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## 25 years of Mercosur

### implications beyond the economy

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panoramainternacional.fee.tche.br  
panoramainternacional@fee.tche.br

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# Mercosur and its multiple dimensions

*Fernando Lara*



Economics Researcher  
at the FEE  
fernando@fee.tche.br

The second issue of Panorama Internacional FEE deals with an important and complex topic, which allows multiple and interrelated possible angles of analysis, such as economic, political and cultural. The Latin-American integration has been debated for a long time in the region. In the economic field, conjectures about the potential effects of productive integration have always been considered when it comes to difficulties and limitations of late and peripheral industrialization in Latin America. The “closed” character of that process, in the sense that industrial plants were installed to supply the restricted national markets, was pointed out as responsible for the disadvantages in absolute costs, related to the smaller scales of production compared to those of the previously industrialized countries. In a speech in Mexico in 1959, Raúl Prebisch<sup>1</sup> evoked this diagnosis in advocating the formation of a Latin American Common Market. In his view, this would be the way to avoid repeating the known limitations of the already established consumer goods industries in the necessary and subsequent phase of installing the sectors of capital goods. The strategy envisioned by Prebisch did not recommend the promotion of partial integration as preparatory action for a second continental integration phase. For the Argentine economist, the more strengthened the sub-regional groups were, the more difficult it would be to achieve the Latin American Common Market.

Actually, the integration in continental scale as advocated by Prebisch has poorly advanced. Moreover, one could hardly attribute this state of affairs to obstacles created by the development of sub-regional integration groups such as Mercosur. These groups have not advanced so much as to the point of generating additional obstacles more important than those already underlying the national borders or those related to the very nature of capitalism. Contradictions and conflicts of interest among countries, sub-national political units,

<sup>1</sup> PREBISCH, R. El mercado comun latinoamericano. Boletín del Banco Central del Ecuador, Quito, v. 33, n. 384-385, p. 19-28, jul./ago. 1959. Retrieved from <<http://hdl.handle.net/11362/32866>>.

transnational corporations and domestic political groups seem to be enough to constitute a somewhat complex system of barriers to integration. The historical development of that system has not generated so far a solution that could promote significant advances in Mercosur as a process of economic integration.

The adoption of a model to guide the promotion of such integration, resulting from other historical experiences, is quite complicated. The European Union is probably the most developed case of an institutional framework designed to promote integration. However, the recent slow economic growth of the bloc as a whole, the acute problems that the “peripheral” countries have faced, alongside the behavior of “core” countries concerning such problems, indicate serious limitations and contradictions about the values and goals sustaining the integration. Macroeconomic rules adopted to satisfy particular interests have been suffocating some

member countries and led many European citizens to embrace a kind of moral judgment that some countries “do not deserve” to be part of the Euro Zone.

On the other hand, despite the absence of an institutional apparatus comparable to that of the European Union, there has been a strong process of productive integration in Asia. Several geopolitical, structural, organizational and economic factors contributed to this outcome (MEDEIROS, 2011)<sup>2</sup>. The data transmission revolution and digitalization enabled the encoding of productive processes and their modularization. From a technical point of view, these changes have made possible the establishment of a large trade flow of parts and components, integrating the lower income Asian countries to those previously industrialized. The asymmetric position of the countries, which may be reinforced for the balance of payments problems, was at least in part neutralized in this Asian integration by macroeconomic stimulus and structural conditions

both functional for integration. The regional expansion and its productive integration in Asia have always been oriented to a large consumption market of final goods. The United States was the first market running trade deficits with the less developed countries, and has been progressively replaced in this role by China.

In the case of Mercosur, within certain limits, Brazil could perform this role because of its relative size. To make it happen, however, Brazil would need to increase growth and stop perceiving other countries only as useful markets to compensate the reprimarization of its exports to other continents. In other words, a productive integration along the Asian lines would require Brazil to run trade deficits with the bloc, rather than channeling its more technology-intensive industrial production, displaced from other markets by the Asian producers. It would be necessary, therefore, for Brazil to promote more deeply its domestic market, managing adequately its external

2 MEDEIROS, C. A dinâmica da integração produtiva asiática e os desafios à integração produtiva no Mercosul. *Análise Econômica*, Porto Alegre, v. 29, n. 55, p. 7-32, mar. 2011. Retrieved from <<http://seer.ufrgs.br/AnaliseEconomica/article/view/13381>>.

constraints at the same time. Arrangements that could promote a joint management of the external constraints would be supportive to integration. The external problems of Brazil and Argentina, especially, have already caused, and always may cause again, serious imbalances for Mercosur to consolidate.

Addressing the issue of Mercosur, Panorama Internacional FEE does not intend to provide definitive answers to all these complex issues. The purpose is to put forward some elements to invite the reader to join the debate. In that sense, researchers Cecília Hoff and Tomás Torezani discuss Rio Grande do Sul's position in the Mercosur context, highlighting the particularities of trade and productive relations of the state with the other countries and calling attention to the agricultural capital goods sector and the conflict of interest established by the movements of the Argentine industry. Researcher Ana Julia Possamai presents a central dimension: digital integration. Although still

receiving little attention in most economic analyses on integration, a slow development in this field may represent an important constraint on productive integration in the era of modularization of production, apart from the political and cultural implications. The interview of this issue of Panorama brings Professor André Luiz Reis da Silva, from Universidade Federal do Rio Grande do Sul (UFRGS). He provides some impressions about achievements and challenges of Mercosur, the accession of Venezuela and the possibility of a free trade agreement with the European Union, along with other issues. Robson Valdez, Ricardo Leães and Bruno Jubran address the need for a political settlement inside the bloc, noting that the economic agreements underlying a process of economic integration presuppose an appropriate balance of costs and benefits to potential participants. Finally, Tarson Nuñez brings us important conjectures about the outcome of the presidential election in Argentina. The situation in

that country is always substantial for a conjuncture analysis of the region, considering the more radical changes associated with political changes there from a Brazilian standpoint. **P**

# Economic links between Mercosur and the State of Rio Grande do Sul

*Cecilia Rutkoski Hoff*



Economics Researcher  
at the FEE  
cecilia@fee.tche.br

*Tomás Torezani*



Economics Researcher  
at the FEE  
torezani@fee.tche.br

The location of Rio Grande do Sul in Southern Brazil, regarded as "eccentric" by many, due to its distance from the country's main consuming centers, becomes central when it comes to Mercosur. After all, the shared borders with Uruguay and Argentina give the state a privileged position for strengthening production and trade ties between the bloc's countries and Brazil. Initially perceived as a threat to the state's economy, given the productive similarities with the neighboring countries (mainly because of the relevance of agribusiness), Mercosur has become a factor for attracting investments to Rio Grande do Sul. In that crop of investment, achievements can be seen in the automotive industry, which has witnessed the creation of a regional division of labor involving complementarities and interdependences between the products manufactured in Brazil and those made in Argentina. The same can be said of the agricultural machinery sector, whose location in the state has proven strategic for meeting the needs of both the neighboring countries and the growing demand of the Brazilian midwest. From the start, Mercosur posed a strategic opportunity for a structural transformation in the state's production structure.

