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Faculty of Law

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**Comparative Analysis of the actions taken by the CAN and Mercosur in the
economic area**

**Assignment prior to obtaining a Bachelor's Degree in International Studies with
a minor in Foreign Trade**

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Dedicated to:

I dedicate this thesis to my best examples, my grandmother Edith Lofruscio and my mother Patricia Serrano, who are the ones that always instilled in me to give my best and achieve my goals. Thank you for so many teachings.

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Abstract:

Regional integration is a reality at the present time. This work consists of a comparative analysis of two regional organizations which promote such integration (CAN and Mercosur). The study is based on the current situation of each country and each regional block. Data analysis and the performance the Latin American regional blocs achieve in their region and among the member countries is also studied. The economic aspect is the main factor under study, based on the growth and scope of each economy, analyzing also the actual functionality of both organizations.

Introduction.

CHAPTER 1

THE ANDEAN COMMUNITY OF NATIONS CAN

1.1 Theoretical and conceptual framework

1.1.1 Regional integration or regionalism

The emergence of regional integration has been more pronounced since the mid-twentieth century. It is named and known in different ways, whether it is regionalism, economic blocs or alliances, etc, it has developed and has been accepted in recent years. Initially, there was conservative integration, which occurred in the mid-1990s and consisted of closing the frontiers, seeking internal production and development, specializing and seeking their own well-being without leaving the national territory.

It was also the scene of first experiences and attempts to create different integrations worldwide. Since the beginning of 1980, a new integration trend called the new regionalism was carried out, where society implemented and still applies the creation and improvement of several trade agreements, which since its second phase, has continued to grow, and currently, there are around 200 integration agreements.

There is no concrete evidence that this path is necessary or fundamental, but the current ways of thinking towards the relationship between and among states in search of both individual and collective progress, seeks and encourages their constant improvement. Integration has thus established itself as a global way of thinking that calls on countries to contribute and be part of the new trend based on seeking growth through foreign trade and free trade.

Why is regional integration referred to? It is fundamental for this thesis where the two analyzed commercial blocks are products of the member countries' willingness to integrate and reach common objectives that help them both individually as well as the region to which they belong. Thus it can be stated that integration is very popular nowadays, as it is an alternative for states when seeking the adequate means for their improved development.

Hass talks of Regional Integration as a "process by which national states mingle, confuse and merge voluntarily with their neighbors in such a way that they lose certain tactical attributes of sovereignty while acquiring new techniques to jointly resolve their conflicts" (1970).

A single explanation would not suffice for such a complex term, which is why the description given by the Dictionary of Trade Policy Terms is highlighted, which defines regionalism as "actions taken by governments to liberate and facilitate trade on a basis that governs at the regional level"

Two theories have been developed on this subject from the economic field. They are known as negative and positive. The negative one refers to when there are restrictions and a distortion of competition and the positive one correlates to common policies that shape conditions in which markets work. (Malamud, 2011).

Tinbergen (1962) also alludes to these two types, with a somewhat different classical concept, sustaining that negative integration refers to the removal of barriers favoring the creation of broader markets and positive integration such as supranational interventions that regulate and correct the action of those markets.

Countries look for positive regional integration, which seeks joint goals and objectives, working with a view to the benefit of its members, under the leadership of supranational policies that help them reach a more improved development. The negative occurs when the integration between countries is difficult for different reasons. These tend to arise when countries focus on their own interests rather than the well-being of others.

Integration should then be analyzed in the sense that, if it is beneficial, it helps to improve, and if it is harmful, it worsens the welfare of the country that carries it out. Its aim, then, is to give preferential and differential treatment between member countries and third parties and above all to be based on the principle of subsidiarity, which in simple words means that what is undertaken jointly can be done better than individually.

The trade block analysis will help to understand more about the influence and dependence that the countries have on regional blocs and vice versa. In addition, the way in which these blocks have been beneficial for the region and for each country

will be studied. This will help reach a conclusion on whether the decision to become part of a regional integration is positive, negative or neutral.

1.1.2 Why does integration occur?

There are several reasons why integration occurs. The apparent advantages arising from such an agreement are basically their economic benefits and the positive effects they generate. This does not stop when the integration process also entails political, social and strategic implications.

Generating profits is the main reason why countries opt for integration, but this goes beyond just economic reasons. New opportunities are now being constructed with the aim of creating profits; the free movement of capital and intellectual property are a prime example. These topics will be addressed according to Viner and his work on the Theory of integration and customs unions.

1.1.3 What are the costs and benefits of integration?

There are economic costs and benefits as there are for political aspects. Those that are linked to the economy will be analyzed, understanding that this aspect has much to do with other areas that States work in.

The benefits of integration will also be influenced by individual features of the member countries. This means that if within a regional integration there is a country that has a small territory and population, through integration new and wider markets will open for it without having to deal with different costs of entering into new markets. Thus, companies will benefit by opening up to new market niches.

However, this is a double-edge sword since the competition with other companies on a regional level also should be taken into account. That is where regional integration also benefits consumers. Business competition is useful because companies have to work to be better, provide a quality product, lower price, improve service, etc. Here the consumer has a greater supply and can decide according to their preferences, which is what makes companies try harder. Costs are also part of this study and the repercussions that they have inside the countries are described.

Before, a small parenthesis is made with supranationality and sovereignty within the countries that are part of an integration process. The term was used in 1950 by Robert Schuman in his presentation of the Schuman Plan where he defined it as: "... to create,

beyond national sovereignties, a supranational authority, an authority common to the participating countries, an authority that constitutes the expression of the solidarity between these countries and through which they carry out a partial fusion of their national sovereignties "¹..

It is necessary to clarify it is a characteristic that can be positive or negative, since it helps when working as team with common objectives, but on the other hand, harms the processes of integration when making a decision.

When a State decides to form part of an integration, it agrees to cede part of its state sovereignty to these organs and even though they form a part of them, they do not have the total power of decision within them. It is here where the integration processes are stagnated according to my own criteria.

The states, despite giving up some of their sovereignty and having organs outside their jurisdiction, are still have the ability to make decisions about their actions, that is, they still have the power of the last word.

Thus, sovereignty is key to the states at a global level because it allows them to be directed under their own principles and decisions. If this exists, there will always be the possibility that a State can decide for itself and not abide by orders or rules of supranational bodies. The integration then must be strictly related to the commitment of the states. Since these are still in control of their sovereignty, they give up a small part of a States' sovereignty to supranational bodies and abide by what these establish and decide. It becomes more of a question of principles in the face of an already agreed compromise, which has as its goal the improvement and development as a whole.

In the case of the Andean Community there is the advantage, or perhaps disadvantage, that member countries have similar or close levels in several aspects. For this reason, there is not one member country that stands out from the rest and that creates policies towards its favor or convenience. Not having an unbalanced country within the CAN creates a more impartial field for decision-making and the establishment of internal regulations.

Returning to the point of the economic cost of integration, it is important to highlight the freedom that countries have to make their own decisions, even though it is part of

¹ Statement delivered by French Foreign Minister Robert Schuman on May 9, 1950.

an integration agreement. State sovereignty is still present within each member country, the CAN allows the individual exercise of state functions in different cases.

This freedom, linked to the principle of sovereignty which is practiced in different countries, may present problems in the process of regional integration. Proof of this can be seen in the position adopted within the CAN by Colombia and Peru. These two nations set aside working together since they seek greater advantages and find it more profitable to sign bilateral agreements with the United States for their personal and individual benefit.

Since this is allowed by the CAN, it cannot act against this decision, but it should be noted that on the regional level, it was one of the main reasons for the separation of Venezuela from the CAN, a point that will be referred to later when mentioning the history of the CAN.

There is also the issue of vulnerability, where there are many factors that increase the risk of the domestic economy. This is where economic interdependence increases the vulnerability of countries (Genest, 2004). When they enter in the international arena they are exposed to an even less predictable market and with more factors that can influence their development. It may also be the case that countries within an integration agreement begin to have good or bad economic development. For example, a country within the CAN can experience economic growth, and this would bring benefits to member states within the association as the country would be attracting trade, investment, etc.

On the contrary, if a country within the CAN has a recession or a fall within its market, this will have negative effects for the member countries as it is working as a union. It would be more detrimental for a more advanced integration. The CAN is still working to establish a common market so economic downfalls would not be so harmful but it this aspect should be pointed out this point since it is s key if it is intended to continue reaching more developed levels of regional integration in the future.

There are external factors that represent an important point within any association, if we think about the realities of each country and what their internal problems can unleash within a regional integration. History shows us problems with the change of governments within Bolivia and Ecuador, with Colombia and its problem with drugs and the FARC, and also the difficult relationship that existed between Peru and

Ecuador on the subject of territory. These are clear examples of factors that were , are and can affect the functioning of a regional integration agreement.

Economic Intergration.

After referring to Regional Integration, in reference to several sectors and levels, we must deepen the economic aspects, on which this assignment is based. Thus economic integration takes place between countries at different levels or stages seeking benefits and alternatives for a better development in this field.

It is not a simple process, as it involves steps and levels. The elimination of different barriers between countries, the union, the commitment they assume and the scope of the process, will be reflected in a classification that has been divided according to the types of boundaries and commitments assumed. Balassa (1961) analyzes 4 stages in this process: Free Trade, Customs Union, Common Market and Economic Union. Later, we will see at what stage the organizations under analysis are.

Before the first stage defined by Balassa, there exists a phase denominated as preferential agreements, considered as the most elementary form of integration and that assumes advantages granted to certain products that enter from one state, or group of states, to another. Generally, they are used between countries with different degrees or levels of development, where the country that is considered more developed grants these benefits, that are not reciprocal but in a single direction, to economically less developed countries.

Free Trade Area (FTA): this implies the elimination of barriers in the commercial field by a group of countries. Each country maintains its position with third parties. The disadvantage of a FTA is the free circulation of goods within a block of integration after the products have entered the zone with a preferential tariff. For this, the solution has been the implementation of what is known as the rules of origin, in order to know exactly where a product comes from, totally or partially.

Customs Union: when a group of countries establishes common external barriers to the rest of non-members of that group and at the same time remove trade barriers to facilitate trade between member countries.

Common Market: it is the result of a customs union that advances and develops not only in trade movements but also in production factors. This means that free movement also applies to services, capital, people and goods.

Within this same theory of organisms and their level of integration, the so-called Single Market has been created, which is applied in the European Union. It is a new term, but it is not any different from that of a Common Market. The difference is that physical, technical and fiscal barriers are eliminated, guaranteeing a free exchange that leads to the same result of a Common Market.

Economic Union: in addition to the benefits and development achieved, it adheres to the coordination of economic and common policies for the purposes of regional development and reduction of internal asymmetries. Within this, we also find the monetary union. It is an economic union that has met 3 requirements: a) convertible currencies, b) fixed exchange rates and c) free circulation of capital. At this level a single currency is used, as with the European Union, which would enhance the advantages of monetary union but is not a necessary requirement.

1.2 History and key data for the study and understanding of the regional block

The historical perspective is important to understand and contextualize the evolution that regional organizations have had. In the case of the Andean Community, it will be analyzed from the process of their formation. The most relevant points in the formation and development of the organism, highlighting in a special way the events relevant to the economic field are taken into account.

The first traces of integration at the level of the Andean countries, which today is better known as the Andean Community of Nations (CAN), began a long time ago. This occurred in the time of the Gran Colombia where already the countries were united forming a single entity: Colombia (Panama), Venezuela, Ecuador and part of Peru were part of this republic.

This is a primordial indication of the existence of a common goal among the countries of this Latin American subregion. They work together and nowadays, they wish to return to joint tasks for the achievement of objectives. It is interesting to seek support and complementation with countries that share a common past, similar customs and similarity in economy, products, activities and way of life.

After the total separation of Gran Colombia in 1831, no attempt was made to work together. When the first attempts were made, the Latin American Free Trade Association (LAFTA) was born. This body was created based on a commercial vision establishing a free trade zone with a reduction of tariffs during a period of time.

In spite of the increase of intraregional trade, the objective was far from being fulfilled and remained in force until May 1969, when 5 member countries decided to seek a new path of integration and chose to form the Andean Pact, antecedent of the CAN. This step occurs with the signing of the Cartagena Agreement.

The so-called Andean Group was a predominant model throughout Latin America and planted its roots in a post-war environment. Despite these hard circumstances, it was motivated by the premises of LAFTA. The LAFTA had lost its leading role at the time and was in decline, but it served as a motivator to continue this trend of regional grouping.

The five countries that initially made up this block were: Bolivia, Ecuador, Peru, Colombia and Chile. Venezuela would be the next to join the Andean Pact in 1973, showing interest in this new vision that was developed at the regional level. Three years later in 1976, Chile, due to problems with the dictatorship that was being carried out in the country with Augusto Pinochet in control, leaves the association.

In 1979, the Andean Parliament and the Andean Council of Ministers of Foreign Affairs were created. The first years of existence were mainly focused on the economic sphere. The establishment of a free trade area, the signing of agreements between members and the signing of the Protocol of Quito in 1987, which introduces the chapter on economic and social cooperation in the Cartagena Agreement, gives us enough guidelines to appreciate the approach that was taken at the beginning of integration, especially in the economic and commercial field. The protectionist trend model sought to limit the dominance of northern countries by fostering the shared vision of working together for a common purpose.

Over the years, the regional block has been able to focus on different aspects, thus expanding regional integration in various fields, ensuring a variety of interests in the region.

The institutional reforms carried out in the period between 1988 and 1998 allowed the integration process to be given the necessary political leadership, the immediate expression of which was the creation on 1 August 1997 of the Andean Community of Nations and the Andean System (SAI), in this way, the institutional and programmatic reforms carried out, were able to relaunch the process with new vigor, and allowed to extend the field of integration, beyond the purely commercial and economic aspects (Lopez García, 2001, 153).

In view of the need for a guiding body and leader of the CAN, it was feasible to opt for the creation of the Andean Presidential Council in 1990, the sections, its functions and its composition of which are explained later. This was a necessary and important step to form part of the SAI.

Two years later in 1992, Peru was involved in a coup, which is why, unilaterally, it suspended its obligations. For this reason, it was excluded from the CAN and in 1994, after new measures were approved, Peru once again became accepted as a participant but in a gradual manner, meaning that it did not enjoy full rights. In 1997, the country again became fully incorporated.

