markets of other trade blocs such as the European Union.