[...] the integration with the countries in the southern part of the continent has proven to be able to change the major features of the state's economy. Indeed, the state is starting to leave behind its historical peripheral condition in Brazil to play a central role within the integrated economy. Investment decisions which reflect and materialize such ongoing change are starting to be made and tailored to meet the needs of Mercosur.<sup>1</sup>

<sup>1</sup> CASTRO, A. B. Notas para uma estratégia. In: RIO GRANDE DO SUL. Secretaria de Coordenação e Planejamento (SEPLAG). Projeto RS 2010: realizando o futuro. Porto Alegre, 1998. p. 10. Translation mine.

After more than 25 years since its creation, Mercosur still plays a strategic role in the state's economy, although the opportunities and expectations about the bloc's future are less promising.

The state's economy is more open to Mercosur than the national average

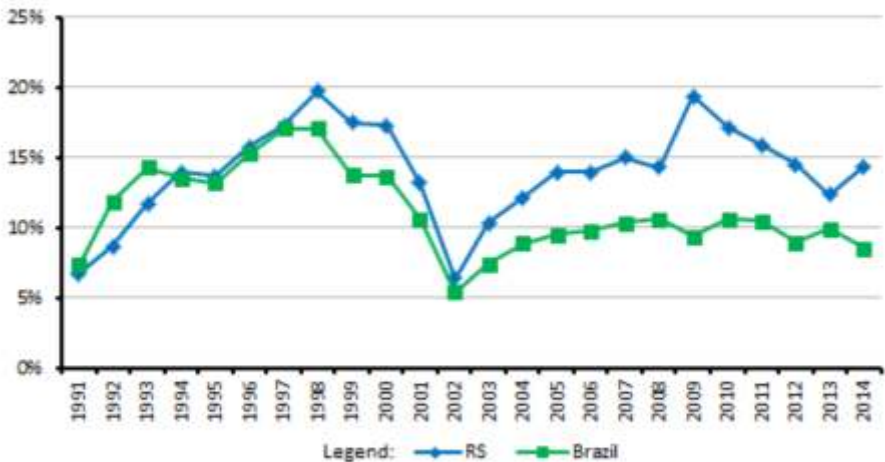
due to the built production complementarities and the higher share of imports, whose front door is the state and whose destination is often the center region of Brazil. On average, between 1991 and 2014, sales to Mercosur accounted for 14% of Rio Grande do Sul's exports and 11.2% of the

ones from Brazil (Figure 1). As regards imports, in the same period, Mercosur was responsible for 32.5% of the state's foreign purchases and 9.8% of Brazil's.

When comparing the state's exports towards Mercosur with those towards other regions, the relevance of the bloc

Figure 1

Share of the overall exports from Rio Grande do Sul and from Brazil to Mercosur — 1991-2014



SOURCE: BRASIL. Ministério do Desenvolvimento, Indústria e Comércio Exterior. Aliceweb2. 2015. Retrieved from <<http://alicesweb.mdic.gov.br/>> on Oct. 1, 2015. NOTE: Brazil = except Rio Grande do Sul.



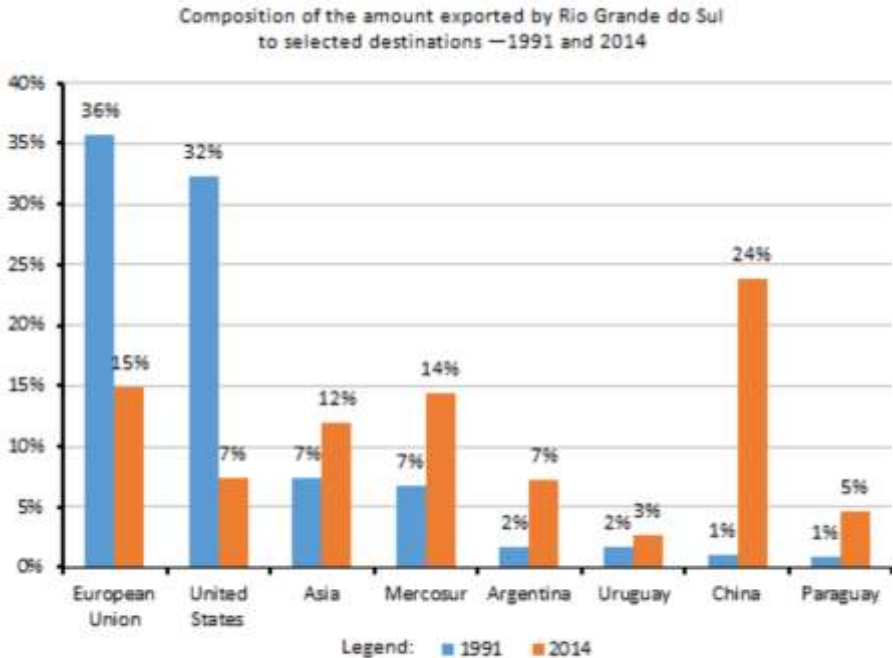
becomes even more evident (Figure 2). Throughout almost the entire period between 1991 and 2014, Mercosur was the third main destination of the state's exports. The average share of the export value was only surpassed by the European Union (22.8%) and the U.S. (19.9%). However, their relevance in the exports of Rio Grande do Sul has been reducing significantly in

recent years. Considering each bloc member, for the period 1991-2014, on average 62% of the exports were directed to Argentina, 19% to Paraguay and 18% to Uruguay. From 1991 to 2009, the exports of Rio Grande do Sul to Mercosur increased in value at an average annual rate of 15%, while the overall state's exports expanded in 9%. More recently, however, a sensible

change can be noticed: the state's sales to the bloc member countries shrank 2% between 2010 and 2014, while the state's total exports grew 4%. This change reflects primarily a decrease of 9% in the sales to Argentina in the period.

The relevance of Mercosur for the state's economy, at least when it comes to international trade, becomes even clearer when the composition of the exports