1993 was an important year, especially for the economic sphere, since it was when the Free Trade Area was in full functioning for the countries that were then active in the CAN, which included Colombia, Ecuador, Bolivia and Venezuela, since Peru was temporarily excluded. Two years later, in 1995, a further step towards economic integration was sought and the creation of the Customs Union was envisaged. The approach of defining common policies and shaping a common market began. The year 2005 was established as the year to reach this objective. As a result, the sub-regional union was seen with firm step, working and looking for large-scale future goals for the better development and advancement of members.

1997 marked this association because it was when it changed its name and began to be known by the "Andean Community of Nations or CAN." In addition to that, the General Secretariat of the Andean Community, a key institution within the structure, began its operations.

Peru gradually reincorporated into the agreement and integrated into the Free Trade Zone. Thus the agreement was stabilized again as it was possible to bring back one of

the founding members, which for 5 years did not enjoy complete treatment and integrated within the Andean norm.

From this, the vision of the CAN was transformed in the sense that it looked for new methods and mechanisms of development. It opted to protect national production but at the same time open its borders seeking progress and the best benefits towards greater productivity now measured at the regional level.

The CAN then came up with the idea of consolidating the import substitution of the signatory countries, protecting their production but liberating barriers within them to strengthen the productive transformation. It was inspired by the experience of the European Community, then the European Union, and was the first initiative aimed at deep integration between underdeveloped countries through two fundamental objectives: the customs union and the common market.

In 1998, the peace reached between Ecuador and Peru was very evident. After decades of dispute and misunderstandings, an agreement was finally reached, which brought with it, a better relationship between the two countries, a better integration at the regional level and consequently deepened free trade.

In the coming years, certain events occurred that are relevant in the continuous transformation, and especially adaptation to the environment, of the CAN. In 2002, Bolivia reaffirmed its desire of member countries to commit themselves to establishing a common market that was being discussed and worked on. These decisions were adopted to consolidate the Free Trade Area.

In 2003, an agreement was reached on political dialogue and cooperation between the European Community and the Andean Community. The first is the main destination of the goods exported by the CAN, which opens the field for the Andean countries to a market with a better arrival of their products. This year also signed an agreement of economic complementarity between CAN states and Mercosur member states within the framework of the Latin American Integration Association (ALADI).

This also brought benefits to the CAN knowing that the states, in addition to their proximity, are countries that mean new and diverse markets. As a result of this we can see how, two years later, in 2005, it was conferred as an Associate Member of the first

entity, apart from the countries of the second, such as Argentina, Brazil, Paraguay and Uruguay.

At the beginning of 2006, the Andean Free Trade Area (ZLCA) was fully configured and perfected. Peru also finally completed the necessary process, fully joining the ZLCA. Months later Venezuela formally reports its decision to denounce the Cartagena Agreement, as it did not support the signing of Free Trade Agreements (FTAs) between Andean Community countries, Colombia and Peru, with the United States.

Venezuela and its representatives argued that it was not possible to raise and work towards common objectives if bilateral agreements were also signed with the largest world power. In its complaint, it alleges against the FTAs the following point, among others: "The FTAs promote an unjust distribution of wealth and limit the impulse of the integral development of the people, causing the progressive disappearance of national productive sectors and the consequent loss of Economic sovereignty" (Rodriguez, 2006).

In 2006, Chile was invited to join the CAN and joins as an Associate Member Country. Two years earlier it had already become involved, being an observer at a meeting of the Presidential Council. This sought to integrate new members associated with integration for greater reach and influence within the region.

Different events arised after this, but most in areas that did not significantly affect the area of study. In 2012, the community rule that authorizes the use of a Digital Certificate of Origin in International Trade was approved, a document that helps to maintain stability with the free market in the CAN when knowing the provenance of a product. The issuance of this document was delegated to authorized institutions within its country, and this represents a shorter time to process, more efficiency in the process and agile trade.

Also during this period, CAN countries completed the necessary process within the Agreement on Political Dialogue and Cooperation with the European Union and in Guayaquil the First Andean Business Meeting was celebrated, which was the beginning of a meeting that promotes sales throughout the territory of the Community.

In 2013, UNASUR, CAN, Mercosur and ALADI held talks on possible and improved approaches on subregional agreements, focusing on the best development of not only the regional level but also for all member countries of the region. Its goal was also regional progress, which in this case focuses on South America, which has the goal to work as a team. In addition, the Second Andean Business Meeting was held in Bogota, where it reached \$92.5 million in sales commitments.

The CAN continues to play a strategic role in its agenda. The application of certain benefits makes it seem more as a common market, where a reduction of tariffs and the promotion of products of each member country has been achieved. However, efforts continue to be directed towards economic complementarity, greater participation by society, the development of borders, support for different organizations, deepening trade integration, etc.

1.3 Objectives

Since it was launched to this date, the CAN has always sought to generate and promote, through different objectives, better economic growth within each member state and also results in conjunction with subregional economic growth. The creation of this Andean integration group allows the establishment of a common market, as well as an area of better development of its members in different aspects and provides greater presence in the international arena as a block.

The objectives set out in the Cartagena Protocol² in Article 1, and which remain in force until today, are a basis and guide to avoid losing the principles by which the block was created. Today they remain active in order to improve in the following aspects:

- Promote a balanced and harmonious development of Member Countries in conditions of equity, through integration and economic and social cooperation.
- Accelerate growth and generate productive employment for the inhabitants of the Member Countries.

² Information obtained from the official page of the Andean Community of Nations, which can be consulted in the Official Documents at <http://www.comunidadandina.org/Documentos.aspx>

- To facilitate the participation of the Member Countries in the process of regional integration, with a view to the gradual creation of a common Latin American market.
- Reduce external vulnerability and improve the position of Member Countries in the international economic context.
- Strengthen subregional solidarity and reduce existing development gaps among Member Countries.
- Improve the position of Member Countries in the international economic context.
- Seek a permanent improvement in the standard of living of the inhabitants of the Subregion.

These objectives are both global and individual and refer to the search for better and greater development for the countries. The main objective should be emphasized, which is why it was born, which is the idea of the Andean Subregional Integration.

The great objective is to work among member countries to reach a level of integration that reaches a common subregional market between different economies of each Andean country and that opens their doors to the world. To achieve these and other goals, CAN institutions have worked on two agendas:

- a) Internal, which refers to the role of states to work within the subregion. What is sought in simple words is the consolidation of an Andean economic area. Starting with this consolidation, other similar points could be accomplished and as a result, this would open new paths of development.

The construction of a Common Market through a customs union brings important points such as: establishing free trade for goods and services, implementing a common tariff for all member states and achieving the most advanced harmonization of the rules that govern the Andean system.

- b) External, which refers to the role and actions that will be carried out at the global level and in front of the international community. Thus, CAN works to

improve 3 guidelines. The first is the international competitiveness of the institution; second, it aims to strengthen joint external action and teamwork, to present itself as such to the outside, achieving negotiations as a block. Lastly, the third guideline refers to the CAN's efforts to contribute to Latin American unity. It seeks to group the region under the mantle of cooperation and collaboration in search of development and achievement of objectives.

There is a key and more demanding problem when talking about objectives. It resides in the supranational commitment of how state sovereignty of the member countries is carried out, despite being part of a subregional organization with a certain degree of supranationality, a term that was explained previously. We say with a "certain degree" because the CAN has an imperfect supranationality.

Although it could be argued that no organization has complete supranationality since all countries are, after all, sovereign and may or may not participate in one or another organization, the CAN has an even greater imperfect degree of supranationality. The members have seen fit to give the states the option to whether they want to decide or participate on certain aspects or not.

The most notorious and most influential in this analysis is the flexibility that exists within the Cartagena Agreement in Article 53, chapter III, which states that member countries may negotiate as a group against agreements with third parties. This measure is optional, meaning that member countries are free to make bilateral agreements if they find it convenient.

1.4 Internal Operation of the CAN.

Before mentioning its operation, it should be emphasized that the CAN is an integration organization that has one of the most complete structures. Its legal system also stands out since it is considered to be strong, in reference to the importance of supranational mechanisms for the solution of controversies.

In comparison, the operation of the regional integration body is instituted in the Andean Integration System or AIS. This is the set of bodies and institutions that has the objective to improve the integration process, to demonstrate that both its internal integration and its way of showing itself internationally will be deepened and

improved. All this is based on the coordination and work between all the parts that make up the AIS. The 12 subdivisions will be named and briefly explained.

The separation will take place in: Intergovernmental Organizations, Community Organizations and instances of Participation of the Civil Society.

1.4.1 Intergovernmental Organizations

They are formed by 3 high administrative components that are the head of the whole structural body that comprises the AIS. In their hands is the guiding, administering, deciding, regulating, organizing and executing the guidelines to be followed by member countries. It has a supranational character because it goes beyond state sovereignty and falls into new organs endowed with power of decision and application of mandates.

- a) **Presidential Council:** leadership of the organization was necessary and this is why in 1990, the highest body of the CAN was created. It is composed of, as its name indicates, the presidents of the republics that are members of the CAN. One of the presidents will be in charge of this council by rotating shifts of 1 year, each maintaining an alphabetical order of succession.

They meet once a year in an ordinary manner, and as often as they find necessary in an extraordinary way. They take the lead in decision-making in the political arena and also lead the way and the mandates that the other bodies of the structure of the AIS must comply and encourage.

- b) **Andean Council of Ministers of Foreign Affairs:** it is a legislative body and its function is to decide, declare and execute the foreign policy of the countries that make up the CAN, in relevant subregional issues such as the signing of an agreement with third parties. The coordination between the institutions of the IAS and the external action of the organs also correspond to this council.

It has been in existence since 1979 and is composed of the Ministers of Foreign Affairs of the member countries. They meet twice a year in an ordinary way as well as when they consider it necessary. The presidio lasts, just like the

Presidential Council, for a year, led by the Minister of Relations of the country that is in charge of the Presidency of the Andean Presidential Council.

- c) **Andean Community Commission:** composed of a plenipotentiary representative who comes from the government of each member country and it is a normative body of the IAS. It has the capacity to formulate, execute and evaluate the subregional integration policy in decisions related mainly to trade and investment. Ordinarily it is established that they meet three times a year and it can also meet when it is requested in an extraordinary way.

1.4.2 Community Organizations:

- a) **Court of Justice:** it has existed since 1979 but with a different name which would only change in 1996 to the current name. It has its headquarters in the city of Quito in Ecuador, where it operates permanently and works with its objective to declare the legality of community law, ensuring an interpretation and application without differences in the Andean countries.

It has territorial jurisdiction in the entire territory of the CAN. The amount of cases that have passed through this court position it as the third most active court in the world behind 2 European bodies. It is presided over by a Magistrate with rotating periods of one year.

- b) **Andean Parliament:** deliberative body within the IAS and of a community nature. It represents the member countries with 5 representatives who are elected by popular vote. Its top instance is the plenary, among its members is appointed a President who represents it in a political way.

The central office is located in Bogota, Colombia and has representative offices in each of the member countries. The parliament is responsible, among other things, for supporting and guiding the integration process, for monitoring the progress of this process, for promoting the harmonization of legislation, for generating regulations for the integration process and for promoting cooperation and coordination relations with the Andean countries' parliaments.

- c) **General Secretariat:** its headquarters are in Lima, Peru. It is the executive and technical body of the CAN. It was born in 1996 but began its work in 2007. It is headed by a general secretary elected by consensus and who remains for 5 years in command.

Some of its obligations include: managing the integration process and ensuring community commitments, resolving issues that the secretariat competes with, and preserving initiatives and proposals for decision-making, just to name a few.

- d) **CAF or Development Bank of Latin America:** constituted in 1970, is the financial institution that seeks to promote, through financial services such as credits, non-refundable resources, support to different sectors, among others, the sustainable development and regional integration of Latin America. The CAF is not only made up of CAN member countries, it has 18 member countries from the Caribbean, Europe and, of course, Latin America.

Among those that stand out are: Brazil, Argentina, Spain, Mexico, Panama, Portugal, Uruguay, among others. Its senior management or body is in the hands of a shareholders' meeting, headed by an executive president who is the legal representative of the CAF. They divide their functions between the work of the Shareholders' Assembly, the CAF Board and the Executive Committee. It is the main source of financing for infrastructure projects in South America.

- e) **Latin American Reserve Fund:** it was born as the Andean Reserve Fund in 1978, but by 1991 became known as the Latin American Reserve Fund and it seeks to support the balance of payments and stability of member countries through the improvement of its external position and the strengthening of solidarity in the region.

It is composed of almost all Latin American countries, Brazil and Argentina are the main absentees. At the head of this fund is an Executive President who

exercises management and administration for periods of 3 years. Its headquarters are in Bogotá, Colombia.

f) Andean Health Organization Agreement Hipólito Unanue: an intergovernmental body that seeks integration in the field of health, or a coordinated development of actions to address common problems and contribute to governments that guarantee the Right to Health. It is made up of the ministers of health of Bolivia, Colombia, Ecuador, Peru, Chile and Venezuela, while it counts on 9 countries that are observer members.

g) Universidad Andina Simón Bolívar: it is the educational institution of the AIS. It investigates, teaches, provides services and promotes the transmission of knowledge and cooperation among universities in the subregion. It is an active participant in the Andean integration process and the strengthening of CAN principles. Created in 1985 in Sucre, Bolivia, its central and national headquarters has existed since 1992 in Quito, Ecuador. It is headed by a president and members representing the countries.

1.4.3 Instances of the Participation of Civil Society

a) Business Advisory Council: within our study it is important because it is promotes a better participation of the business sector within the process of Andean integration.

b) Andean Labor Advisory Council: AIS consultative institution. It issues its opinion before the Andean Council of Ministers of Foreign Affairs and the Commission or the General Secretariat. It exists since 1983 and is made up of 4 delegates, one from each member country. It meets 2 times a year in an ordinary way, it is represented by a President, who is in power for 1 year. Its advantage is that its participation has voice in meetings of AIS bodies.

- c) **Consultative Council of Indigenous Peoples:** Its function is to be the medium that provides an active participation of the Indigenous Peoples in matters related to the Andean integration. It is an advisory body because it issues non-binding opinions to the Council, to the Commission or to the Secretariat. It is made up of one indigenous delegate from each member country, who is headed by the President, who is in charge for one year and represents them before the Council. They meet twice a year in an ordinary way.
- d) **Andean Consultative Council of Municipal Authorities:** an advisory institution that issues its opinion to the Andean Council of Ministers of Foreign Affairs, the Commission or the General Secretariat on issues of integration of local interest with a view to strengthening cities and local governments.
- e) It consists of three representatives from each member country, elected in different ways and counts on the representation of a President, before the council, who holds that position for a year in rotating shifts. Their meetings are usually established once a year.
- f) **Andean Table for the Defense of Consumer Rights:** both public and private institutions can use this advisory body to promote their participation in issues related to consumer law within the Andean integration area.
- g) **Officers of the Afro-descendant People of the Andean Community:** organizations representing Afro-descendant people use this consultative body to promote their participation in subregional integration matters.

