

# Global Britain Briefing Note

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## Mercosur

### *South America's attempt at emulating the EU*

Orwell's "1984" came out in 1948, less than a decade before the official birth of the European Community. In Orwell's vision, three totalitarian super-states, Oceania, Eurasia and Eastasia, were perpetually at war.

The European Community was - is - merely the latest version of the chimera of a single European state that had been pursued in the nineteenth century by writers such as Victor Hugo, by Continental tyrants such as Napoleon, and, in the twentieth century, by German governments led in 1914 by Bethmann-Hollweg and from 1933 to 1945 by Hitler.

Consciously or not, the European Union was built on similar assumptions: that the post-war world would consist of huge "blocs", competing for resources & markets, and that European states were destined to amalgamate into a single state. In the Eurocrats' world-view, North America constituted one bloc, Europe another, while to the East, (the Soviet Union, its first candidate, having failed) China would exercise hegemony over the Asian land-mass.

South American countries became in turn infected by the disease of "bloc-ism". As with the EU, the first step was to institute a "single market/customs union". Mercosur, the contraction of Spanish/Portuguese for "common market of the south", came into being in 1991. Brussels took to invoking Mercosur as proof that "bloc-ism" was the future, and as confirmation - despite overwhelming evidence to the contrary from almost everywhere else in the world - that customs unions actually "worked".

<b>Mercosur: Member-States: 2012 data<sup>1</sup></b>				
Country	Population m.	GDP US\$ bn <sup>2</sup>	Freedom Rank <sup>3</sup>	Average Import Tariff
Brazil	198	2400	114 <sup>th</sup>	7.9%
Argentina	41	743	166 <sup>th</sup>	5.6%
Venezuela	30	402	175 <sup>th</sup>	8.6%
Paraguay	7	41	78 <sup>th</sup>	4.5%
Uruguay	3	54	38 <sup>th</sup>	3.8%
<i>1 Data in "2014 Index of Economic Freedom", The Heritage Foundation, Washington DC</i>				
<i>2 At PPP</i>				
<i>3 World ranking in The Heritage Foundation 2014 Index of Economic Freedom</i>				

Unfortunately for Brussels, Mercosur hasn't so far managed to implement the key, indispensable feature of a working customs union: a common single external tariff.

Average tariffs in the five current Mercosur states differ widely: Venezuela's is over twice as high as Uruguay's; so is Brazil's. (There is no South American "single currency" either). As for Mercosur's overall competitiveness, its members' "freedom rankings" are still pretty feeble. In the rest of the world, independent nation-states hardly ever rely on customs unions for their international trading arrangements, preferring the now almost ubiquitous free trade agreements ("FTAs").

It was just about possible, in the early days of the "Common Market", to claim that highly-regulated customs unions provided participants superior economic outcomes compared to the alternatives. By, say, the 1980s, that argument was already looking threadbare. To argue today that customs unions provide superior economic outcomes is just another example of the triumph of hope over experience.

Curiously enough, the EU itself, bowing to geopolitical reality, in its trading relationships with the non-EU world, will very soon have free trade agreements with 139 countries, practically a clean sweep of the 159-country membership of the World Trade Organisation.

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