Figure 2

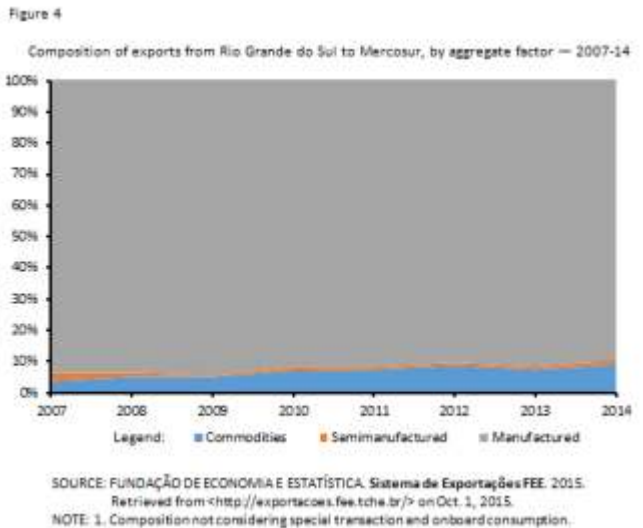
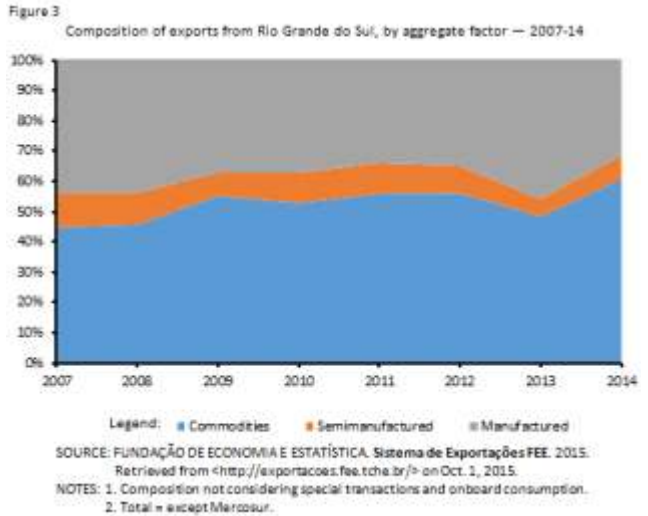


SOURCE: BRASIL. Ministério do Desenvolvimento, Indústria e Comércio Exterior. Aliceweb2. 2015. Retrieved from <<http://alicesweb.mdic.gov.br/>> on Oct. 1, 2015.

NOTE: Asia (except the Middle East and China) and the United States (including Puerto Rico).

to the bloc is disaggregated. By analyzing the state's exports in a more recent period (2007-14) and by aggregate factor, we can notice that the composition of the export basket of Rio Grande do Sul to the world (Figure 3) is predominantly commodity-driven (average of 52%), while the sales to Mercosur (Figure 4) largely comprise manufactured products (92%), which shows a very contrasting pattern.

A similar pattern can be seen when we classify the state's exports by technological intensity. Medium-high and medium-low technology goods comprise a larger share of the exports to Mercosur, while the exports to other destinations have a greater share of nonindustrial and low-technology items. In 2014, medium-high and medium-low technology goods made up approximately 80% of the sales to Argentina and Uruguay. On the other hand, over 70% of the exports to European



countries consisted of low-tech or non-industrial products, a percentage that exceeded 90% in the case of the exports to China. To the United States, the share of medium-high and medium-low technology products was 42% in the same year. However, the U.S. participation in the state's exports has been consistently decreasing, as can be seen in Figure 2.

Therefore, Rio Grande do Sul's exports to the Mercosur nations comprise mainly industrial products with some degree of technological

intensity. The importance of such products is also revealed in the greater income-elasticity of the demand and in the high potential of long-term growth. These products also tend to be less subject to the deterioration of the terms of trade, less susceptible to substitutes in the world market and more demanded by more dynamic markets. In this case, Mercosur can be seen as an exception to the structure of the export basket of Rio Grande do Sul, which is highly concentrated in low value-added products. Thus, the

proximity of the state's economy to that of the Mercosur member countries — and the very existence of the bloc — contributes to the diversification and the quality of the state's exports, offsetting the competitive difficulties associated with the export of manufactured goods to other regions.

As for the sectorial activity in the state's exports to Mercosur (Table 1), a strong participation of chemicals, machinery and equipment and motor vehicles can be underlined. Mercosur is also a major



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destination for the products of other industries with lower participation in the state's exports, such as petroleum products, textiles, metal products, rubber and plastic products, computer equipment and electronics. The exceptions — some of the important state's exports of which Mercosur does not represent a relevant share — are food products, tobacco products, leather and footwear. Regarding the share of exports in the total production, the chemical and textile sectors direct much of their production to Mercosur. In the other sectors, Brazilian market and exports to other countries and blocs are more relevant.

As can be perceived from the discussion above, the last few years have been characterized by difficulties in the trade and production relations within the bloc, to which the economic problems faced by Argentina have greatly contributed. These difficulties do not stem only from the slowdown in the growth rates and from

the high inflation in that country, which inevitably impact on its imports. They especially reflect the scarcity of foreign

Table 1

Rio Grande do Sul's exports in US\$ and share (%) by categories in manufacturing industry — 2007 and 2014

MANUFACTURING INDUSTRIES (CNAE 2.0 categories)	VALUE (US\$ million FOB)			
	Total (A)		Mercosur (B)	
	2007	2014	2007	2014
Food products	3,173.0	4,167.4	69.6	77.3
Chemicals	1,681.6	2,064.3	663.1	631.3
Tobacco products	1,556.2	1,889.4	39.9	117.7
Leather and footwear	1,845.8	1,124.2	77.8	81.1
Machinery and equipment	1,168.7	1,048.3	402.9	380.7
Motor vehicles, trailers and bodies	639.3	733.3	107.4	279.7
Oil derivatives	556.6	473.6	374.5	406.6
Rubber and plastic products	220.5	348.9	73.3	115.2
Metallurgy	78.9	101.0	48.7	41.3
Textiles	114.6	84.8	78.5	36.7
Computer equipment, electronics and optical products	66.7	54.8	21.0	16.8
Beverages	8.6	11.8	2.5	1.4
Pharmaceuticals and pharmaceutical products	2.6	6.9	1.0	1.0
All selected categories	11,213.3	12,106.6	1,960.1	2,186.8
All manufacturing industries	13,806.6	13,806.6	2,214.5	2,556.4

MANUFACTURING INDUSTRIES (CNAE 2.0 categories)	PARTICIPATION (%)					
	Total		Mercosur		B/A	
	2007	2014	2007	2014	2007	2014
Food products	23	30	3	3	2	2
Chemicals	12	15	30	25	39	31
Tobacco products	12	14	2	5	2	6
Leather and footwear	13	8	4	3	4	7
Machinery and equipment	8	8	18	15	34	36
Motor vehicles, trailers and bodies	5	5	5	11	17	38
Oil derivatives	4	3	17	16	67	86
Rubber and plastic products	2	3	3	5	33	33
Metallurgy	1	1	2	2	62	41
Textiles	1	1	4	1	69	43
Computer equipment, electronics and optical products	0	0	1	1	31	31
Beverages	0	0	0	0	30	12
Pharmaceuticals and pharmaceutical products	0	0	0	0	39	15
All selected categories	81	88	89	86	17	18
All manufacturing industries	100	100	100	100	16	19

SOURCE: FUNDAÇÃO DE ECONOMIA E ESTATÍSTICA. Sistema de Exportações FEE. 2015. Retrieved from <<http://exportacoes.fee.tche.br/>> on Oct. 1, 2015.

exchange in the face of the still poor access to external financing flows, a legacy from the crisis of the end of the convertibility plan in the early 2000s. More recently, the shortage of foreign exchange in Argentina has worsened, owing to the cooling of soybean prices in the world market. In that scenario, the crisis in the neighboring country has affected the performance of Rio Grande do Sul's exports not only because of the drop in imports, but also because it has induced, even temporarily, the adoption of control policies over the granting of import licenses and the establishment of quotas.