The objective of the IAS, in having an elaborate structure and with different instances, is the effective coordination between all the organs and institutions that comprise it. It seeks to improve the level of integration and continuously improve its actions both internally and externally.

1.5 Economic Area

The CAN works daily with the purpose of consolidating an Andean market where there is a free trade zone and seeks to deepen economic integration among its members. One of its objectives is to promote a balanced and harmonious development of the member countries in conditions of equity, through integration and economic and social cooperation, among other purposes, for the gradual formation of a common Latin American market.

Achieving this gets complicated due to the different characteristics of each state. These variations include different economies, industries, markets, goods and services, among other things. They can also specialize on a specific subject or have a geography that benefits or makes exporting or importing a product more complicated.

The problem is to reach a common denominator or to try to achieve equitable development. For this reason, the best possible benefit is sought for each member country, enhancing its characteristics and goods that make it unique.

Particular consideration will be given to the aspects related to foreign trade developed by CAN members in order to have the elements necessary for their comparison with Mercosur and to specify whether this area has reached or is behind the objectives set by the MERCOSUR block.

Logically, each nation develops its own programs to expand its external trade market and coordinate actions with the regional integration proposals, so it is necessary to review the reality they present in relation to the issues that can most influence each one, from the evolution of exports, what they trade and how diversified the different goods and services are at an intra and an extra community level.

Several points will give an overview of what has happened with its economic policies and products during its development. With what goods they are working and what each country producing or specializing in, as well as their sources of income.

This will demonstrate the impact of Andean integration, on the region and on each country in particular. The data that will be used is the most current information possible, trying to demonstrate the most up-to-date time range as possible. The majority of the data reaches only until the year 2014, so this is the year that will usually

be used. For a greater understanding, we will pass from the macro to the micro, being the first topic the international block and then each member with its own characteristics.

As a block the CAN represents four countries. This is equivalent to 103 million inhabitants who have a supranational body that seeks to help a better development of the region. The CAN is responsible for 137,991 million dollars in exports worldwide. Both intra-community and extra-community developments have been gradually growing, the average annual development has been of 12.3% since its existence, compared to a 9.8% annual rate of third countries.

Its growth, despite not representing larger amounts of money because exports to third parties are equivalent to higher revenues, is proof of the positive effect that has been achieved at the block level by reducing restrictions and promoting trade.

The progression is supported by the increase of manufactured goods that are traded in the region. Having an unrestricted market, member countries have been able to introduce a greater diversity of products and in this case, with greater processing and manufacturing. It was achieved in 1970 with a percentage of 64% of non-manufactured goods and 36% of manufactured goods, to 2014 with 81% of manufactured goods and only 19% of non-manufactured goods. To get an idea of the diversification of products that exist in the CAN, in 2014, 645 different subnandinas were traded. In reality, compared to third parties, the number of products sold with the United States in 2014 reached 66 and the European Union traded 55.

Extra-community growth, on the other hand, represents greater income. Exports to third parties have also experienced a growth and the year 2012 registered its highest income in 140,903 million dollars. The following two years have a small decline. The percentage of trade to third parties was 92.42% in 2014³.

This amount was mainly sent to its main partners, the United States leading the way with 26% of the total, followed by the European Union with 19% and China with 10%. In the fourth and fifth place, two regional blocks, MERCOSUR and CAN appear with the same percentage.

³ Obtained from the page of the Andean Community in its Bulletin of Foreign Trade of Goods March 2015. Percentage based on own calculations;.

It is important to emphasize the importance of both the block's internal and external exports and its growth. The one represents growth in manufacturing, new roads and new goods that generate internal income. The other is the extra-community progression resulting from good business and the competitiveness that these countries have in the international market in different goods and services. To this we can add the different international treaties that are agreed to as a block and individually.

Imports also play an important role for the CAN, since they represent the goods that are consumed or the material used in the national production with elements acquired from other places. The main partners are the same as export partners but the positions alternate, leaving the United States first with 25%, China second with 18% and the European Union with 14%⁴.

Of the trade with third parties that represent 92.9% of the provenance of the exports, added to the percentage with respect to its majority partners, the dependence of the CAN on both the entry and exit of goods and services is clear and these will represent the flow of money entering and leaving the integration block.

As a block, the CAN has achieved a development of both internal and external trade. Yet, it is important to remember that a block is made up of the grouping of different countries with different realities. This thesis looks for aspects that can be compared and thus make a better comparative analysis, as well as comparing CAN and MERCOSUR.

1.5.1 Parameters Studied.

Taking into account the objectives that the CAN raised when it was created, certain economic aspects and parameters will be reviewed. These will help to conclude whether regional integration is working on its objectives and if these are being achieved. The analysis will start with the growth of trade in each country. This indicator will show if the position of the countries at the international level is improving. In addition, it analyzes whether the external vulnerability is reduced and if it adopts a better position within the economic context at the global level.

⁴Source: Information provided by the Statistical Institutes of Bolivia and Colombia, by the Central Bank of Ecuador and by the Customs of Peru. SICEXT. Decision 511.

The study of the diversity of the products along with the main commercial partners, will be points to deal with that also add to the previous idea. Generating a greater variety of products reduces the dependence of either a product or a destination. This reduces the vulnerability mentioned above. The technological advances will also be taken into consideration as it gives an idea of the development that a country has internally. This factor is important to analyze in order to see if the CAN reaches its goal of having a balanced and harmonious development.

Foreign investment refers to the money that a country attracts within its territory as a state or with its companies. The situation of a country is what will make third parties notice a nation and want to invest within their territory. This foreign investment, as well as each country's position in the Doing Business ranking will be the data analyzed to be able to study topics related to development, acceleration of growth, facilitation of the integration process and improving a country's position worldwide.

A country's position in the Global Competitiveness index will also be object of analysis within this research. This report has been working for years to provide "a study of key factors and their mechanisms and interrelationships that determine economic growth and the level of present and future prosperity in a country" (Schwab, 2015).

Finally, the Human Development Index will be studied, which is a world ranking that classifies countries according to 3 parameters. The 3 parameters include a long and healthy life, a decent standard of living, and education. These 3 points seem to be key when answering the question if the objective of constantly improving the standard of living of the Andean countries is being met.

1.5.2 Bolivia.

Bolivia is the country with the least development, according to its data. As a result of its participation in the CAN, it has achieved a commercial opening that despite not showing great growth, for a growing economy with a growing market that is based on the commercialization of natural resources, this is encouraging news. The growth of intra-Community trade with respect to the non-Community trade presents a key point regarding its intra and extra-Community exports. It is necessary to clarify that although

the growth has occurred in both, the exports or third or extracomunitarias represent 91.70% of their total exports

Additionally, the increase in its intra-EU exports gives us a positive response to the achievement of certain objectives. The opening of the border and the regulation of restrictions have allowed the commerce to have a growth of four-hundred and one times the initial value. This data seems to be sufficient evidence to say that objectives such as development, accelerating the improvement of the economy and its position in the global arena are being accomplished. The increase was also due to the trading partners that Bolivia has. The most important are El Mercosur, a block to which it belongs to since 2015.

Based on my personal criteria, it was the result of their relationship and average sales with Mercosur. This makes it directly dependent on the regional block. The United States appears as the second destination of Bolivian exports and the CAN, with its member countries, place in third.

Trade with the United States is not surprising since it is always a top destination of Latin American exports. The third place in the ranking that is occupied by the CAN is important information. Bolivia, despite not being a developed country in the commercial field, finds in its neighboring countries and with those who integrate the Andean block an opportunity to generate commerce.

The diversification of Bolivia's products has not advanced and this is reflected in its trade with Mercosur where all sales correspond to a single product, which is natural gas. This dependence is not good for this Andean country. To this we added a decrease in the diversification, passing from twenty-six products that were commercialized with the CAN in 2005 to 17 products in 2014. This happened as well in an even greater amount with its second partner United States, where of twenty-two products in 2005 decreased to only five in 2014.

This decrease goes hand in hand with the technological degree that Bolivia has in its products. In 2005 to 2014, in Bolivia both intra and extra-community exports, the percentage of exports of primary goods increased, reducing the already low percentage that it handled with manufactures of low technological level, not to mention the medium and high level that are about 2% of total exports. Bolivia and its economy depends heavily on natural gas, soy and minerals.

The issue of foreign investment will be addressed in order to see how attractive Bolivia is for the world. Capturing investments, contributing money to be part of a business or bringing its own capital within the Bolivian territory helps and contributes to the growth and development of the commercial area.

Foreign investment fell sharply in 2005 when its records were negative. But immediately Bolivia managed to rise and grew until 2013 where it marked its best year of foreign direct investment. By 2014 it fell back by \$1,101.8 million dollars, more than half of the previous year when in 2014 it only registered \$647.8 million dollars⁵.

There are several reasons for the decrease, be it the government, the economic situation, or lack of innovation in the market, among others. Bolivia must find the way to avoid decreasing its capital inflow that encourages trade. This is where the analysis of Doing Business will be carried out, which is a group of the World Bank that studies the feasibility and ease of developing a business in a country. In this case Bolivia, is in the position 157 out of 189, in 2016 it fell two places down from its 2015 ranking⁶.

In an analysis of the ranking in which the countries are located on Global Competitiveness, two objectives were very clear for the CAN. It is to improve the positions of member countries in the economic-international context. Knowing the competitiveness that Bolivia has will be useful to determine the strength and scope that the block can have. Bolivia is ranked 117th. It is the worst ranked CAN member country within this study.

Within the same analysis, the most problematic factors for doing business with Bolivia such as its access to financing, inefficient governmental bureaucracy and corruption, which are three of the biggest causes are detailed.

The human development index or HDI, will be examined below since it is important to first determine the scope that the goal of persistent improvement in living standards is achieving within the 2015 Human Development Report by the United Nations Development Program.

⁵Information provided by ECLAC on its official website.

http://interwp.cepal.org/cepalstat/Perfil_Nacional_Economico.html?pais=BOL&idioma=spanish

⁶ Retrieved from the official Doing Business page of the World Bank Group at <http://espanol.doingbusiness.org/rankings>

This study seeks to investigate how development is key to increasing people's opportunities, bringing wealth to human life and not to state economies. Bolivia ranks within the ranks of the Middle Human Development group where it is 119th out of 188 countries based on the analysis. It is the worst ranked of CAN member countries within this index, this presents another low point in the reality of the Andean country.

1.5.3 Colombia.

Colombia, which is inhabited by almost 31 million inhabitants, is the country with the highest GDP within the Andean integration⁷. It is the country that generates the most trade within the block. Its growth has increased by one-hundred and four times its initial value in intra-Community exports and a total of eighty-nine times in extra-community exports. Its import history presents a similar case when referring to growth. In terms of percentages, Colombia imports 12.1% from its integration partners and as for third parties, they register a 10.6%⁸ in its growth. The participation of Colombia is made clear when reviewing that of the \$128.356 million dollars that CAN generated in exports in 2014, both inside and outside the CAN, 42.6% corresponds to Colombia.

This increase is reflected by the commercial opening and incentive given within the CAN for intra-community trade. It must be emphasized that in spite of a growth in trade from Colombia to the member countries, Colombia represents only 5.9% of its total exports. The destination of such exports has major partners that without any surprise include the United States with 25.6% of sales in 2014. In second position is the European Union with 16.8%, China ranks in third place with a total of 10.3%, followed by Panama 6.5% and in fifth place is the CAN commercial block.

The CAN's rank at fifth place is evidence of the outcome that the integration process is having. Data of the diverse amount of subheadings that are marketed between Colombia and the CAN provide support for the argument. A total of 452 sub-items are traded, which makes CAN the only market where Colombia can diversify its products in this way. This is easy to observe if we compare this with the 24 products that are marketed with the United States or the eight that are exported to the European Union.

⁷ Retrieved from the official website of the World Bank
<http://datos.bancomundial.org/pais/colombia>.

⁸Information by the Andean Community in its annual bulletin Economic Dimension of the Andean Community.17 March 2015. Percentages obtained personally.

This amplitude in the market is remarkable since new businesses are created, as well as new sources of income to the country.

In addition to being the country with the greatest diversity among the Andean countries, Colombia also presents the best percentages when it comes to technology. In reference to internal exports, Colombia manages a very low percentage of 15% in what it refers to primary goods. Its highest percentage is 40% that represents low-tech manufactures. This percentage is followed by 30% which refers to manufactures of medium and high technology⁹. However, at an extra-community level, primary goods earn a majority in the percentage of exports. Thus, Colombia can be considered as the most advanced country in the technological degree among CAN members.

Foreign investment has its highlights and it should be stressed that Colombia is the country that has achieved the highest levels of foreign investment within the members of the Andean integration. Since 2003, this has grown within the country, which begins to register five years after. From 2008 to 2010 data shows a sharp drop in investment within Colombia. The global crisis that affected the country during these years, especially in 2009, and had much to do with this decline of the world economy. From 2010, it was possible to take control of situation and achieve the best growth registered of this aspect within Colombia, increasing investment that for the first time topped the \$10,000,000 mark, reaching its maximum mark in 2012 with \$15,645.6 million Dollars. There was a slight decrease in 2013 and also a small increase in 2014. Due to this information it can be said that Colombia should seek a more balanced flow. It is necessary to mention the current position of the country in the Doing Business ranking, as it studies points for which someone would be attracted to invest in the country. The current position of Colombia is 54, which puts it in the second position within the CAN member countries, after Peru.

Colombia is sixty-two in the global competitiveness index, making it the best country within the CAN and the second in Latin America after Chile. Another objective of the CAN that is being achieved and in of which Colombia is a leader is its improvement in the position in the international economic context. It is one of the leading countries in Latin America.

⁹Information by the Andean Community in its annual newsletter Economic and Trade Dimension of the Andean Community.17 March 2015.

Based on the Human Development Report 2015, which analyzes, in particular, the processes that have been achieved in the field of human development and the different jobs in the country, Colombia is placed at 97th within the Human Development Index. Despite Colombia's position in the economic sphere, this is not reflected in a balanced way in the Human Development statistics, since we see countries like Venezuela or Ecuador that are better placed within this ranking present other realities in different aspects.

