

## MERCOSUR— Trading With the Fifth-Largest Economy in the World

MOBILITY Magazine, May 2007

*Several countries on the same continent form an economic coalition to promote free trade and the fluid movement of goods, people, and currency. Sound like the European Union? Guess again, and think more southern. Mercosur, which was founded by five South American countries in 1991, has the potential to become a powerful global force as the fifth-largest economy in the world.*

By Hector Garcia Lopez, GMS

Mercosur (Spanish), Mercosul (Portuguese), or Southern Common Market (English) is a regional trade agreement (RTA) between the countries of Brazil, Argentina, Uruguay, Venezuela, and Paraguay, founded in 1991. Its purpose is to promote free trade and the fluid movement of goods, people, and currency. Mercosur is a customs union, a form of economic integration that calls for a common external tariff (CET) and a common commercial policy among the member countries. The level of the CET in a customs union defines members' tariff preferences.

The origins of Mercosur trace back to 1985, when the presidents of Argentina and Brazil signed the Argentina-Brazil Integration and Economics Cooperation Program.

Bolivia, Chile, Colombia, Ecuador, and Peru all currently have associate member status. Venezuela became a full member in June 2006, after signing the membership agreement.

### Dimensions and Potentials of the Fifth-largest Economy

The organization potentially could preempt the Free Trade Area of the Americas (FTAA); however, more than half of the current Mercosur member countries rejected the FTAA proposal at the IV Summit of the Americas in Argentina in 2005.

The development of Mercosur arguably was weakened by the collapse of the Argentine economy in 2001, and still has seen internal conflicts over trade policy between Brazil and Argentina, Argentina and Uruguay, Paraguay and Brazil, and so forth.

In December 2004, a cooperation agreement with the Andean Community Trade Bloc (CAN) was signed and a joint letter of intention for future negotiations toward the integration of all of South America was published. The prospect of increased political integration within the organization, as per the European Union and advocated by some, still is uncertain.

The Mercosur bloc is composed of a population of more than 263 million people, and the combined gross domestic product GDP of the member nations is more than \$2.425 trillion a year (purchasing power parity), according to the World Bank, making Mercosur the fifth-largest economy in the world and the fourth-largest region as measured by population.

The GDP of a country is defined as the market value of all final goods and services produced within a country in a given period of time. Mathematically, it can be represented by the formula:  $GDP = \text{consumption} + \text{investment} + \text{government spending} + (\text{imports} - \text{exports})$ .

A purchasing power parity (PPP) exchange rate equalizes the purchasing power of different currencies in their home countries for a given basket of goods. These special exchange rates often are used to compare the standard of living of two or more countries.

### Free Trade Agreements With Third Parties

Recently, with the new cooperation agreement under Mercosur, the Andean Community gained four new associate members: Argentina, Brazil, Paraguay, and Uruguay. They were granted associate membership by the Andean Council of Foreign Ministers. This move reciprocates the actions of Mercosur, which granted associate membership to all the Andean Community nations by complementary agreements signed between CAN and individual Mercosur members.

Chart 1:

FLAG	COUNTRY	FULL MEMBER Since...	ASSOCIATE MEMBER Since...
	Argentina	1991	
	Brazil	1991	
	Paraguay	1991	
	Uruguay	1991	
	Venezuela	2006	
	Chile		1996
	Bolivia		1997
	Peru		2003
	Colombia		2004
	Ecuador		2004
	Mexico		2004 (in process)

Chart 2:

World Ranking of the 10 Largest Countries Measured by GDP (source: World Bank)

Rank	Country	GDP (PPP) \$m	Population (Millions)
-	World	61,006,604	6576
-	European Union	12,626,921	495
1	United States	12,409,465	301
2	China	8,572,666	1316
3	Japan	3,943,754	127
4	India	3,815,553	1124
5	Germany	2,417,537	82
6	United Kingdom	1,926,809	60
7	France	1,829,559	61
8	Italy	1,667,753	58
9	Brazil	1,627,262	188
10	Russia	1,559,934	142

Chart 3:

MERCOSUR (Full Members) Ranking of Countries by GDP (source: World Bank)

Rank	Country	GDP (PPP) \$m	Population (Millions)
9th	Brazil	1,627,262	188
18th	Argentina	558,755	40
49th	Venezuela	173,583	26
86th	Uruguay	35,185	6
89th	Paraguay	30,547	3
5th	MERCOSUR Full Members	2,425,332	263

#### Relationships Between Main Trade Blocs

There are two broad options for achieving hemispheric free trade:

- Accession of all countries to the North American Free Trade Agreement (NAFTA), the most important of the existing sub-regional agreements in terms of trade coverage. NAFTA is a free-trade area under which each country is permitted under the provisions of the General Agreement on Tariffs and Trade (GATT) to maintain its own tariff and trade policy with non-member countries; or
- The conclusion of agreements between the separate groupings in South and Central America until there is a free-trade network covering all the countries of the hemisphere.

There are a number of preferential trading arrangements of varying sizes and forms in the hemisphere. Only NAFTA and Mercosur actually approach their basic purposes; the others largely are shell agreements and do not merit the title of integration arrangements.

#### **Future Steps**

NAFTA and Mercosur account for the bulk of hemispheric gross domestic product (GDP) and trade. Thus, an arrangement between the two groupings would go a long way toward achieving an FTAA. Either scenario—if the Mercosur countries acceded en masse to NAFTA, or if the two concluded a free trade arrangement—would set up pressures for other countries in the hemisphere to put their affairs in order so they could join the emerging FTAA.

There can be no FTAA without the consent of both Brazil and the United States. These are topics for future agendas at each governmental level.

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