Furthermore, the Government of Argentina has also been adopting structural measures aimed at overcoming the shortage of foreign exchange in the long run. They involve reissuing an import substitution policy — already evident in the agricultural machinery sector, given the "[...] change of the neighboring

country from the main foreign customer into a competitor in South American and African markets"<sup>2</sup> — and broadening partnerships with China, in order to finance infrastructure projects in exchange for a greater opening for the manufacturing market of that Asian country. As a result, there is an increasing market share of Chinese manufactured goods imported by Argentina and a greater propensity for Brazil to adhere to bilateral trade agreements, which questions many economic advances achieved thanks to the bloc. Considering that an important part of the industry established in Rio Grande do Sul aims to occupy a strategic and central position simultaneously for Brazil and the Mercosur markets, the difficulties of the bloc also result in the loss of crucial competitive advantages for attracting investments to the state. **P**

<sup>2</sup> FEIX, R.; DE GASPERI, E. Argentina substitui importações de máquinas agrícolas. Carta de Conjuntura FEE, Porto Alegre, v. 23, n. 12, p. 1, dez. 2014. Translation mine.



# Digital integration: the technological dimension of Mercosur

Ana Júlia Possamai



Political Science  
Researcher at the FEE  
ana.possamai@fee.tche.br

The Southern Common Market (Mercosur) is about to celebrate its 25th anniversary next year. In addition to a Common External Tariff (CET), a common market requires the free movement of not only goods and services, but also of factors of production (capital and labor force). This regional integration stage would make the boundaries between its members virtually non-existent in terms of trade and population mobility.

The main issue is how to make this reality possible, given the variety of documents (physical, electronic and digital) that intervene in the analysis and clearance of imports, exports and migration. Besides the numerous bureaucratic steps, communication between public and private agencies is troublesome due to the diversity of technological, semantic and organizational formats that sustain the information systems of the parties involved. The convention of common models and technological standards imposes itself as a challenge to the interconnection and interoperability of these systems. They are vital to make possible a fluid, efficient and safe circulation between the Mercosur countries. Thus, the so-called digital integration emerges as a fundamental tool to make the current stage of customs unity advance and reach the Mercosur telos.

The need to harmonize positions and narrow the technological gap between its members has always been part of the Mercosur's agenda, leading to the creation of the

Specialized Meeting on Science and Technology (RECyT) in 1992. However, the creation of a common legal and technological milestone came on the agenda only between 1998 and 2000, as part of the discussions on e-commerce carried out by the new Working Subgroup No. 13 (SGT-13).

The electronic trade is a symbol of the new Digital Economy. According to the Ecommerce Foundation, the industry generated US\$33.2 billion in Latin America and the Caribbean in 2013 — which corresponded to nearly 0.57% of the Gross Domestic Product (GDP) of the region and 3.2% of all products and traded services in the economy. Brazil alone responded for US\$18.5 billion, an amount equivalent to 0.62% of the national GDP. Despite the growth in the traded value, the region lags behind in comparison with the world average. The sector generated 1.56% of the world GDP in 2013, and the average online consumption was US\$1,304 per customer — more than twice as much

as the Latin American average, of US\$630. Regarding cross-border e-commerce, the majority of the goods and services purchased that year came from the United States and China. There is no hard data on how much is transacted online between the Mercosur countries. The general perception is that the volume is very low, despite having the potential to be expanded.

This perception prompted the creation of Digital Mercosur, a project to support Mercosur Information Society, in partnership with the European Commission. Digital Mercosur has finally given clearer outlines to the digital integration in the region. Between 2008 and 2013, it sought to strengthen competences and increase knowledge of the potentialities of the Information and Communication Technologies (ICTs) in intra- and extra-bloc trade. For that purpose, distance learning courses have been promoted in the Virtual School of Mercosur (EVM). In addition, the project aimed at reducing legal

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Photo by freemages.com

and technological asymmetries between the bloc's members. To this end, it sought to establish a regulatory framework on data protection, electronic invoicing and digital certificates, aiming at providing security and legal validity for the agreements and documents signed in digital form. The ultimate goal was to enable faster and more reliable transactions, in order to

improve the production and trade integration and expand the market horizons to small and medium-sized local businesses.

In fact, Digital Mercosur has succeeded in establishing a technological and legal model of integration of the public key infrastructure (PKI) and digital signatures recognition, embodied in the Digital Certification Action Plan for Mercosur.

Moreover, Uruguay and Argentina have started to use the timestamp, which validates the date and time of day when a digital document is signed and allows, for example, issuing electronic invoices. In Paraguay, the Root Certificate Authority and its respective PKI have been implemented, providing legal validity to digital signatures. In both cases, the technology incorporated was the



already existing Brazilian one, which was made available to the member states by means of cooperation. However, the project failed to carry on with the development of a political and institutional framework for the security and protection of personal data. Moreover, it was not able to develop the desired online platform for the sale of goods and services of micro, small and medium-sized businesses and to create logistics centers for the integrated delivery of goods (e-logistics hubs).

Besides e-commerce, digital integration also allows the realization of fully digital public services and processes towards the construction of a true e-government in the region. The e-government enables faster transactions, ensures greater reliability and prevents fraud. In this sense, in 2004 the Indira System (Customs Records Information Exchange) was implemented, in line with the current stage of customs union in Mercosur. The system is provided by the Brazilian Federal Data Processing Service (Serpro). It

interconnects the member states' customs management systems to allow the timely consultation on import and export information and documentation that support the dispatching procedures. A step forward would be the interconnection of customs and migration supervision platforms. This could enable, for example, the so-called Integrated Customs of Mercosur, a constant demand from tax inspectors to speed up the release process of cargo and people flows.

Regarding the movement of people, there is an ongoing process to implement a common vehicle license plate of Mercosur, which will reach a fleet of more than 110 million vehicles in Brazil, Uruguay, Paraguay, Argentina and Venezuela. The new license plate has several security features in order to facilitate the electronic supervision of vehicles in highways, hinder the cloning of plates and enable a more accurate control of private cars and the transportation of cargo


*«Besides e-commerce, digital integration also allows the realization of fully digital public services and processes towards the construction of a true e-government in the region.»*

and passengers. The future integration and communication of this system will facilitate access to information on ownership, model, manufacture and vehicle type, along with information about robberies and thefts. A potential application of the solution lies, for instance, in cross-boundaries police cooperation to investigate cases of stolen vehicles which trespass the Brazilian border into illegal dismantling in Paraguay. In this sense, the solution can also contribute to the functioning of the already existing Mercosur's Security Information Exchange System (Sisme), through which data on criminals, car thefts, missing persons, among others, are shared. Implemented in 2005, Sisme is responsible for the security dimension of regional integration, particularly the fight against organized crime, cross-border crime, smuggling and intra-bloc crime in general. Currently,

there is a negotiation process to expand its scope to community policing issues, cybercrime, environmental policing and drug trafficking.