1.5.4 Ecuador.

Ecuador is a country that has benefited from the commercial increase within the Andean Community, with an average of 13.8% of annual average growth, which is equivalent to a 340-fold increase in exports from membership in the trade block. Ecuador has found in the CAN not only an internal growth platform, but also it exports to third parties, which have also increased to 11.9% that is equivalent to an average annual growth of one-hundred sixty times its initial value of exports sold outside the CAN. On the other hand, Ecuadorian imports have generated greater purchases. Intra-Community imports reached 13.6% of average annual growth compared to 10.9%¹⁰ registered by imports from outside the CAN. The growth in the flow of trade is visible both in and out of the country. What needs to be analyzed is with which countries are Ecuadorian products are being traded, as well as analyzing what it represents for the country's economy.

The United States is Ecuador's main partner. Its dependence on the northern country is significant, since 43.7% of Ecuador's total exports go to this destination. The second position at 11.5% of the purchase of Ecuadorian exports is the European Union. The CAN is Ecuador's 3rd largest partner and accounts for 9.9% of purchases from Ecuadorian exports, completing the table of the five main partners are Chile with 9.1% and Panama with 5.5%¹¹.

Ecuador's dependence on the United States is evident. It receives almost half of its exports, the main one being petroleum. This is a key asset upon which the Ecuadorian economy has relied for many years. The sale of this oil to the United States in 2014

¹⁰Information by the Andean Community in its annual bulletin Economic Dimension of the Andean Community.17 March 2015. Percentages obtained personally.

¹¹Information by the Andean Community in its annual newsletter Economic and Trade Dimension of the Andean Community.17 March 2015.

reached 58.8%¹² of the total products exported. Hence the importance of its two next trading partners. The European Union shows a greater diversification when it comes to buying Ecuadorian goods, since it purchases a total of seventeen different products. In the case of the CAN, it is the destination with the greatest diversity of exports for Ecuador. It has evidently increased from seventy-three products to a total of ninety-five by 2014, which is the growth of the generation of new exports based on new products taking place within the country and within the block.

Diversification is studied along with the technological level that exports have had in the country. Ecuador presents a table demonstrating that it is a country dependent on primary goods. The percentage of primary goods exports is 70% in the CAN and 95% at an extra-community level¹³. In the last 10 years, it has not been possible to increase the percentage that has remained between 70% and 73% in the internal level of the block and between 86% and 95% of the block towards third parties. The presence of a higher percentage in low technology manufactures and medium and high technology manufactures that reach 30% internally and 5% externally are factors that Ecuador needs to increase based on the diversity it is reaching at the intra-Community level and that it will certainly try to reach in the foreign markets outside of the CAN.

Foreign investment always seeks countries whose economy shows signs of profit, trade and security. Ecuador demonstrates an investment flow that changes a lot in short periods. In other words, from 2005 to 2014, there was a great increase in investment since 2007 to 2008, but after, due to the world economic crisis, it fell again until 2009 and a little more the following year. In 2011 it was recovered and it maintained a moderate growth until 2014. The economic history of the country is marked by the 1999 crisis. Within the Doing Business ranking that also gives a vision on the facility of establishing businesses within the country, Ecuador ranks in at 117.

Ecuador appears in the international field in a very close ranking to its member countries in the global competitiveness index. Located in 76th place, it shows that the country is meeting a goal and is developing in a balanced way since three of its

¹²Information obtained from the TRADEMAP website link:

<http://www.trademap.org/Bilateral.aspx?nvpm=3|218||842||TOTAL||2|1|1|2|1|1|1|1|1>.

¹³Information provided by the Central Bank of Ecuador (ECB). SIC EXT, Decision 511. Retrieved from the page of the Andean Community. Bulletin Economic and Trade Dimension of the Andean Community April 2015.

countries; Ecuador, Peru and Colombia are very close in the ranking that analyzes the factors of economic growth and the level of prosperity in a country.

The Human Development Index, which seeks to analyze the development of the Andean countries' objective based on the three parameters explained above¹⁴, places Ecuador in position 88 among 188 countries. This includes the countries considered by the index as High Human Development, where its fellow members of CAN, Peru and Colombia, are also present. This index can be used to measure the goal of a balanced and harmonious development within the block.

1.5.5 Peru.

In its role of meeting the objectives of the CAN's member countries, the Andean country of Peru presents increasing numbers in the development, growth and improvement of its trade both internally and outside of the block. With regard to exports within the CAN, Peru had a total growth of two-hundred forty one times its initial value.

This is equivalent to a growth rate of 12.9%. Its exports outside the CAN grew by thirty-eight times the initial value or in percentage by 8.4%. Domestic imports achieved a percentage equal to that of exports, which is 12.9%, and exports to third parties reached a low growth of 1.1%.

The growth experienced and reflected in the above percentages is a result of trade with important partners. Peru's top five partners with their respective share of Peruvian exports are: China with 18.8%, followed by the European Union with 16%, in third place is the United States with 15.7%. The CAN commercial block is its fourth largest partner with 7.5%, followed by the EFTA or European Free Trade Association with 6.6%.

Peru is the Andean country with the least dependence on a particular country in relation to other CAN member countries that have high percentages concentrated in a single destination.

The amount of diversification of its products is the second best within the Andean integration after Colombia, reaching a total of three-hundred thirty eight different

¹⁴Information found on page 26 of this thesis.

subheadings marketed with the member countries. The highlight of Peru is the increase in diversification it has had with third parties, something that other CAN countries did not show. In 2014 it achieved a diversification of ninety-three different products with the United States and fifty-six products destined for the European Union. China was the only destination that remained in the same number of product diversity was with a total of 6 products.

In reference to the level of products that Peru exports, its statistics show that it is a country that has managed to develop a larger manufacturing industry based on low, medium and high quality. Exports to the interior of the CAN represent 40% of primary goods and the other 60% are equivalent to low level manufactures that represent 40% of those products and medium and high level represent 20% of those goods. At the CAN level, primary goods represent a higher percentage of 80% of the total, leaving 20% between the low and medium and high level¹⁵. Within the block, Peru is managing to penetrate commerce by encouraging development and strengthening its trade.

The outlook of the country Peru in terms of attracting capital and investment evidenced a continuous but slight trend of stability for many years. Starting in 2005, it experienced a moderate growth until 2008, falling the following year but slightly. Growth continued for a year after the small fall until falling again. 2012 was his best year and the only one where it exceeded the \$10 billion mark. The following two years only registered lower income. After Colombia¹⁶, Peru is the second Andean country that has received the most investment. It is the nation that has the best position in the Doing Business ranking that studies different points of development and commercial opening. It ranks in at 50th place, which shows that along with Colombia (Doing Business ranking 54), they are the CAN countries that stand out when referring to foreign investment.

Regarding Global Competitiveness, Peru reaches second place among the Andean countries, ranking in 69th place. The prosperity of the Peruvian economy and its growth are supported by its strengths but threatened by its weaknesses. The main problematic

¹⁵ Source of Information provided by the National Superintendence of Customs and Tax Administration (SUNAT). SIC EXT, Decision 511. Retrieved from the page of the Andean Community. Bulletin Economic and Trade Dimension of the Andean Community April 2015.

¹⁶Source of information provided by ECLAC on its official website.
http://interwp.cepal.org/cepalstat/Perfil_Nacional_Economico.html?pais=PER&idioma=spanish.

that affect Peru are the high degree of bureaucratic inefficiency of the government, corruption and the restrictive labor regulations, just to name the three main problems¹⁷.

Peru reaches first place within the Andean block of integration in the Human Development Index, ranking in at 84th place. It is the country that has been more committed to improve the standard of living of its inhabitants, compared to other members of the block.

1.6 Conclusion of the analysis of the Economic Area of the CAN.

After studying the different points, percentages, partners and rankings, etc., the economic development and the state of trade within the Andean regional integration can be summarized as follows.

The CAN is a tool that allows its member countries to have a better and greater openness to markets both inside and outside the block. The CAN, as a commercial block that attracts different partners and multiple destinations, allows the Andean countries to search for new markets for their different products.

The countries of the CAN still have much to develop in the technological level of their products. Reliance on primary goods is not a good option, taking into consideration that the price and duration of these products are not controlled by anyone individually. Colombia and Peru show, despite being small, a slight advantage in terms of quantity and diversity of exports.

Ecuador and Bolivia are still developing their markets. Having two partners a little more developed at different levels and at the same time, with similar aspects and history, these characteristics can be seen as a reason to improve and achieve better progress of their economies.

The dependence of the countries towards the CAN diminishes as the country grows in the field of international trade. The importance of counting and belonging to a commercial block that allows a better flow of commerce and that gives a better presence to the countries so that they continue developing towards a better future for

¹⁷Source: Global Competitiveness Report by the World Economic Forum. Based on my own translation.

their individual realities cannot be discounted or diminished. In addition, the CAN was placed as the fifth most important destination market both at the level of exports and imports of the Andean Community, which shows that it generates significant revenues and expenditures for the overall economy of the integration block.

As a result, the CAN has a high degree of dependence on its member countries. It has managed to stabilize, making interesting breakthroughs within the block. Its four members must continue acting together to continue with the progress and achieve its present and future goals. Both political and economic stability falls into the hands of its own member countries.

The CAN appeared to be fulfilling several objectives for which it was created for with a good percentage. Through integration, a common regional feeling and a willingness to continue to grow, both as individual countries, as a block, and as a region, are perceived among countries. The CAN seeks a better development and is doing so at its own pace by outlining new options for improving development within member countries.

The difference in development among CAN members is not very noticeable. It is possible to dialogue and ensure the group's well-being. There are low points that can be improved, but the good points and the search for a better future are present and active and that is what countries must continue to do in order to support and contribute to each other.

Member countries, despite their individual characteristics, are at a somewhat similar level. The small advantage that Colombia and Peru have on Ecuador and Bolivia is clear, yet the four countries share somewhat similar features and support each other in a balanced and harmonious way. The member countries cooperate in order to reduce differences and strengthen the integration process, seeking to improve their image and presence in the international field.

1.6.1 Reach Obtained by the commercial block until today

This refers to the achievements of the process of integration within the CAN, emphasizing, of course, on the economic aspect. It is worth highlighting the trade that has been achieved within the CAN, the years of regional integration and in this case,

the numbers analyzed above that constitute an achievement for this subregional agreement.

1.6.1.1 Intra-Community Trade

With a functioning of more than thirty years is the starting point in the analysis of the economic field. CAN member countries, although still largely dependent on foreign trade, have also reached a necessary and representative trade in their numbers when referring to intra-Community trade. Domestically, the CAN recognized the importance of the trade that has been generated within its territory.

Within the community, imports, in addition to representing capital flows and exchange of goods, show us how we have come to exchange manufactured goods with greater added value such as footwear, textiles, medicines and other products.

This intra-subregional trade is born thanks to the feasibility of trade within the market, product of what has been achieved within the normative and development process carried out until today in the CAN.

1.6.1.2. Rules of origin

In regard to this, it has been possible to guarantee free trade through the qualification of the provenance of the assets of a member country. Being a marker as originating in a member country, the rules in force in the CAN are evaluated below:

Both general and specific criteria have been established, which the goods must comply with as originating in the Andean territory. Thanks to this, the benefits and advantages that the market provides are evident. Decisions 416 and 417 relate to this point. Those responsible for assessing this are entities and officials established in member countries. The updated information can be found in the "Andean System of Authorized Firms for the qualification and certification of origin" -SAFA.

1.6.1.3. Trade of Goods

The Andean Market has been characterized by the Free Trade Zone. The absence of levies and restrictions give extra aid to intra-subregional imports and exports.

At the same time, the CAN is in charge of carrying out investigations in the member countries to see if they carry out the measures and if the actions taken go against the subregional norms.

It has been possible to facilitate trade and take better advantage of the Andean market through the updating of the Payroll for Non-produced Goods (NBNP) and also with the Andean System of Price Stripes (SAFP), which establishes a price reference for different products.

1.6.1.4. Trade of Services

In the same way as with trade of goods, there is also free intra-subregional trade, with the exception of two sectors that are limited to those that refer to financial services and also includes open television services; the rules that will be applied to the two nominees are still pending.

1.6.1.5 Customs

Common and harmonized procedures in accordance with international standards have been achieved within the CAN Customs. Legal instruments have been approved that allow the customs administrations of member countries to perform a better service that provides ease and improvements, complying with the control and corresponding legislation.

It has been possible to establish a common nomenclature known as NANDINA that facilitates the identification, classification, statistics and other measures that are used when trading. Additionally, the CAN has also chosen to use the Single Customs Document or DUA which harmonizes processes and formalities that were required at different levels of the process. The Andean Declaration of Value or DAV has also been implemented as common regulations, and allows determining the taxable base and applicable taxes on the importation of goods.

It has been possible to establish a common nomenclature known as NANDINA that facilitates the identification, classification, statistics and other measures that are used when making trade. It does not stop there and it has also chosen to use the Single

Customs Document or DUA which harmonizes processes and formalities that were required at different levels of the process. The Andean Declaration of Value or DAV has also been implemented as common regulations, and allows determining the taxable base and applicable taxes on the importation of goods.

In addition, the scope that has been reached in relation to Community Customs Transit, a regime that allows, through a single operation, to move goods that cross more than one border in their journey, will be complemented by the project of international transit of goods. It also seeks to facilitate trade, implementing more strategies, such as the electronic exchange of information and documentation between customs.

1.6.1.6. Transportation:

The CAN has a set of already established rules that facilitate transportation which leads to a growth of trade and consequently a better economic development in the region. The different transport modes already have standards, going from the most basic to the multimodal, the CAN establishes through several Decisions, clarity and precision when using transportation within the community.

In addition, there have been sanctions and infractions that have been established which are reflected in Decisions already passed, approved and applied to date. By establishing this harmonization of requirements in reference to transport, a better flow of goods and greater openness to trade is achieved by the facilities it offers by having clear and effective rules on how to work in this area.

1.6.1.7 Commercial Defense:

Having a commercial relationship in which a Free Trade Area is applied, countries have included the option of applying instruments against the harmful effects that may result from such a trade agreement. For this there are rules and procedures for the application of safeguards of four types: balance of payments, liberation program, specific products and monetary devaluation. There are decisions for both intra-Community trade and trade with other countries.

1.6.1.8. Andean Quality System

The CAN has established an Andean Quality System and its purpose is to achieve greater fluidity in trade by eliminating unnecessary steps while improving the quality of what is produced within the region. It is applied on all the products and is administered by a Subregional Committee specialized in this subject. It establishes the guidelines for the correct functioning, it contains requirements and procedures to avoid obstacles that previously arose and as a result, it makes trade easier.

