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Members of Mercosur must use it better

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THE END OF MARCH WILL MARK the 25th anniversary of the Treaty of Asunción, which created Mercosur—and yet again Mercosur celebrates an anniversary under criticism of its trade and economic ineffectiveness: it still has little to show in terms of trade agreements and encouragement of regional value chains. For Regis Arslanian, however, it does not make sense to belittle the importance of the bloc. He describes Mercosur as a club that has well-structured norms but they depend on its members being willing to use them productively. In speaking to *The Brazilian Economy* about Mercosur's prospects and problems, Arslanian—who was Brazilian Ambassador to Mercosur from 2007 to 2012 and Brazil's representative in the negotiations for a trade agreement between Mercosur and the European Union in the early 2000s—warned that the bloc will not make advances with European countries if it does not modernize its negotiation model.

What are the prospects of Mercosur celebrating 25 years by making progress toward a trade agreement with the EU?

Mercosur and Brazil have an outdated negotiating model from the 1990s that is based on tariffs. We have offered the EU an agreement that covers 87% of the tariffs—a good initial offer—but in my opinion, the Europeans do not want to make a deal on those terms. For them, concessions on tariffs and quotas will not matter unless there is regulatory convergence.

After all, how important are tariffs today? The Brazilian currency has been devalued by over 40% since last year. Brazil's highest tariff on cars in Mercosur's Common External Tariff (CET) is 35%. So the tariff was totally neutralized by the exchange rate devaluation. Moreover, with the Innovation Auto program, European factories have settled in Brazil, so EU countries have no interest in exporting cars to Brazil anymore. In contrast, at the time the agreement with the

EU was being negotiated (negotiations were suspended in 2004), Europeans were interested in Mercosur's motor vehicle and parts market.

Today, mega-deals like the Transpacific and Transatlantic (TPP and TTIP) trade agreements are much more comprehensive. The cost of not changing is that we are not part of global value chains. Today there is no way to imagine productive integration, a partnership between countries, without a legal instrument and a regulatory model that is more or less homogeneous, and without intellectual property protection and similar rules on industrial production. Even with all its problems, the Mercosur market is very attractive to Europeans and Americans. Venezuela alone is a very important market, and there will come a day when it will have a more stable political situation. But to negotiate effectively, we must be more open and have more comprehensive and ambitious proposals.

Where should this change come from?

We need consensus from the business sector and Congress, which has to approve all agreements that Brazil negotiates—but also from civil society, trade unions, and academia—to carry out negotiations to modernize our industrial policy and open doors for greater trade. Today, for example, we are not participating in such multilateral negotiations as the agreement on trade in services (Tisa), which covers areas like transportation, energy, finance, and e-commerce. The service associations in Brazil desperately want to participate, sit at the table, and discuss what is being negotiated. Brazil needs to review obsolete laws like the general telecommunications law and restrictions on coastal shipping so that we can integrate our economy [into global

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markets]. And Mercosur needs to encourage this. I guarantee that Argentina, with its new government, Uruguay, and Paraguay will be willing to change the approach and adopt a more open negotiating model.

In trade, the assessment of Mercosur tends to be negative, and some argue for ending the customs union. Do you agree?

No, that is not the fault of Mercosur, which has very well-structured rules. The bloc is like a club: You can have wonderful rules, but if the partners do not follow them, do not respect time schedules, and so on, the club goes down the tubes. The mandate that the European Commission received from the EU countries was to negotiate with Mercosur, create a free trade agreement between the two largest customs unions in the world, and not negotiate with individual countries. The problem now is that the political agenda has superseded the commercial and economic agendas. Mercosur worked very well during the Fernando Henrique Cardoso

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administration and grew a lot during the Lula administration. For example, the agreement on elimination of tariffs on imported goods moving within Mercosur was signed in 2010. That had been a major complaint of the Europeans; after all, what kind of customs union did not have free movement of people and merchandise? This item is also a major obstacle to productive integration within Mercosur. At first, the 2010 agreement was moving forward, but momentum stopped because Mercosur's agenda for integrating production among countries stopped.

Do you think the change of political parties in the region and the end of the supercycle of commodities may encourage Mercosur's revival?

The more change occurs, the more members will be attracted to using Mercosur more productively. The ideological U-turn in Argentina

helps. The Argentina–Brazil bilateral monitoring committee, which was inactive for a year and a half, is now meeting again. All this can create a better environment [for Mercosur].

What agenda does Mercosur require today?

We do not necessarily need to be innovative. We have to resume the agenda that was started and never completed. Mercosur is a powerful tool for everyone. Used properly by the partners, it can be very helpful. But Brazil needs to be more active. Otherwise, there will be no game. In the 35 years I was in the Foreign Ministry, I never saw an instruction even indicating that Brazil had to take leadership in South America. But of course it must. And in South America, it is presidential diplomacy that opens doors.

Because of Brazil's domestic political and economic crisis, however, our government has not been able to focus on foreign policy issues and I find it unlikely that it will have any capacity in the next two or three years to promote the needed changes in Mercosur. Agreements on facilitation of investment, for example, are extremely important. Other initiatives, such as negotiation of a fast track for examination of patents between Brazil and the U.S. (the Patent Prosecution Highway Program, started in January) are good signs. But they are still isolated initiatives—not part of the consistent proactive and productive policy that Mercosur needs to not be left behind. 