Despite these initiatives, however, electronic governments of the member states require further development. According to the e-Government Index<sup>1</sup>, countries in the region still have a poor telecommunication infrastructure, especially due to a low penetration of broadband Internet (wireline and wireless). Except for Uruguay and Argentina, they rate poorly in terms of education indicators (human capital), and most of their electronic services have a low level of maturity. This situation undoubtedly imposes barriers to the achievement of a better communication and interaction between governments, society and companies in Mercosur. The aforementioned absence of a security and

data protection institutional framework worsens these difficulties.

In the light of the above considerations, digital integration must be seen as critical to reducing transaction and communication costs between the Mercosur countries and as instrumental for the fulfillment of the Southern Common Market's goals — either in its business scope or in relation to population mobility and security. The adoption of security and data protection regulatory frameworks and the implementation of harmonic measures for expanding the penetration of ICT infrastructure in the region are also essential. Without a special attention devoted to these subjects, the desired flow of goods, services, capital and people will be constantly hampered by departmentalized and rigid bureaucratic processes which are not consistent with the network reality of the Digital Age. 

<sup>1</sup> This index is published biannually by the United Nations Public Administration Network (UNPAN) in the Global E-Government Survey. It evaluates comparatively countries in three main areas: electronic services, telecommunication infrastructure and human capital.



► PANORAMA INTERVIEWS

André Luiz Reis da Silva

# Mercosur leverages Brazil

*By Ricardo Leães, Robson Valdez and Tomás Torezani*

In an interview to Panorama, André Luiz Reis da Silva talks about successes and challenges of MERCOSUR, analyzing the strategic position of the State of Rio Grande do Sul. The researcher also evaluates Venezuela's entry into the bloc and the negotiations between Mercosur and the European Union. The interviewee of this issue also opines about Brazil's foreign policy and how this matter was addressed in the Brazilian presidential elections in 2014.



*André Luiz Reis da Silva has a PhD in Political Science and a Post-Doc from the School of Oriental and African Studies - University of London. He is a Professor of the Graduate Program in Political Science and Coordinator of the Graduate Program in International Strategic Studies of the Federal University of Rio Grande do Sul (UFRGS).*

Panorama: After 25 years, what are the main achievements of Mercosur's integration process and what are the biggest challenges to be faced?

Mercosur is one of the major national projects of Brazil, in progress since the 1980s. Since its establishment, even amid difficulties, some still persistent (i.e. the issue of the asymmetries and differences in the bloc's framing), Mercosur has achieved many successes, such as the creation of a peace and cooperation zone in the Southern Cone, the expansion of intra-area trade and the strengthening of a South American

conception. Mercosur, which will be celebrating its 25th anniversary in 2016, has been through several stages and difficulties and has made many achievements. The main references are the Brazil - Argentina rapprochement in the 1980s, which culminated with the inclusion of Paraguay and Uruguay in the project; then, there was the very launching of Mercosur in 1991. Although in a neoliberal context (in which Mercosur was perceived as a fast track towards trade liberalization), it served as a counterpoint to the U.S. proposal of integration of the Americas (Free Trade Area of the Americas). Its major crisis took place in 1999, when the Argentines decreed "the end of Mercosur". However, it was relaunched under a new perspective, to base a bold project of integration in South America. In recent years, besides the associate States (Chile, Bolivia, Peru, Colombia and Ecuador), Mercosur has been advancing with the membership of Venezuela, the creation of the Structural

Convergence Fund for Mercosur (FOCEM) (an effort to reduce the structural inequalities) and a parliament (which still must be developed).

In short, for Brazil's foreign policy, Mercosur has managed to articulate a regional area and thereby has succeeded in fostering the interests of other economic blocs and countries, thus becoming a respected interlocutor both in multilateral forums and in bilateral agreements. In addition to growth prospects, such a position has opened up possibilities for cooperation among several blocs and countries and the establishment of strategic partnerships. Thus, Mercosur has contributed for Brazil's foreign policy, an important foothold in trade negotiations and a focal point for other countries in South America.

So, in despite of an apparent loss of relevance, I reckon that Mercosur remains a strategic space for Brazilian diplomacy and cannot be "abandoned" as some wish, even in Brazil, before any minor setback.

«Some say Mercosur hinders Brazil. It's a real fallacy. Mercosur leverages Brazil, especially the Brazilian industries.»

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Currently, given the growth of Brazil's global interests, Mercosur and also Unasur have lost centrality and incentives. The agenda with the emerging countries (especially the BRICS) and the discussion of an economic and financial global order have gained more interest in Brazil's international agenda. The big challenge for Brazil nowadays is to combine the regional and the global agendas, recalibrating interests and priorities, once a global agenda is not possible without a strong regional presence.

Panorama: Alongside the commercial aspects of Mercosur, which other areas of integration could be classified as strategic for the future of the bloc and how do you evaluate Venezuela's admission to the bloc?

We still have a long way to go. Commercially speaking, Mercosur is usually classified as an "imperfect customs union", because there are

several products with circulation restrictions, quotas and exception lists. We also need to advance to the construction of common regulatory frameworks in various fields, such as social security and labor rights. A bloc that wants to go as far as Mercosur cannot be restricted to trade issues: it needs to move forward in

« *We still have a long way to go. Commercially speaking, Mercosur is usually classified as an 'imperfect customs union', because there are several products with circulation restrictions, quotas and exception lists.* »

all areas, including military cooperation and energy and infrastructure integration.

In relation to Venezuela, Brazil has a commercial surplus, and our economy is complementary to theirs. Venezuela's admission to Mercosur is very positive to Brazil and the other

members, because (1) it increases our access to the Venezuelan market; (2) it promotes the Brazilian model of regional integration; (3) Venezuela's economy is complementary to ours; (4) it strengthens Mercosur's capabilities in the negotiations with other blocs and powers; (5) it reassures the Brazilian project to have regional integration in South America, a project that Venezuela agrees with; (6) it strengthens democracy in South America, because every Mercosur country must comply with the democratic clause.

Panorama: What are the biggest obstacles for the member states to reach a free trade agreement with the European Union and what would be the consequences for Mercosur?

Negotiations between Mercosur and the European Union have been going on for the past two decades. Usually, these negotiations balk at the European refusal to grant further liberalization of its agricultural market (much because of France's

interests and the EU's Common Agricultural Policy). The European Union does not offer a good return for the opening of Mercosur. Therefore, the logic goes as follows: having no agreement is better than having a bad one. This is the deadlock. No illusions.

When it comes to its regional surroundings, Brazil's foreign policy focuses mainly on Mercosur and the South American integration, which creates space for Brazil to exercise its regional leadership and to have a more assertive stance in global forums. Thus, it is not in Brazil's best interest to walk a lonely path, disengaging itself from its neighbors to reach bilateral agreements outside the continent. This

strategy may seem enticing, but it could result in the loss of important markets for Brazilian industrial products and in the further opening of the region to extra-regional competitors.