External Relations: The Andean Community itself is a product of the good external relations that the member countries look for. Regarding its current external relations, the CAN promotes regional integration by offering its support to the strengthening of new integration associations in Latin America, such as the Union of South American Nations (Unasur). Cooperation, complementarity and multilateral management are basic principles of the CAN's actions today.

Health: by recognizing the importance of a regulation in commerce, with the clear objective of avoiding repercussions against the health of the inhabitants, different guidelines and requirements have been established that help regulate the circulation of goods that need authorization, known as The Mandatory Health Notification. Products, such as cosmetics, which may present a danger to human health need to undergo this review.

Food Security: the improvement of the standard of living of the inhabitants of the CAN is one of its main objectives. It promotes this idea through better food security. Seeking equity and the right to adequate food is what the CAN encourages. Thus, currently, complementary initiatives, programs and projects are being carried out that support this aspect in different areas and benefit communities and producers for better food production.

Energy Integration: the Andean market and the CAN have agreed "to promote regional energy integration to take advantage of the potential of the region in this field" (Presidential Council, 2008). Through several decisions, joint efforts have been made to approve exchanges and interconnections of electricity between member countries. The final objective of this point has not yet been reached, which would be to have clear rules within a general framework for achieving subregional interconnection.

Intellectual Property: Concerning this aspect, the CAN has managed to establish an updated and complete regulation. It regulates the granting of both trademarks and

patents, while protecting industrial information among other things. With this in progress, the Andean countries have managed to give a signal that attracted investors both local and foreign by providing facilities and efficient procedures when establishing a business. Here we can find the regimes of Copyright and Related Rights and the Protection of Rights of Plant Varieties. These have attracted investments.

Investments: The CAN has established an investment regime that establishes an equal and non-discriminatory treatment of foreign investments, also allowing states to decide and define their policies from their national legislations in relation to investment proposals. In the face of multinational corporations, measures are implemented that encourage the association with national investors for their preservation and execution of projects.

Security: working together on this issue is an achievement in which the CAN works daily to maintain its stability. Against organized crime, human rights violations, war against drugs, among others, a joint struggle has been the best response. Decisions are constantly being worked out among the member countries to continue this commitment to ensure peace and security within the Andean territory.

MSMEs: the encouragement channeled towards micro, small and medium enterprises has been remarkable. Governments are aware of the importance of job creation, the use of technology and the inputs used to make MSMEs feel supported and promoted. An Andean Committee of MSMEs, an Andean Statistics System and an Andean Observatory have been created to achieve the best possible development within the countries and the adequate promotion of new dynamic markets.

Tourism: a growth of the tourist activity the CAN has not been left out. The implementation of a Committee of Tourism Authorities and a Regime for the development and integration of Tourism have harmonized indicators for an improved and correct monitoring and evaluation of policies related to the area.

The Agenda for the Development of Tourism in the Andean Community 2011-2015 was made to turn the Andean destination into a sought after destination worldwide, creating innovative products and facilitating tourist visits. The creation of an information system has also added to the supply and tourist demand of the CAN. The work with aeronautics is supported to obtain aerial reductions and also to standardize tourist offers.

Circulation of People and labor migration: the field of tourism has had an open circulation of people since 2001 and now for changes of residence. The citizens of the Andean Community can migrate and work in another member country and the CAN, through their agencies, seeks to guarantee the protection not only of human rights but also of their social protection. In the next few years, it will also be adding concrete ideas and making them reality by enabling citizens to have an Andean Migration Statute and other regulations that will be useful in this area.

The CAN has made progress in many areas that have an impact on the economic sphere. These points are just a small sample of the work that is being done in the block in order to achieve its objectives. Today it struggles to reach new levels of development in its member countries, and above all to provide and attract a better market opening for the region, based on a strong and equitable integration that accelerates growth and facilitates positioning in the international context.

CHAPTER 2

THE SOUTHERN COMMON MARKET (Mercosur)

2.1 History and key data for the study and understanding of the regional block.

Going back in time in search of a common entity among the countries that are now part of Mercosur, we find evidence of the Viceroyalty of the River Plate. In this body of countries, although imposed by the Spanish crown, teamwork existed and took place in the territory where today there are three states. They are currently member countries of the regional integration block known as Mercosur.

Having a brief past of working as a team, there was integration previous to the one that is applied today. On the other hand, history shows multiple conflicts that occurred and were significant causes of the arguments between member countries.

In the effort to achieve common objectives based on coordination and collaboration between countries in the region, historical conflicts have been set aside to work towards an integration that always begins in the economic sphere.

The first indication of the emergence of the block is in the declaration of Iguazú in 1985. This is the foundation that constitutes the creation of the Joint Commission for Cooperation and Integration between Argentina and Brazil. Although the relationship between these countries was complex, the political will of the South American countries to work together was evident, with a view to joint objectives in order to find regional unity.

A year later, the two nations go one step further and sign the Binational Integration Act. Attention is paid to various sectors of the economy in order to stimulate links that enhance cooperation. The process of the relationship between Brazilians and Argentines continued with links and it was decided

to sign a treaty on Integration, Cooperation and Development in 1988, which materialized in 1990. It set five years as a deadline to reach among them a Customs Union eliminating trade barriers between them.

Thanks to this experience, Uruguay and Paraguay were attracted to and interested in these measures. They were the first countries to join the integration process. The four countries have already agreed on their commitment, through the signing of the Economic Complementation Agreement within the framework of the Latin American Integration Association or in its acronym ALADI in 1990. This was the predecessor of the birth of the integration known today as the Common Market of the South or Mercosur.

The participation of Paraguay and Uruguay gave the block a greater degree of complexity compared to when it was just created, taking into consideration that its incorporation into the treaty presented an analysis of the differential treatment to members of lesser development but, at the same time, represented a greater political reach within the region.

Mercosur was created with the signing of the Treaty of Asuncion in 1991, which set its objectives on a program based on the development of a free trade area. The aim is to achieve a customs union in the coming years and harmonize macroeconomic policies to strengthen the integration process. The commitment also includes measures against third parties and the correct importation of goods to the region, under rules of origin and other norms.

The institutional base was established within the Protocol of Ouro Preto, three years after its creation. For its operation, the secretariat established its headquarters two years later in 1996 in Montevideo, Uruguay, through an agreement between the parties.

In the beginning, the two main bodies that formed were the Common Market Council (CMC) and the Common Market Group (GMC). As time passed, Mercosur opened its field of action in different topics. The Free Trade Area and the phases of which it comprises within the institution are objectives that have not yet been fully achieved as originally proposed.

It should be noted that economic agreements have been signed as a block with other countries and with other regional blocks. At the same time, new political and ideological aspects are adhered to within its agenda.

In 1998, there was a democratic commitment known as the Ushuaia Protocol, which sought to agree on the full validity of democratic institutions and the correct development of the integration process among the states.

The year 1998 marked a great step forward for cooperation on issues such as the joint fight against arms, violence and corruption by signing the declaration of Mercosur as a Zone of Peace and free of weapons of mass destruction.

The Olivos Protocol for the Settlement of Disputes was created in 2002 and a year later its Regulations were proposed, which would result in the creation of the Permanent Review Tribunal (TPR). The protocol was conceived with the purpose of relaunching the Mercosur that had fallen into a state of controversy at the beginning of the century. It was essential to establish procedures to settle disputes within the block.

The year 2005 brought with it two important events. They included the creation of the Fund for Structural Convergence of Mercosur or FOCEM and the constitutive protocol of the Parliament of MEROSUR, PARLASUR.

The FOCEM is the mechanism created by the Member States with the aim of reducing the existing differences between the regions within the Mercosur block. The FOCEM then seeks to ensure that the benefits that integration brings with the opening of new markets are taken advantage of.

It achieved this by financing projects that seek regional growth. They would be contributions, with respective percentages corresponding to each state that are used as resources in projects that the states present¹⁸.

The constitutive protocol of the Mercosur Parliament is the agreement in which the states constitute a body that represents the people and seeks their integration. It seeks to guarantee the existing cultural diversity, and the participation of all the inhabitants

¹⁸ Source: obtained from the official website of MERCOSUR
http://www.mercosur.int/innovaportal/v/385/2/innova.front/fondo_para_la_convergencia_estructural_del_mercosur_focem

within the society. It is based on two basic principles: pluralism and respect for rights. It also defines competences, constitution and everything in relation to the Parliament.

The participation of Venezuela is the most outstanding fact of 2006. The country that in the same year ceased to be part of the CAN regional block, was integrated into Mercosur. It represented not only the incorporation of a country rich in oil, but the transfer from one block to another, belonging to the same region.

In 2007 the Social Institute of Mercosur or ISM was created, with headquarters in Paraguay. It is the technical body that watches, investigates and supports the social field of Mercosur. The purpose is to offer to all citizens of the block a state of equity and equality within it. As indicated within the mission of the ISM, it seeks to consolidate the social dimension¹⁹.

In 2009, the creation of the Institute of Public Policies in Human Rights or IPPDH was created. It is made up of agents from each member state, where the executive secretary is responsible for all that is involved in the creation of public policies, researching, training and advising.

The figure of the High Representative of Mercosur or its abbreviations ARGH was created in 2010. This representative, who governs for a period of three years, comes from a member country and must have experience in the subject of integration. This country's work includes the important task of presenting proposals in different areas that concern the commercial field as: reception of investments, facilitating business activities, commercial promotion, cooperation in development, among others. In addition, the consultant coordinates and promotes the entity for its better functioning and growth.

The Unit of Support to Social Participation or UPS was also born in 2009, being the bridge between social organizations and movements. It seeks greater participation in the social part of the block.

The entry of a new member to the Block is the last point to highlight, since in July 2015, Bolivia became part of opening up new paths and opportunities for trade,

¹⁹Obtained from the official website of the Social Institute of MERCOSUR or ISM at <http://ismercosur.org/institucion/>

investment, development and, above all, for regional integration Economic development. It was granted a period of four years to gradually adopt the rules that it must comply to in order to become a part of this block.

With regard to the Associated States of Mercosur, the member countries of the CAN adhered to this regional integration block, which include Ecuador, Peru and Colombia. Also, Chile has adopted this denomination as part of block.

2.2 Objectives.

Among the objectives of a block, there will always be proposals for improvement that seek the development of their countries. The general objectives include the following.

The first objective is to take advantage of the block in order to strengthen each country with their own capacities. The second point is to deepen the integration sought in the region. The third refers to reducing the differences between member countries. Finally, to promote an exchange of information, both in knowledge and experiences inside and outside the block.

The Treaty of Asuncion implies that the member countries must achieve the following aspects for the correct constitution of a Common Market:

- The free circulation of goods, services and productive factors between countries, through, the elimination of customs duties and non-tariff restrictions on the movement of goods and any other equivalent measures, among others.
- The establishment of a common external tariff and the adoption of a common commercial policy in relation to third States or groups of States and the coordination of positions in regional and international economic-commercial forums.
- Coordination of macroeconomic and sectoral policies between the States: of foreign trade, agricultural, industrial, fiscal, monetary exchange and of capitals, services, customs, transport and communications and other policies that ensure adequate conditions of responsibility between member States.

- The commitment of the Member States to harmonize their legislation in the relevant areas in order to strengthen the integration process²⁰.

The main objective and the reason why States actually seek to participate and belong to this or other blocks is the opening of the market. The expectation that a national production will have a bigger market in the regional and international field attracts and motivates States to generate more production, looking for an economic profit.

It is important for it to include key principles such as free trade, the common external tariff, the customs union, among other points. In this way, we try to evolve from a national production to a competitive production in the international market.

However, the objectives could not be so limited. The overall objectives are supported by more adjacent objectives. These are usually those that appear as a global trend, such as the case of the preservation of the environment. Thus, the block also plans to work together for the care of the planet, an initiative that is very supported today.

The objectives of Mercosur will focus on different aspects, such as those destined to the economic sphere. The improvement of concessions seeking to complement each other is also an objective to be highlighted. Improvements should be made with the passing of days, looking for ways to reach neighboring markets, with the best benefits for the members, the block and for the region.

It also seeks to coordinate the macroeconomic policies of the countries, by complementing each other in different aspects. This will allow for the countries to have a better presentation in the international focus and achieve another important objectives for the appropriate insertion into the global field.

The States seek to modernize and increase both supply and demand within the territory of the block through its objective of promoting scientific and technological development. This brings with it improvement and increase of the trade that is generated in the region and at the same time, it seeks to improve the populations' living conditions.

²⁰ Information obtained from the Treaty of Paraguay drawn up on March 26, 1991.

All these objectives are based on one main goal which regional integration blocks struggle to meet. It refers to the respect for the sovereignty of each member state, which, despite belonging to a group, still controls and rules over the final decisions that each country makes.

2.3 Internal operation.

The entities, which will be explained below, were established in the 1994 Protocol of Ouro Preto, where the institutional structure was constituted and Mercosur was endowed with legal personality at the international level. I will present them by the function of their bodies and among them are: decision-making bodies, parliamentary representation bodies, advisory bodies and supporting bodies.

2.3.1. Decision-Making Bodies

a) The Common Market Council (CMC)

It is the supreme organ of the integration treaty. It includes actions such as, decision-making, political leadership and ensuring that member countries meet objectives and timeframes established within Mercosur. It is composed of Ministers of Foreign Affairs plus the Ministers of Economy, or their equivalent, of the member countries.

Their meetings are held each time it is considered appropriate but these should be held at least once per semester, to which the representatives who are the Presidents of the countries that make up the association must assist. With the objective of carrying out its functions, it has dependent agencies that are: Mercosur High Representative, Mercosur Permanent Representatives Commission, Meetings of Ministers, High Level Groups, among others.

b) The Common Market Group (CMG)

This is the name given to the MERCOSUR executive body. It is in charge of working towards mandatory resolutions for member countries and to ensure the proper functioning of the organization. They meet in alternating host member countries at least once every three months. In addition, there are extraordinary meetings when they consider them to be necessary.

The CMG consists of eight members per country, with four heads and four alternates. Each government is responsible for the designation of these representatives, among

them must be the representatives of the Ministries of Foreign Affairs, of the Economy and Central Banks.

c) The Mercosur Trade Commission (CCM)

This is the entity that is in charge of the administration of the common instruments of the commercial policy that were agreed to by the countries, in other words, it assists the Common Market Group. It also regulates the functioning of the Customs Union, the follow up and review of issues that go hand in hand with trade policies both within and outside the regional territory.

