

MERCOSUR

ONE OF THE WORLD'S FASTEST-GROWING ECONOMIC BLOCS

The four founding members of Mercosur — Brazil, Argentina, Paraguay and Uruguay — represent a dynamic and growing regional market, one that comprises 240 million consumers (which is two thirds of the number of consumers covered by the North American Free Trade Agreement) and a combined gross domestic product (GDP) topping the \$1 trillion mark.

Mercosur is Canada's number one export market in South America, with two-way trade in 1999 valued at \$3 billion, 80% of which was with Brazil. This trade level is the result of a steady upward trend over the past decade. Between 1992 and 1999, Canadian exports to the bloc rose 50%. In the first 10 months of 2000, trade levels reached \$2.7 billion. Given this progress, it is hardly surprising that the Canadian missions in Brazil, Argentina and Uruguay are eager to help Canadian businesses to explore opportunities in this high-growth region. In 1998, the Canada-Mercosur Trade and Investment Co-operation Arrangement (TICA) was signed with the objective of enhancing bilateral trade and investment even more. The TICA also established a framework for collaboration with the Free Trade Area of the Americas (FTAA), the World Trade Organization (WTO) and the Cairns Group.



Mercosur came into being in March 1991, when Argentina, Brazil, Uruguay and Paraguay signed the Treaty of Asunción, which established the Common Market of the South (*Mercosur* in Spanish) to promote free circulation of goods and services, capital and labour among its members. It became operational as a Customs Union in 1994. Chile and Bolivia became associate members, signing free trade agreements with Mercosur in the mid-1990s.

Since 1995, when partially harmonized common external tariffs (CETs) were implemented, almost 85% to 90% of all internal Mercosur trade has been duty-free. Special provisions allow each member country to retain its own specific list of exceptions, which allows for higher tariff rates to be charged on listed items. Exceptions currently include automobiles, computers, telecommunication equipment and capital goods. However, by 2006, these exceptions are slated to fall under the CET. Mercosur's liberalization of internal trade flows has significantly increased trade among member countries: between 1990 and 1999, internal trade rose by 300%. After a slight dip in 1999 — a result of the devaluation of the Brazilian Real — trade levels among the members headed upwards again in 2000.

Mercosur was conceived as much more than a simple economic entity. Ultimately, its members envision a common market embracing the entire region, and, for this reason, its ongoing agenda includes discussions involving free movement of labour across borders, social and educational reforms, environmental protection, consumers' rights and the establishment of a common foreign policy. Setting up a common monetary framework is also an area of interest for Mercosur countries over the longer term.

Free trade arrangements are currently being negotiated between Mercosur and the European Union, the Andean Community and South Africa, reflecting Mercosur's intent to have favourable market access to as many regions and economic blocs as possible.

Canada's exports to the Mercosur region are diverse and include: paper products, machinery, malt, minerals, plastics, rolling stock and pharmaceuticals. Investments are concentrated in aluminium, oil and gas, mining, power, alcoholic beverages, and telecommunications equipment and services.

Prepared by the South America Division (LSR) in collaboration with Canadian embassies and consulates in Brazil, Uruguay and Paraguay



Department of Foreign Affairs
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