Panorama: As for Brazil's foreign policy, how does Mercosur polarize the political debate in the country?

Although we have witnessed fierce presidential elections, with an intense debate that mobilized society, with contrasting projects and solutions for Brazil, the subject of foreign policy was poorly addressed in the 2014 presidential campaign. But it is important to stress that the challenges of the foreign policy are decisive for the success of a

«*The European Union does not offer a good return for the opening of Mercosur.*

*Therefore, the logic goes as follows: having no agreement is better than having a bad one. This is the deadlock.»*

development strategy, given the increasingly dense and complex links of Brazil with other countries, in an international scene marked by relevant transformations. On the other hand, a country with the dimensions and capacities of Brazil cannot omit its contribution, both in global and in regional issues.

Perhaps the question that most came up during the 2014 election campaign was whether



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«The subject of foreign policy was poorly addressed in the 2014 presidential campaign. But it is important to stress that the challenges of the foreign policy are decisive for the success of a development strategy, given the increasingly dense and complex links of Brazil with other countries, in an international scene marked by relevant transformations.»

Brazil should disengage from Mercosur in order to seek trade agreements on a bilateral basis. It was a dangerous path proposed by the neoliberal opposition, because Brazil has more to lose than its neighbors in that strategy. Mercosur works as a market reserve for the Brazilian industrialized goods in the region. A careless liberalization may mean the destruction of part of the Brazilian industry.

Some also argued, in a reckless fashion, that Brazil should join the “Pacific Alliance”, which is perceived as a perfect liberal model. This is a nearly ideological fallacy, which ignores the risks embedded in that kind of strategy. Nowadays, the Trans-Pacific and the Transatlantic agreements, the growing trade engagement of China, the U.S. free trade agreements, all these topics are challenges which must be discussed within Mercosur.

Panorama: Given the strategic location of Rio Grande do Sul as a meeting point between Brazil, Argentina and

Uruguay, how to make the state become a vector of regional integration?

The geographic location and the historical and cultural ties Rio Grande do Sul has with Argentina, Uruguay and Paraguay give a strategic sense to the region. In the early days of Mercosur, the Government of Rio Grande do Sul and the companies feared competition from Uruguay and Argentina. Over time, they realized that Rio Grande do Sul was on the way between Buenos Aires and São Paulo, that is, the path of integration passes through Rio Grande do Sul. Not seizing this opportunity would be a big historical mistake. Rio Grande do Sul has a lot to take in terms of border integration, road and energy interconnection, expansion of tourism and the linkage of regional networks of production. ■

# Mercosur: far beyond the economic integration

*Bruno M. Jubran*



International Relations  
Researcher at the FEE  
bruno.jubran@fee.tche.br

*Ricardo F. Leães*



International Relations  
Researcher at the FEE  
ricardo.leaes@fee.tche.br

*Robson Valdez*



International Relations  
Researcher at the FEE  
robson@fee.tche.br

In 2016, the Southern Common Market (Mercosur) celebrates its 25th anniversary amid uncertainty and criticism in Brazil and speculations about its extinction. Among the main alleged reasons for such a pessimistic view is, firstly, the bloc's ineffectiveness in promoting closer economic ties between the countries; secondly, the persisting losses to Brazil; and, finally, the structural constraints when conducting negotiations with other countries or blocs.

Although criticism of Mercosur is pertinent, it is noteworthy to stress that integration should be more broadly viewed and issues beyond trade should also be considered. Although highly relevant, trade is not the only object of regional integration, which also involves security, culture and education. Moreover, the bloc has progressed at different paces in each sector, similarly to other regional integration mechanisms, including the European Union (EU).

Regarding the first criticism, the bloc is said to have failed in promoting economic integration among its member countries and the recent drop in intra-bloc trade, at least in relative terms, has been highlighted. The main reason seems to be the protectionist attitude of the Government of Argentina. In fact, both for Brazil and the State of Rio Grande do Sul, the Mercosur countries have significantly reduced their share in recent years due to the exceptional performance of exports to China.

However, stating that Mercosur has been ineffective or has lost its relevance is not totally true, especially when the historical data are expanded. Despite sharing borders which extend for more than 1,200km, Brazil and Argentina, until the 1990s, lacked relevant and lasting economic cooperation. For decades, Brazil's main trade partners were the United States



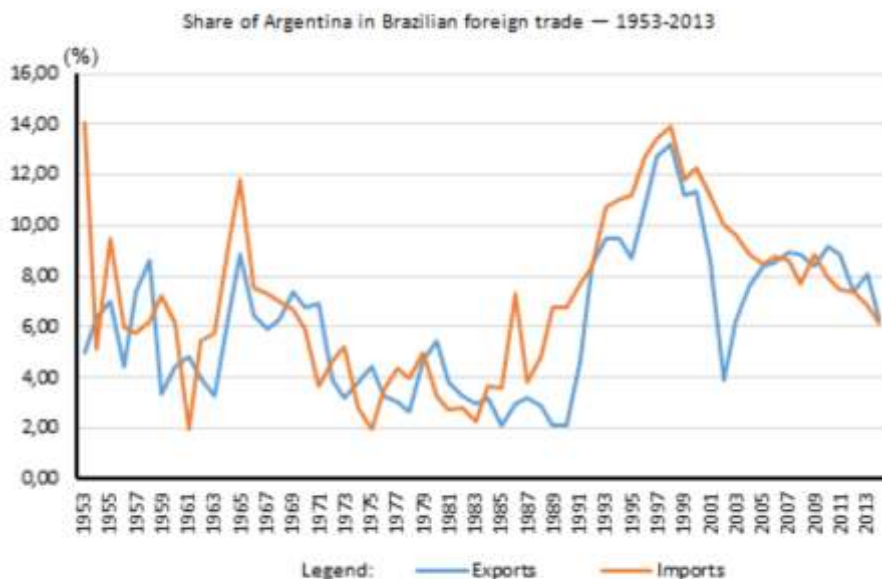
and West Germany. Moreover, the dynamics of bilateral relations between Brazil and Argentina has always been marked by ephemeral cooperation initiatives and the persistence of a rivalry logic.

The figure below shows that bilateral trade between Brazil and Argentina reached historic levels after the creation of Mercosur in 1991. In addition, a rise in trade can also be traced back to the early 1960s, which was

subsequently discontinued. The creation of the Latin American Free Trade Association (LAFTA), a tripartite initiative between Brazil, Argentina and Mexico, explains that inflection. However, as governments lacked interest in maintaining the project, regional trade turned back to previous standards, which can be a warning to the proposers of the dissolution of Mercosur.