It is made up of 8 members from each country, with 4 heads and 4 alternates. It is coordinated by the Ministries of Foreign Affairs. Their meetings are held once a month or whenever requested either by a State Member or by the CMG.

2.3.2 Bodies of parliamentary representation:

a) The Joint Parliamentary Committee.

It acts as an organ that represents the national parliaments. Its function is to accelerate the internal processes that correspond to the member states in order to achieve greater efficiency at the moment of establishing the validity of new rules that are created within the association. In addition, it participates in preserving the harmony of the legislation during the integration process.

2.3.3 Advisory Bodies.

A) The Economic and Social Consultative Forum (FCES)

It is part of the institutional structure of Mercosur that represents the economic and social sectors. It is a forum with a consultative purpose and that can express its ideas and opinions through recommendations to the Common Market Group. It has been operating since 1996, despite the fact that it was intended to be implemented two years earlier in 1994, and is composed of an equal number of Representatives by each Member State.

2.3.4.- Supporting Bodies

a) The Administrative Secretary (SM)

Its headquarters can be found in the city of Montevideo in Uruguay. It is considered the organ of technical and logistical support. It is the information base since its functions include organizing and disseminating documents that exist within the Mercosur block and to be the communications center for the correct exchange of information.

It is the body in charge of verifying that the deadlines and commitments established in different agreements are met. In addition, it should be the facilitator of the contact between the authorities of the Common Market Group and also among its functions is the organization of the logistics for the meetings, which are carried out within the framework of the Common Market Group.

2.4 Economic area

In this chapter, Mercosur as a whole as well as the highlights of each country in the face of trade and economic growth will be analyzed, which include its main trading partners, the products it specializes and markets, foreign investment in member countries, its capacity to be competitive by analyzing their position within the ranking and their HDI or Human Development Index to achieve a broad economic vision. Also, the way members act and how they help other member countries of the block will be studied.

The economic area will be studied with great precision, since when analyzing the commercial block, it is important to note that this association has Brazil as a member and head of the block, which is a country that leads the rest in volume of production and its size. However, in spite of its difference in aspects such as economic, commercial, etc., this country is still affected by social problems. The positive and negative aspects of Brazil influence the region due to the magnitude of this country, which together with the other members will be observed later.

2.4.1 Mercosur Level

There are different parameters to study when mentioning what Mercosur encompasses within its borders. Considering the block, it must be emphasized that it establishes itself as a world economic power. It consists of a territory within which there is diversity of ecosystems as well as unique biodiversity reserves on a worldwide level.

The population is approximately 297,893,205 inhabitants²¹, with a diversity of cultures, languages, religions, customs and peoples residing integrally within the region.

Renewable and non-renewable resources can be found within the block's territory, including different energy, oil, water and mineral reserves that are among the largest on the planet. It also has one of the largest reserves of fresh water on the planet known as the Guaraní aquifer as well as the largest tropical rainforest on Earth.

All these points contribute to establishing a block with unique and special characteristics that allow it to look for better mechanisms to achieve a better development of the states that comprise it, in order to bring trade and opportunity to the internal markets, and to better the lives of the inhabitants of the region.

Mercosur offers the region a trade opening that has sought multilateralism²² and strengthening relations as a block, with different destinations in the world. This opening has managed to expand the target markets of the regional block's sales. The scope of the block as the days go by expands and the integration process continues its growth.

Because of these benefits, Venezuela and, later, Bolivia became a part of the block. The increase of members, as well as the signing of agreements and treaties with different destinations, show the capacity and scope that it

²¹ Information obtained from the CIA World Factbook on its official website. Sum of the data specific to each country.

²²Term used to describe an act that occurs between several countries as: an agreement, a pact, a treaty, among others, that considers them as part of the matter to be dealt with. Source The Encyclopedia of Politics by Rodrigo Borja.

has and how this block presents itself as a whole to the entire world community.

On the other hand, intraregional trade has also improved. The first evidence of this was trade growth between Argentina and Brazil. The other members from here were able to find markets that in addition to being close, they represented a nest of both consumption and purchase of goods and services.

There was growth in the textile, manufacturing, transportation, chemicals, electrical and paper industries. This is one of the main achievements of Mercosur, to open the regional market for efficient and increased trade.

Intra-zone trade has also experienced growth since the creation of the block. This growth, that in years before reached its best numbers, has been stalled in recent years. 2011 represented the best year of growth at the block level, since then it has decreased in recent times in a general way on all member states passing to a 12.3% less growth between 2011 and 2014.

This slowdown was mainly due to the decrease in prices in products that have great representation in exports such as soy, iron, oil, among others. To sum up, domestically Brazil experienced a recession in its economy lately, while Argentina's economy fell into a stagnation.

With imports, a similar occurred, which was the fall in prices, greater restrictions, the stagnation and contraction of the economic activities of the member countries and the decrease of trade in general contributed so that for the first time, since the international economic crisis, imports fell by 5.4% in 2014, a percentage that increased in the first half of 2015²³.

Outside the Mercosur zone, trade accounted for more than 85% of total flows. It experienced a variation of -19.1% in exports and -14.1% in imports. What most influenced the fall were the primary and processed natural resources and the decrease in its price,

Trade partners demonstrate their importance due to the dependence they generate on recipient countries of their products. As for Mercosur,

²³Information obtained from the MERCOSUR Report No. 20 made by the Inter-American Development Bank.

dependency has been diversified, yet it is still largely dependent on the Asian market. It must be emphasized that Asia, despite being a dynamic market, shows signs of slower growth in recent years. Its main exporter China has a growth forecast of 7% by 2015, the lowest percentage of the last three decades²⁴.

The main trading partners are in the same places as both buyers and sellers, which are: 1) Asia with 30.7% of the share in exports and 26.9% in imports, 2) North America with percentages of 18% in exports and 19.3% in imports, 3) European Union with totals of 14.7% when buying from MERCOSUR and 18.3 when selling. 4) Mercosur is located in the fourth position, the internal trade of the block reaching a percentage of 13.1 exports and 15.5% imports, 5) and the rest of Latin America with a total of 7.3% in exports and 4.9% in imports²⁵.

It should be highlighted that the growth in exports of services, including travel and transportation, telecommunications and financial services, add to the growth in the sale of non-traditional services in the region.

2.4.2 Country Level

The member countries of MERCOSUR will be analyzed individually. The main aspects are: economic data, products that it sells, and in which its industries are specialized. The trading partners will be studied to determine where and with whom the trade flow is generated, the competitiveness of each member worldwide, the foreign investment they attract and the ease of doing business within the countries, to finally see the countries ranking in the human development index, which allows to have a vision of how opportunities are being given to people and above all how we are acting in relation to human lives.

2.4.2.1 Brazil

²⁴Information obtained from the MERCOSUR Report No. 20 made by the Inter-American Development Bank.

²⁵Information obtained from the MERCOSUR Report No. 20 made by the Inter-American Development Bank.

It is the pillar and fundamental country of the organism. Its importance is due to the volume of trade, its reach regarding relations in the world market, its position at world level and its regional relevance. As a result, Brazil plays a leading role at the regional level and it is focused on generating greater profits from its resources.

Brazil's participation in Mercosur then generates a mutual benefit. On the one hand, Brazil is part of an association that seeks regional objectives to improve both the living standards of its inhabitants and the growth and development of the member economies. Its contribution within the block also brought about transformations in its trade, increasing trade exchange rates. On the other hand, Mercosur benefits from Brazil, as it contributes both to trade generation and to its demographic, geographic and economic size.

Yet, its role does not end there. The interdependence it generates towards its partner countries and members of the block is indispensable at different levels. The trade generated inside and outside the block, its active participation in funds contributing with high percentages for the general benefit and its attractiveness to generate business and to attract third parties to commercialize with it and the region, are three points that stand out thanks to the Brazilian market .

Brazil has an economy based on intensive agriculture. It is the main producer of coffee in the world, in addition to producing other goods such as sugarcane, oranges and soy, which are products of high demand worldwide. To this we add the export of wood, in which it is the fourth exporter of the world and the selling of cattle that has the greatest volume in the world. Its economy also works in the industrial area with the exploitation of minerals. It works intensively with iron, being the second largest exporter in the world, and is also a major producer of coal and aluminum²⁶.

Currently, Brazil seeks to diversify into more sectors such as aeronautics, pharmaceuticals, chemicals, among others. It is necessary to understand

²⁶ Source: Export Entreprises SA, from the Santander page.

into which sectors economic activity is divided into in Brazil, where the service sector has the highest representation, reaching 71% of GDP, industry 32.4% and Agriculture 5.6%. This division shows the importance of sectors and how they contribute to the country's economy.

Its main markets for trade are China, the United States and Argentina in the first three places. In addition to Argentina, the first 20 countries include other countries of the block including Venezuela in 9th place and Paraguay in 20th place²⁷.

It is important to note that 18% of the total exports correspond to China. It is an influential country since the commercial flow of this South American country depends on it. The decline in trade growth has been affected in recent years by a decline in demand for representative products from China.

Brazil is an attractive market for foreign investment because it attracts multinational companies that seek a good and strong agri-food industry or at the same time, it is an interesting country for those who look to enter the biofuel industry²⁸. It is also a major producer of this product, which is reflected in its oil reserves.

Brazil is a great example of a country that attracts foreign investment. Most of the major automobile producers work within Brazil. This helps to generate a greater flow of commerce and at the same time, helps the evolution of the industry and the technological level of the merchandise produced within the country. It has one the most advanced technology in Latin America.

As for its place in the Doing Business ranking it does not show much ease when establishing a business or opening a company within the country which reduces international points. It is located in position 116 of 189.

Despite Brazil's size and trading capacities, it is difficult to do business in this country. Despite this, it has managed to capture the attention of third

²⁷ Source: Trade Map

²⁸Term used to indicate mixtures of hydrocarbons which are used as fuels or sources of energy.

parties in certain industries, such as the automobile sector as mentioned above.

Brazil is a very competitive country in the region. Globally, in the ranking of competitiveness index, it is only found in the 75th position, being second in Mercosur behind Uruguay and located in the middle of the ranking where 144 economies²⁹ are analyzed. This ranking classifies Brazilians by studying key factors that determine how their economy grows, their present and future, analyzing problematic factors that give us an overview of the situation of the countries under study.

The human development index is key to analyze Brazil and will allow to indicate the reality of the country when referring to the life it provide to their inhabitants. This index focuses on the people and their capabilities, which is why it should be the main criterion when determining the development of a country³⁰.

With regard to this economic power, it is necessary to state that it reflects the poor balance in the distribution of wealth and the treatment given to its citizens in terms of health, education and services.

2.4.2.2 Argentina

The country has had a positive economic growth after the difficult times that it experienced in 2001-2002, when a great crisis broke down its economy. In 2016, a recession is expected as a result of the falling prices of different raw materials, which we discussed earlier. This is a worldwide phenomenon that affects different economies in different ways.

Argentina was the best in regional trade and it has maintain its position since they are the main sources of commerce within Mercosur. Its main trading partners show Brazil as first and of most importance. It is closely followed by China, then United States, Chile, and Venezuela complete the top 5.

²⁹ Source: The Global Competitiveness Report 2014 - 2015 Editor Klaus Schwab

³⁰ Source: Human Development Reports of the United Nations Development Program

Its economy is a large market that is mainly based on the tertiary sector, as is the trend of industry today. With a contribution of 60.4% of GDP, it has specialized in services in leading sectors including tourism, software development, telephony sector, nuclear energy, among other important industries that employ where the largest number of people who work.

Among the problems that affect the country is the devaluation of the currency. This has continued over the years and since 2010 it has worsened, reaching an exchange rate of approximately \$1=10 Argentinian pesos, approximately. It's lowest exchange rate has been up to a value of \$1=14 pesos. This problem is the result of inflation that hinders economic growth, access to finance, internal corruption and taxes.

The industrial sector, which contributes with 29% of GDP, specializes in food packaging and preserves. It also relies on the textile sector, chemical activities and automobile subsidiaries, just to name a few.

As for the agricultural sector, it is based on the production of different cereals such as soy, wheat and maize. Additionally, it produces citrus, tobacco, tea and grapes, which accounts for 10% of the country's total GDP. Argentina is the top exporter of soy products.

The Competitiveness Index places it in 106th place out of 140. It is not a good rank for such an important market. Inflation, levels of corruption, and difficult access to finance hinder its competitiveness. In its favor is its market size and the scope of education within their borders.

Foreign investment in Argentina has not been the same every since it reached its best year in 1999, when it surpassed the value of 20,000 million dollars. Since that year there was a low and constant flow of investment, and 2005 marked the worst record of the last decades for the country coming in at 800 million dollars. Between 2011 and 2013, the investment value slightly improved, but fell back to about \$8,000 million dollars. This contributes to its low level of doing business in the country.

In general, it is not favorable when the country ranks 121 out of 189 economies³¹, since it demonstrates that it is not easy to start a business within the nation.

Within the Human Development Index, it is ranks in 40th place. It has the best place in Latin America, which makes it a country with a very high HDI. In spite of the economic difficulties and its different internal problems, it has managed to maintain good social development, ensuring its inhabitants an area in which they contribute for their development and greater benefits for their well-being.

2.4.2.3 Paraguay

This Latin American country's economy is considered small but at the same time open. The last decade has been a time of growth, with a remarkable 5%³², within the region. It is based on and depends mainly on natural resources, agricultural and livestock production and the production of electrical energy. It has managed to reduce levels of inequality in society and managed to reduce poverty from 32.5% to 18.8% in 5 years³³.

The main trading partner is its neighbor Brazil, both as an export destination with a percentage of 31.3%, and as a supplier of the country's imports with 25.3%. Argentina places in 3rd place with 8.3% of exports 14.7% of imports. Hence, the importance of the trade that is generated among the member countries of Mercosur. Paraguay is highly benefited by the free market agreement because it adjoining the block is very important for its commercial flow.

The Paraguayan economy and its domestic products are divided into three different sectors with their corresponding percentages. Agriculture and Industry have very similar percentages, with 18.9% and 18.5%, respectively. At the agricultural level, soy is its top product and is the basis of its economy, being the 6th largest producer of this product worldwide³⁴.

³¹Information obtained from the official Doing Business website of the World Bank Group.

³² Information from the World Bank website.

³³Information obtained from The World Factbook of the CIA.

³⁴ Información obtenida del The World Factbook de la CIA.

The service sector, as in other countries in the region, accounts for the highest percentage, which in this case represents 62.6%³⁵.

Paraguay has a developed and attractive macroeconomic environment, while its health and primary education contribute with more points to its global competitiveness ranking. Despite this, it is ranked 118/140, since certain pillars such as innovation, infrastructure, high corruption and inefficient government bureaucracy, lower its performance in the index.

Foreign investment has not had an encouraging outlook. It has remained for decades under the mark of 500 million dollars, which puts it among the worst in Latin America. 2011 and 2012 were its best years, since in 2012 it reached 737.7 million dollars³⁶. An unsettling aspect is the fall that registered the following year when it dropped to \$71.7 million. Foreign investment has never represented higher incomes. Within the Doing Business Ranking, it shows that the country is not an attractive country to start business in. It's place as 100 out of 189 confirms this.

Paraguay's position in the ranking of human development is a bit worrisome. Being ranked 112 is not a good sign as it is the second worst country in the region, where Bolivia is the only country with the worst ranking. Despite the economic growth that was experienced in recent years, this has not occurred in the area of human development.

2.4.2.4. Uruguay

This country's economy depends on agriculture, where it focuses on the export of livestock. In addition, seeds, fruits, and other products are the basis of 35% of total exports. Despite their numbers and the importance of agriculture, this sector only represents 7.5% of the total Gross Domestic Product, where the food processing, petroleum products, textiles, beverages, among others industries reach 20.6% of the GDP and the service

³⁵ Información obtenida del The World Factbook de la CIA.

³⁶ Información proporcionada por la CEPAL en su página oficial cita.

http://interwp.cepal.org/cepalstat/Perfil_Nacional_Economico.html?pais=PRY&idioma=spanish

area is the most representative with 71.9%³⁷ by 2015, a sector that employs 70% of the population.

The Uruguayan economy has performed well recently. The opening of new markets, as a result of its participation in the commercial block, has allowed the dependence on specific markets to be reduced, achieving that 77% of exports currently target 15 different markets³⁸. In spite of this, the vulnerability that exists with respect to Brazil, which concentrates a high percentage of the total of Uruguayan exports, has not disappeared.

Its main export trading partners, include Brazil, which ranks in first place with 14.7% of import. It is followed by China with 14.3%, the United States with 6.7% and Argentina with 4.9%³⁹. In terms of import partners, China leads the list with 18.3%, Brazil is second with 16.8%, Argentina ranks in third with 13%, Germany with 4.5% and Nigeria with 4.2%, completing the 5 main markets⁴⁰.

Uruguay is a significant market in terms of net foreign investment. Although, due to different factors, it does not reach numbers as high as Brazil or Argentina, it is an economy that has maintained a constant flow of increase over the years in this aspect. Since 2004, foreign investment has had a growth trend that reached its highest level in 2013 reaching \$3,026.9 million dollars.

The implementation of prudent macroeconomic policies that have generated economic growth in the country, debt reduction, trade diversification, poverty reduction and being classified by the World Bank as a high income country have contributed and helped for the investment to be constant over the last 10 years. The Doing Business ranking places the country at 92th out of 189 economies, indicating that it still needs to improve in several aspects within the commercial sector.

³⁷Información Obtenida del The World Factbook de la CIA.

³⁸Información obtenida en la página oficial del Banco Mundial.

³⁹Información Obtenida del The World Factbook de la CIA.

⁴⁰Información Obtenida del The World Factbook de la CIA.

The competitive level of Uruguay is the most prominent among Mercosur members. It is ranked 73 out of 140 economies analyzed. Its deficiency lies in innovation and the efficiency of the labor market. On the other hand, its level of both public and private institutions add positively to the country within the ranking.

This country is in third position in Latin America and second among member countries of the organization, Uruguay is ranked 52nd in the Human Development Index. Evidence of the good rating achieved is based on the fact that poverty has been reduced from 32.5% in 2006 to 9.7% in 2014⁴¹, almost eliminating these type of problems.

In addition, it managed to improve income by increasing the level of shared prosperity and focused on inclusive social policies where there are different systems that provide a better environment for the population that lives there.

2.4.2.5 Venezuela

The country that is no longer part of the CAN presents a unique reality in its economy. For several years, it has been based and relied on the export of natural resources with little added value, especially of oil reserves. These represent 96% of their exports⁴² and have allowed them to have economic growth for years, which has reduced inequality and poverty. Today, with the fall in oil prices coupled with inadequate policies, they have had a poor performance in this area.

Its main partners demonstrate the good decision they made when they become part of Mercosur, since when it comes to imports, Brazil represents 9.9% of those and Argentina 4.1%, which are third and fifth top countries from which they import from respectively. These are source of goods for the state Venezuelan. At the level of exports, Brazil only appears in the seventh position far behind the main 3 partners that are the United States, China and India.

⁴¹ Information obtained from the official website of the World Bank.

⁴² Information obtained from the official website of the World Bank.

Its main sectors are divided with very uneven percentages. Agriculture contributes to only 5.5% of the country's gross domestic product, with the production of maize, soy, rice, sugar cane, among other products. The industrial sector accounts for approximately 50% of the total GDP, where oil is logically the main activity, adding to that the production of construction materials, textiles, aluminum and others. Finally, the sector that provides the greatest employment to the population is that of services, for which 71.1% of the population works for and that represents 40% of the GDP⁴³.

Venezuela represents the flow of foreign investment with greater variations at the regional level. The sudden increase and decrease of the numbers of this income is remarkable. Its best year was 1997, when it reached \$5,645 million dollars⁴⁴ of investment. As a result of this, instability was experienced, and perhaps the nationalization of several private enterprises in sectors such as hydrocarbons, banking, telecommunications, among others, which discourages possible investors.

On the plus side, the country has a very good commercial market, both at home and abroad. Another favorable aspect is the high level and scope of education.

In the Global Competitiveness Ranking it reaches the 132 position among 140, making this the worse position among the countries of Latin America. The most problematic points are the restrictive labor regulations, inflation, political instability and corruption.

Venezuela ranks in 71st place within the Human Development Index. which gives much to think about Venezuela. This country places better than Brazil and Paraguay, perhaps as a result of social programs called Misiones, where the objective was to improve basic services and provide resources to previously excluded sectors. On the other hand, it may also be due to the reduction of poverty and the fall of the inequality that the country went through. In spite of all this, it has not been able to achieve the desired development and is working towards a greater and better human development to raise the quality of life and the environment.

2.4.2.6 Bolivia.

⁴³ Information obtained from the SANTANDER report based on data from the World Bank.

⁴⁴ Source: Statistics obtained from the official website of ECLAC.

This country became a member of Mercosur in 2015. It is the only one that actively participates also in the CAN, from where it was analyzed in the previous chapter, presenting it now from a new perspective.

Despite being small in size, its main trading partner as already determined is Mercosur. The idea of having commercial benefits, facilitates the interaction and trade flow between the country and its destinations. Brazil (27.5%) and Argentina (16.8)⁴⁵ are the two main destinations, especially with natural gas, which is its star product and responsible for 50% of total exports.

During previous years and with prices of raw materials on the rise, it had a decent economic growth. This was achieved by reducing extreme poverty and increasing access to basic services. The country is expected to continue to improve, which is why the National Social and Economic Development Plan 2016-2020 was approved, whereby growth of around 5% is sought based on public investments, accumulated savings and new external debt⁴⁶.

For the block, Bolivia represents the possibility of importing natural resources with preferences, while for this nation, it stands as opportunity to belong to an entity where large trading partners participate, being a door to expand trade, on which depends on.

For Mercosur, besides having a source of natural resources, it recognizes that the participation of Bolivia will not be of so much economic relevance but it is still of much importance within the regional trading block.

2.4.3 Conclusion of the MERCOSUR Economic Area.

These aspects give points to emphasize and to compare between and among the countries. The block has brought to the region an environment of interdependence where the smaller countries count on bigger ones such as Brazil and Argentina for their proper commercial flow. At the same time, it provides a regional leadership position for larger countries that is supported by the well-being of the region.

The international community is attracted by large markets, hence the importance of Brazil and Argentina for the region, as they attract trade with third parties that

⁴⁵ Information Obtained from the official Trade Map page.

⁴⁶ Information obtained from the official website of the World Bank.

benefits the block in this case. Thus, Mercosur gives its members an active participation in a better market, while promoting the regional development that results in the individual progress of each member.

The Member Countries at the same time learn from each other and help one another in different areas. At the commercial level, the flow of exports and imports has improved in the region. There is dependence among the nations, which is the product of the different goods and services that are traded. Thus the entity depends entirely on its members and their work to achieve the best possible results.

The member countries show great differences in certain aspects such as the amount of trade or development within their territories. The differences can be seen even better in the different indexes of human development or competitiveness that were analyzed. The good news is that countries learn from each other's traits in order to improve.

2.5 Reach obtained by the block until today

The main achievements of the block are:

-Union Customs: The customs union is considered imperfect within Mercosur. This is because there are still some exceptions in trade of goods and services between members. This means that the vast majority of goods are already included in a special treatment since the customs tariff applies to most goods and services but some are still excepted that come under special treatment. In spite of this, Mercosur has managed to become an integrated zone of repercussion at a global level. All this work at the regional level attracts a change in the reach of accessibility to national markets as well as on an international level.

-The Common Customs Code: The Mercosur was able to establish a Common Customs Code or CAM. This allows the application of common customs legislation for all members of the block. It will regulate the international traffic of members with third parties⁴⁷ in all aspects that are included in the code, including complementary and regulatory rules.

⁴⁷ Information Obtained from decree number 27/10 made by MERCOSUR.

The code includes the different basic definitions for a simple and complete understanding. It also includes customs zones and their definitions, as well as customs, related persons and different provisions relevant to the merchandise marketed and its most important points.

-Common External Tariff (A.E.C.): a common external tariff was established that brings to the region a regulation for goods entering the territory from third countries. This refers to the fact that all products that wants to enter the zone, must comply with the same established tariff, except for the exceptions that can be temporarily applied on determined products.

At the same time this means eliminating the double charge of a common external tariff that is due to the integration process. The process of trade within the territory was marketed charging the ACS for the circulation of goods that were imported from third countries but were already nationalized by the state that had imported them either to produce something new or as a direct input.

Mercosur gives a total preference to all the goods that are exchanged by its member countries. The exception only exists on selected products that are agreed on by the member countries.

-Sector agreements: the signing of different agreements, in our commercial preference, is a remarkable point. Since its inception, it has sought to align itself and subscribe to different agreements that promote a better flow of the economy. It was possible to adopt agreements since the constitution of the regional block. It has been able to enter into commercial agreements with other ALADI members and with third countries.

Macro agreements that promote negotiations are also part of the scope that has been achieved in the commercial field, these help with the good start of negotiations between countries.

-Free Zones: the application of the common external tariff is an achievement of the block. Certain selected products are exempted or if there is a contrary decision of the States Parties. In that area, safeguards may be applied if necessary if there is damage or threat to the person who is importing the product. Otherwise, it is intended that the products enter without prejudice of any provision.

-The Dispute Settlement System: the Permanent Review Tribunal (TPR), which is considered to be an achievement of regional integration, is a useful and necessary body in the dispute settlement system. Comprised of permanent arbitrators, it is responsible for facilitating the settlement of disputes between States, claims of individuals and also exerts before advisory opinions. This way the opinion of arbitral awards can be obtained in a more efficient way, since the TPR can act like first and last instance of a case where the award cannot count on the resource of revision.

-The Productive Integration Program: this is a strategy that aims to develop and promote the productive sector of the countries, based on forming a value chain at the regional level. Strengthening and complementing MERCOSUR companies are objectives of this regional program. It also seeks to integrate within a productive chain the SMEs and companies of the countries that are in a concept of less economic development. Its purpose is to deepen the integration of the block through the increase of productive competition within the economic sector. It is then a mechanism that seeks a better development through initiatives such as forums for competitiveness and value chains within the integration block.

-FOCEM: MERCOSUR's Fund for Structural Convergence is a remarkable point since it is constituted as the solidarity step that is self-financed by the members of the block, which aims and was created to reduce the differences that exist between countries. They achieve this reduction of asymmetries through the financing of infrastructure improvement projects, business competitiveness and social development in the member countries.

Focem has existed since 2004 and operates since 2006. The Fund constitutes proportional contributions, in other words, the most developed countries have to contribute with a greater contribution of money while lesser development means less contribution.

In this way, when necessary, countries receive the funds as a donation to be used in projects for structural, economic and social improvement. These projects should be considered of interest to the Member States and pass the requirements of the regulations of the FOCEM that are in force.

It started as a fund of \$100 million dollars annually but with the participation of the recent members such as Venezuela and Bolivia, it has reached a total of \$127 million

dollars annually. Six projects have already been finalized and 39 more are underway, which are products of this fund.

This initiative has set a pattern for the region as it seeks to achieve a clear objective within the regional blocks that is a better economic and social development, FOCEM is shown as a timely mechanism to narrow the gap between Mercosur countries.

CHAPTER 3

COMPARATIVE ANALYSIS OF THE CAN AND MERCOSUR

This chapter compares the CAN and Mercosur. In this way, their similarities and differences will be established. The issues to be discussed are based on some of the elements presented in Chapters 1 and 2. As a result, this will allow for the understanding of the different constraints that influences their development, since they are elements that act on the integration process that the region seeks.

The analysis starts by contrasting the objectives of each block. It will then analyze the economic environment in terms of achievements, liberation and commercial growth. The next point analyzed is the relationship between both blocks and also their history will be mentioned. Then a comparison of structures of both blocks will be carried out. Finally, the current economic scope of the blocks, its member states and a possible future of both blocks will be compared.

3.1 Objective analysis

The commercial blocks' objectives have certain points in common and denote some similarities. In spite of this, certain peculiarities can be seen within these as well. In both cases, the approach is to promote development in the region or to complement each other with the aim of strengthening member countries on the basis of solidarity and joint coordination, which are among the objectives. What I seek and believe is necessary is to distinguish and emphasize the way in which the objectives are formulated and elaborated within the CAN and Mercosur.

The CAN's objectives are already embodied in the Cartagena Agreement in 1969. Among them is the reduction of vulnerability, improving their international positioning and that of the lives of its inhabitants, an accelerated growth, among others. Later, in the 2004 Summit in Quito, member countries met and agreed to deepen the trade issue, opting to improve the free trade area and seek progress towards a common market. In other words, from the beginning the CAN focused on several aspects, where in addition to the commercial part included social and political aspects which weakens the focus of development clearly within the commercial field.

Mercosur established its objectives in 1991 with the signing of the Treaty of Asunción, where the main objective was to create a common market and achieve among member countries the free circulation of capital and labor.