Mercosur was a path for the consolidation of

multi-sectoral efforts of rapprochement between Brazil and Argentina initiated by the end of the Brazilian civil-military dictatorship. Actually, moments of greater optimism can be outlined, such as in the early 1990s, during the formalization of the bloc, as well as other critical phases, such as the devaluation of the real (the Brazilian currency) in 1999, which deeply disappointed the other Mercosur members, and shortly after that, when Argentina



SOURCE: BRASIL. Ministério do Desenvolvimento, Indústria e Comércio. *Estatísticas de Comércio Exterior — DEAEX*. 2015. Retrieved from <<http://www.desenvolvimento.gov.br/portalmidc/sitio/interna/index.php?area=5>> on Oct. 7, 2015.

NOTE: The decimal point is a comma.



experienced a severe economic and social crisis. The recent stagnation in terms of value of trade flows certainly causes apprehension, but it is worth observing that the imposition of import quotas on Brazilian products by the Government of Argentina is a measure of trade protection in accordance with the rules of the World Trade Organization (WTO) in case a sudden surge in imports harms a given

sector of the economy or its balance of payments, if proved the causal nexuses between them.

Beyond the trade issue, an institutional framework has been gradually established for implementing cooperation projects in several issues such as policy, education, culture, security, among others. In addition, the institution of the democracy clause by means of the Ushuaia Protocol(1998),and more

recently the creation of the Mercosur Parliament, denotes the political commitment of governments to the democratic values and institutions, bringing together citizens in a more effective fashion. Although the deadline for parliamentary elections by direct vote has been extended to 2020, in Paraguay two elections have already been held (2008 and 2012). Regarding the issue of

*«The benefits or concessions directed to smaller countries in any process of economic integration is usually explained by the fact that the economies of these countries, in many cases, lack the degree of competitiveness of the enterprises of the larger ones, which typically operate on a much larger scale and can explore opportunities faster than their counterparts.»*

costs, “mercopessimists” assert that Brazil is the most affected nation in the bloc. However, it should be noted that in many of the cases of formation of regional coalitions, the most powerful nations (in economic, political or military terms) are the proponents of regional integration initiatives, such as in the Franco-German condominium in the EU, Russia in the Eurasian Union, the United States in the North American Free Trade Agreement (NAFTA) and China in the negotiations of the Comprehensive Economic Partnership for East Asia. In all these cases, larger nations have granted some tangible or immediate advantages to smaller partners so as to increase the attractiveness of the bloc. For example, in the European Community and in Mercosur, the headquarters of the integration mechanisms lay outside the territory of the major nations: Brussels (Belgium) and Montevideo (Uruguay), respectively, attend to this function.

The benefits or concessions directed to smaller countries in any

process of economic integration is usually explained by the fact that the economies of these countries, in many cases, lack the degree of competitiveness of the enterprises of the larger ones, which typically operate on a much larger scale and can explore opportunities faster than their counterparts. Another argument advanced by Uruguayan and Paraguayan politicians and negotiators is that their countries are more prone to trade diversion after the imposition of a common external tariff. According to this view, smaller countries tend to be more damaged, because their economies are normally more dependent on foreign trade than those of the bigger ones.

Adhering as minority partners, the more fragile nations in economic, demographic or territorial terms need to rely on tangible and immediate benefits to bring to bear their participation in the regional integration project. In the case of Mercosur, it is observed that the main political

## ► Mercosur: far beyond the economic integration

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gains could only be obtained by Brazil, the only one that can rise to a global player status. If the integration process is proven to be successful, the Brazilian companies would be the most favored ones, Brazil would be a global power and in a better position to own a permanent seat at the United Nations Security Council. Therefore, it is expected that the actor with higher stakes in Mercosur should bear a greater part of its costs, in order to mitigate regional disparities and promote intra-bloc economic growth. It is not reasonable to imagine that Uruguayans, Paraguayans, Venezuelans and

Argentines would desire to take part in a group led by Brazilians without obtaining material advantages in return.

A third set of criticism argues that Mercosur has hampered negotiations of trade agreements with other countries or blocs because of alleged low willingness of some of its members to strengthen relations with other countries. From this perspective, Brazil should abandon its regional commitments and alone conduct negotiations with the European Union and the United States. However, in this case, a complex yet common dilemma in international politics can be pointed out.

Actually, it is possible to admit that any agreement between Brazil and the European Union may be more comprehensive in terms of content, but it is also likely that its terms will be more unequal than those of an agreement between blocs. The bargaining power tends to be higher when its actors prefer acting together to negotiating separately, but it is also likely that the final agreement will exhibit a more limited thematic scope.

This way, the 25 years of existence of Mercosur should be evaluated concurrently from both political and economic perspectives, considering their synergies. Analyzing

its dimensions separately means viewing it as the individualized strategies adopted by each of its members in a zero-sum game. Although the economic dimension of Mercosur has been used as a gauge of its success due to how easy it is to measure the volumes and values of its trade flows, it is imperative to highlight that any economic agreement is preceded by some sort of political understanding to mitigate the differences inherent in the integration process. For this reason, the political dimension of integration in Mercosur plays an important role. As its institutions are consolidated as integration and conflict resolution forums in the different areas of their respective governments, opportunities are created both to reduce costs and to increase the gains from the integration between its member countries. 

«The 25 years of existence of Mercosur should be evaluated concurrently from both political and economic perspectives, considering their synergies.»

# The Argentinian elections and their meaning to Mercosur

Tarson Núñez



Political Science  
Researcher at the FEE  
tarson@fee.tche.br

The dynamics of the integration process depends, by definition, on the agreement of the hegemonic political forces in each country regarding its national objectives. In the case of Mercosur, the election that took place on the 25th of October in Argentina has a meaningful weight on the perspectives on regional integration. When this article is published, the results of the election will have already been defined. It is, therefore, less the case of evaluating the electoral process, but of analyzing its impact on the future of Mercosur. It is evident that the Argentinian election is only one among many other factors that affect the bloc's evolution. Both the domestic political processes in the other countries and the international dynamics itself are decisive factors. However, the results in Argentina, the second most important country in the bloc, will surely have a meaningful weight.

Two main projects ran for this election: the continuity of Kirchner's peronism, represented by the candidacy of the Governor of the province of Buenos Aires, Daniel Scioli, of the Front for Victory (FPV), and the opposition, of liberal hue, represented by Mauricio Macri, mayor of Buenos Aires, of the Republican Proposal (PRO). Scioli ran with a nationalist, center-left platform for the continuity of the current Government's project, characterized by many analysts as populist. Macri, on the other hand, already agglutinated a set of political forces of liberal, center-right, pro-market hue. The opposition candidate represented a bet on a radical change in Argentinian politics,

«As regards integration, the views of the two major candidates showed a clear distinction»

focused on the search for a restoration of the country's relations with foreign investors and the review of the developmentalist strategy implemented in recent years.

Scioli, by contrast, was clearly the continuity candidate, although his relationship with officialism has always been somewhat conflicting. The Governor of the province of Buenos Aires was vice president in the first term of Néstor Kirchner's administration (2003-06) and had aspirations regarding the presidency. He lost ground to Cristina and has since adopted a position of relative detachment to the extent that he even established a cordial relationship with the president's archenemies, such as the media group Clarín. Although he has remained in the FPV, he sought to make clear his views differed from Cristina's. However, the convergence between the recovery of the Government's

popularity and the fact that Scioli was the most electorally viable candidate made the two extremes of this complex relationship approach once again, a move that was consolidated by the nomination of kircherist Carlos Zanini for Scioli's vice president.

As regards integration, the views of the two major candidates showed a clear distinction. The candidate of the ruling party incorporated explicitly an integrationist approach into his speech, focusing on Latin America and the South-South relations. In this context, Brazil is a strategic ally, and Argentina's priority should be to "[...] strengthen and expand Mercosur, consolidate Unasur and give greater dynamism to Celac".<sup>1</sup> Macri, on his turn, argued that Argentina needed to "reinsert itself in the world" and leave the "Bolivarian axis".<sup>2</sup> To Rogelio Frigerio, one of his main contributors, "[...] it is necessary to review Mercosur and begin to

<sup>1</sup> The Union of South American Nations (Unasur) and the Community of Latin American and Caribbean States (CELAC) are two integrationist projects that emerged from an articulation of the countries which aspired to have a protagonist role in the hemisphere, out of the United States' orbit. Translation mine.

GENTILI, P. Scioli y Macri ante el Mercosur. Página 12, Buenos Aires, 14 jul. 2015. Retrieved from <<http://www.pagina12.com.ar/diario/elpais/1-277055-2015-07-14.html>>. Translation mine.

<sup>2</sup> GENTILI, P. Scioli y Macri ante el Mercosur. Página 12, Buenos Aires, 14 jul. 2015. Retrieved from <<http://www.pagina12.com.ar/diario/elpais/1-277055-2015-07-14.html>>. Translation mine.

look more to the Pacific"<sup>3</sup>. The candidate explicitly expressed his skepticism about the bloc, stating that it is now "[...] almost fiction, full of deadlocks, victim of a setback compared with what had been achieved in the past decade"<sup>4</sup>. A superficial reading of the candidates' positioning, therefore, points to a simplistic view: if Macri wins, the country will break up with Mercosur; if Scioli wins, there will be a greater integration.

However, the reality is often more complex, especially with respect to the relationship between Argentina and its neighbors. On the one hand, it is inevitable to see that Cristina Kirchner's integrationist speech in her two terms in office has not always been followed by concrete actions. On the contrary, the frequent imposition of barriers in relation to Brazilian exports and the Argentinian objections that have blocked the

Mercosur-European Union agreement show that, in real life, such attitudes on the part of Argentina have hindered more than aided the integration furthering. The internal contradictions of the Argentinian politics and economy have imposed a dynamics in which the national interests tend to pose obstacles to the deepening of the integration.

Argentina has been through two big waves of deindustrialization: the first one, during the military dictatorship years (1976-85), and the second one, in the 1990s, in Carlos Menem's terms in office. Until 1976, manufacturing accounted for more than two-thirds of the total Argentinian exports. The share of manufacturing in the Gross Domestic Product (GDP) of the country fell from 30.9% in 1989 to 17.1% in 1998. Therefore, the protection of the national industry tends to be a priority of the government, which implies the adoption of

«*The internal contradictions of the Argentinian politics and economy have imposed a dynamics in which the national interests tend to pose obstacles to the deepening of the integration.*»

protectionist measures. In addition, the country has been experiencing serious currency exchange problems since the default of the early 2000s and the subsequent conflicts with creditors, which also imposes structural limits to its trade balance. These two factors mean that the government tends to adopt measures that are contradictory to its prointegration speech.

On the other hand, Macri's proposal to break with a project focused on the region and on the search for a greater openness towards the rest

3 PARTIDO de Macri apuesta a revisar el Mercosur. Montevideo Portal, Montevideo, 10 nov. 2014. Retrieved from <<http://www.montevideo.com.uy/auc.aspx?252370>>. Translation mine.

4 MACRI: "Hay que recuperar el Mercosur". Buenos Aires Ciudad, Buenos Aires, 27 mayo 2013. Retrieved from <<http://www.buenosaires.gov.ar/noticias/macri-hay-que-recuperar-el-mercursosur>>. Translation mine.





of the world does not imply renouncing integration. To Argentina, Mercosur keeps being essential. The bloc has generated a trade growth 12 times higher among its members since its formation. In 2013, Argentina destined 28% of its exports to its regional partners and received 28% of its imports from them. This trade registered a high coefficient of intra-industry trade: over 50%

of the total exports of manufactured goods from Argentina were allocated to the bloc.

Moreover, the high degree of institutionalization in the process implies a cost for its rupture. The leader of the Unión Cívica Radical (UCR), party that supports Macri, has said that "[...] it is very difficult for any government to revert the integration processes",

«[...] the correlation of parliamentary forces will not change much and many decisions depend on this state of affairs»<sup>5</sup>. This hinders radical changes under the agreement terms. Moreover, the institutional structure of Mercosur, gestated in the 1990s, is not incompatible with Macri's liberal agenda.

Therefore, for the liberals, despite the

<sup>5</sup> MOREAU: Macri no fortalecería la relación con el Mercosur. BAE Negocios, Buenos Aires, 18 dez. 2014. Retrieved from <<http://www.diariobae.com/notas/48421-moreau-macri-fortaleceria-la-relacion-con-el-mercotur.html>>.

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pursuit of greater openness to the rest of the world, Mercosur, in its current design (as a free trade agreement, which is highly advantageous for the Argentinian economy), is also functional. The cost of a rupture would not justify the necessary political effort. Still, the trend, in case PRO wins, is for the country to progressively detach from the bloc's agenda, with few real efforts to promote the advancement of integration. In this sense, in the long term, Macri's victory could indeed lead to some kind of weakening of Mercosur's dynamics. The attempt to leave the "Bolivarian axis" and to extend its relations with other blocs and countries was an important part of the opposition speech. On the other hand, in case Scioli wins, the starting

point tends to be the same: the bloc will continue as it is today — at a slow pace amid deadlocks often caused by Argentina itself. This can result in the continuation of the current dynamics. However, if the starting point is the same, this outcome can also make room for new developments. If the candidate of the ruling party wins, it is possible that the integrationist vocation statements of peronism, far more rhetorical than real, can go beyond the speech. The ideas of productive complementation, value chain articulation on a regional scale and the integration initiatives in the area of infrastructure represent a potentially innovative approach. The continuity of a FPV government may then make room for a new

dynamics, a strategy for deepening Mercosur. In his platform, Scioli champions the resolution of intra-bloc trade disputes, a greater political boost of the productive integration, the repositioning of the strategy of international insertion of the bloc, the addition of value and technological content to strategic sectors and investments in infrastructure and energy integration projects.<sup>6</sup> In this case, the election results can lead to important advances in the region's integration process. 

<sup>6</sup> DESARROLLO ARGENTINO (DAR). El-Mercosur y los desafíos de la regionalización. 2015. Retrieved from <<http://www.desarrolloargentino.org/desarrollo-regional-y-mundial/el-mercrosury-los-desafios-de-la-regionalizacion>>.