Once the objectives were established, it focused on reaching some of them. For example, in 1994, a customs union was established as a preliminary step to reach the common market. It was based on the application of a Common External Tariff, the coordination of policies among the member states, the commitment of the states to the block, etc.

The objectives at the Mercosur level were better detailed those of the CAN, although for both the intention is to achieve growth for the region and for the countries individually. Mercosur focused more on the short-term objectives, which allowed the achievement of long-term objectives and it also established more defined objectives, which made it easier to follow a better course of action.

In summary, in both cases history shows us that its foundational treaties define the guidelines for reaching the common market among its members. In regards to MERCOSUR, its objectives were better directed towards the construction of a customs union and eventually the common market. As for the CAN block, its initial objectives were dispersed with other issues other than the commercial field. Perhaps this makes a difference with Mercosur and it is comprehensible since the CAN is less dedicated to commercial activities.

Both blocks make it clear that the commercial area is the most important point to promote and work on. Encouraging commerce and its flow is a prime point, and the results are reflected in the numbers that show the commercial increase.

The objectives have been key factors in the economic area for both blocks. Each block has achieved different advances in time and scope but above all they have been able to promote joint work within the region which gives it a better presence and competence in the international arena.

3.2 ECONOMIC AREA: CAN and MERCOSUR.

When comparing the economic sphere with its respective dimensions, MERCOSUR will emphasize in numbers and in volume, due to the fact that a country like Brazil is

part of it, which has a predominant position within the regional and global economy. However, these economic inequalities will show variables of interest when analyzing the social or political situation of the member countries.

It will be essential to explain what points will be compared in the economic sphere since the asymmetries are notorious within the blocks, between member countries and between both regional blocks, since there are countries that generate more commercial flow. For this reason, in simple words it is not my objective to compare the blocks according to gross macroeconomic data.

The analysis will focus on the fact that they have achieved in the economic sphere liberation and commercial growth during the years in operation, the economic benefits that working together has generated, the agreements that have been reached and how these blocks become established in the international arena. The limitations and problems presented by the blocks in the economic sphere will also be a subject of study.

3.2.1 Achievements of the CAN and MERCOSUR.

The fulfillment of the objectives and achievements allows us to appreciate the development that both blocks have had. The Andean member countries of the CAN consolidated a free trade zone and a customs union. This union presented difficulties due to a small subregional market, in addition to a weak foreign direct investment, the different capacities of the members to take advantage of the different benefits that the block offers and the postponements in the effort to create this customs union between all the countries members⁴⁸.

In addition to this, they managed to harmonize policies on topics such as common tariff nomenclature, rules of origin, customs valuation, intellectual property regime, among other significant aspects.

In the case of Mercosur, the block has achieved the implementation of a Free Trade Area (with exceptions in specific sectors), and a customs union between member states. In addition to this, they obtained advances in various topics such as merchandise classification, trade defense rules, harmonized special trade regimes, among other

⁴⁸Information obtained from the report made by the Inter-American Development Bank.

important points in which progress has been made (Bouzas, Da Motta Veiga and Torrent).

Both blocks have been able to take steps forward in reference to the objectives that were set. The free trade area is an achievement of both parties where exceptions are established in order to have better results for member countries.

The two blocs were also able to reach a Customs Union among members. While the two processes under analysis are at different levels, a breakthrough has been achieved in terms of the harmonization of policy differences, norms and regimes that allow for the redesign and improvement of the two integration processes for the countries' better development.

The advances registered within the integration processes have been better developed within Mercosur than within the CAN, despite the difference of years since its creation.

In the words of Mario J Filadoro:

"It could be said that in MERCOSUR, Member States (supported by the regional institutions created by them) have succeeded in concluding their national interests in relation to common themes, by achieving greater compliance with the established objectives than in the CAN" (Filadoro).

3.2.2 Commercial liberation and growth.

Both blocks achieved something indispensable and notable for the region that was to provide a commercial liberation within the Latin American region. An important step was taken, this being the teamwork that allowed for the economic and political interdependence for the correct functioning and decision-making of the commercial blocks.

In addition to group work, the analysis made in the previous chapters allows me to point out that the elimination of obstacles and requirements in relation to the commercial flow, allowed for an increase in trade in the two blocks. The CAN succeeded in increasing the intraregional trade, which allowed the Andean countries to market their goods and services in different markets that provided them with trading facilities and opportunities to expand. The different trade agreements signed by both blocks allow for greater openness in the world market. Thus, commercial growth is also encouraged.

Taking into account the data analyzed in the previous chapters, it shows a commercial growth in both blocks. The opening of borders and the elimination of trade barriers are reflected in the growth of intraregional trade.

3.3 Relationship and history of CAN and Mercosur.

The two regional blocs have also established a relationship of cooperation and team work that seeks to strengthen alliances between the two blocks in the region. Like any link at the international level, this approach seeks support and mutual work in the economic sphere while improving understanding and political dialogue.

The CAN-MERCOSUR relationship began in 1998 when the blocs signed a Macro Agreement for the creation of a Free Trade Area between them, which is important because it is where it establishes the bases and the stages for the correct negotiation. The following year, it was decided to release the modality of block-to-block negotiation, thus allowing CAN member states to negotiate individually with MERCOSUR member countries. As a result, the negotiation of a Fixed Tariff Preferential Agreement was negotiated with four countries: Colombia, Ecuador, Peru and Venezuela.

The joint work continued with the signing of an Agreement for economic complementarity between the member countries of the CAN and Argentina in 2000. The member countries of both blocks, along with Chile's participation, succeeded in establishing in 2001 a Mechanism of Dialogue and Political Coordination. They provided help and facilitated teamwork in the different areas, where economic integration stands out.

In addition to this, in 2004, the economic complementation agreements No. 36, 58 and 59⁴⁹ add to the member countries of both entities to reach the area of Free Trade. In 2005, it was determined that member states of Mercosur will be granted the status of Associate Members.

Historical data from both blocks shows that they emerge from a strictly commercial basis. The signs indicate that trade between countries in the region began to increase. On the part of the CAN, its beginnings are in LAFTA, from which the five countries that were the basis of the Andean Pact left and became part of the Andean Community

⁴⁹Source: Official website of the Andean Community on Foreign Relations.

of Nations. Mercosur is based on the desire to promote commercialization between Brazil and Argentina, an act that captivated the attention of Paraguay and Uruguay, encouraging them to be part of that Declaration of Iguazú, the pillar of this block.

The two commercial groups do not have much time difference since its creation. Although the CAN presents indications of its creation since 1973 when it was known as the Andean Pact, it was only in 1997 that it was formalized as The Andean Community of Nations. Mercosur was created constituted between the years of 1985 and 1991, where the Common Market of the South was born officially.

Since its inception the CAN has had a complicated situation. It lost two of its members during this time. These include Chile, that left the block in 1976 due to political problems of the model known as Andean Pact, followed by Venezuela in 2006 that leaves the CAN due to disagreements. In addition, one must remember the brief suspension of Peru due to its internal political problems.

On the other hand, MERCOSUR has had better luck. Starting with the integration between Brazil and Argentina, which attracted the interest of its two neighboring countries, to form the block between the four countries, in spite of being a more complex process.

The following years were used to improve the constitution of the block, to which Venezuela would join in 2006 and also Bolivia in 2015. As a result, two blocks from the same region show that the individual interest of the countries can change as well as the action within these associations.

MERCOSUR shows greater strength, a situation that gave it a better development by establishing itself as a regional trading block. A clear demonstration of its projection was the decision of two countries of the region to become members. Venezuela, which preferred to abandon the CAN and become integrated in Mercosur, and Bolivia, which decided to belong to both blocs simultaneously, to take advantage of the benefits that each one.

Although the second block analyzed has been able to constitute with greater commercial force, thanks to its good decisions or the reality of its member countries, both blocks are born of commercial roots; this was the primary reason for which they were created. They work to provide economic, political and social benefits to the

region. The two blocks are seen under the premise of the principle of subsidiarity, which refers to working together to achieve better results than on an individual basis.

History also shows different misunderstandings and disputes between member countries within a same block. For example, Ecuador and its rivalry with Peru, or Brazil and Argentina that have presented altercations. Nevertheless the resolution of their differences show that this can be left aside when seeking mutual benefit and ensuring a collective well-being.

For this reason, it can be said that, in my opinion, trade blocks also function as a shield to prevent or at least reduce conflicts between member countries.

3.4 Structure

Two blocks that belong to the same region under analysis have certain peculiarities when comparing the structures that make them up. Although both have a similar base, the differences in their organizations will be analyzed.

The founding treaties of the two blocks, despite having somewhat similar objectives, have chosen to resort to different mechanisms to achieve objectives at the institutional level.

Table 1

Structure of the CAN

<u>Intergovernmental Organizations</u>	<u>Community Organizations</u>	<u>Instances of Civil Participation.</u>

<ul style="list-style-type: none"> - Presidential Council - Andean Council of Ministers of Foreign Affairs - Commission of the Andean Community 	<ul style="list-style-type: none"> - Justice Court - Andean Parliament - General Secretary CAF - Development Bank of Latin America - Latin American Reserve Fund - Andean Health Organization - University Simon Bolivar - Convention Partner Simon Rodriguez. 	<ul style="list-style-type: none"> - Business Advisory Council - Work Advisory Council - Advisory Council of Indigenous Peoples. - Mesa Andina for the defense of Consumer Rights.
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Source: CAN official webpage. Created by Nicholas Bell.

Table 2

Structure of Mercosur

<u>Decision-making bodies</u>	<u>Parliamentary Representation Bodies</u>	<u>Advisory Bodies</u>	<u>Supporting Bodies</u>	<u>Dispute Settlement Bodies</u>
<ul style="list-style-type: none"> -The Common Market Council -The Common Market Group -The MERCOSUR Trade Commission 	<ul style="list-style-type: none"> -MERCOSUR Parliament 	<ul style="list-style-type: none"> -The social economic advisory forum 	<ul style="list-style-type: none"> -The Administrative Secretariat of MERCOSUR. 	<ul style="list-style-type: none"> - Permanent Review Court.

Source: MERCOSUR official webpage. Created by Nicholas Bell.

The CAN has a more complex and organized structure, with a greater number of institutions. It is established as one of the most complete regional blocks worldwide.

Mercosur adopts a similar structure when speaking of higher organs and representation, but the CAN with the SAI "Andean Integration System", provides a greater participation at the citizen level. It also has educational, social welfare and health institutions. It allows and encourages the participation of the business sector as well as the indigenous participation within its elaborate institutional structure.

At this point, the CAN's complexity can be highlighted in the elaboration and participation that its structure provides.

Mercosur has a less complex structure but has managed to establish the institutions that comprise it, resulting in a desired functioning within its organization. As a clear example to this is the percentage share of countries within Mercosur in the Fund for Structural Convergence of Mercosur (FOCEM). In this, the contribution is proportional to the economic power of each country.

In my opinion, the level of structure of CAN is superior to that of Mercosur, but in functionality, the regional block of the Common Market of the South proves more effective. Within the economic sphere, it has managed to establish better bases and institutions for its control and operation. It indicates a better functioning in the settlement of disputes with the Permanent Review Tribunal that helps the settlement of disagreements between States. It also established the FOCEM, a common fund of percentage contributions of each member.

3.5 Current situation of the bloc and its member countries

3.5.1 The CAN

Despite the trade incentive it brought in its years of existence and the growth in trade flow that was assessed in Chapter 1, the organization has stalled. The CAN was and is a block in which it is possible to promote trade between the countries of the region based on incentives and trade preferences. This process should be continuously improved, but it has come to a standstill as countries have not presented a plan for improvements or new arrangements in recent years.

Nowadays, the CAN has not reached its expected role and its work has been diminished in several areas. While the block maintains a position that encourages intra- and extra-regional trade and maintains a better trade flow than before its creation, the

countries that comprise it should improve their participation and work continuously with the aim of improving the regional block.

From this it can be determined that the individual initiative of the countries has lost strength because they prefer to look after their individual interests rather than working together in search of regional improvement. In the case of the CAN, we can briefly analyze the current situation of its member countries the current situation of each one and how this contributes to the block as a whole can be studied. It is conformed by 4 countries, that although they present somewhat similar levels as far as economic, social, political, among other aspects, each one presents different internal realities.

As a result, the CAN shows itself to the international community as an attractive block in terms of raw materials and non-value-added goods. Little by little the internal markets of the CAN are developing and innovating, but for the moment the regional block is an exporter of primary goods.

For example, Colombia ranks first among the four members in terms of GDP. In addition to that, its technological degree also stands out and it is the country that receives the most foreign investment. Its placement in the ranking of competitiveness is also the most outstanding of the block.

On the other hand, Peru has diversified its trade and maintains a stable foreign investment. It emphasizes that the Andean country is best placed within the Human Development Index. Ecuador and Bolivia would be the last two countries to be in a stable position within the region.

Each country has a different reality each of which are briefly shown below:

Bolivia has had a regular management during the last years, however, this has not given outcome expected. During the first years of the 21st century, the gas exploitation sector was in the best conditions, presenting a growth every year. This situation has not been maintained and is notorious for not generating an increase in the service of free connections for citizens.

Excessive government spending has not benefitted it because there is still a notorious poor social class, generating a greater opportunity cost for not knowing how to manage the resources to multiply them. According to the international portal of the country,

with 76.1% of the records verified, it did not obtain a 54.7% against 45.3% of votes in favor of the reform.

The "no" in the consultation for re-election is a clear sign of the need for change that the Bolivian people demand. Bolivia's exports to the Andean Community are US \$444 million, however, MERCOSUR is US \$2.263 billion, which shows us the need and dependence that can be generated within a political block.

On the other hand, Colombia is facing situations of great national impact, such as the peace process with rebel forces and the demand of thousands of peasants of the distribution of land, in addition to the constant search for improvement of the economy of the country. With reference to the first point, we can mention that the process of signing the peace treaty has been rejected by 50.2% of the Colombian people.

There are places used for drug crops, which are the economic engine of these organizations. These places must do other activities, since communities need to change.

The most difficult points are the so-called Bacrim, which are significantly armed criminal organisms (macro – felony) that carry out activities both to control large illicit businesses and to depredate them, and which often use violence as a mechanism of internal discipline, delimitation of specific areas of influence and coercion and unilateral intimidation on third parties in order to maintain the operating conditions required by their activities (Suárez, sf, page 1).

The economic situation is affected by the devaluation of the currency and the affected mining-energy sector that could not sustain the dependent economy of the country. In 2015, the government projected that 60% of the economy be based on the mining-energy sector, which led other industrial sectors to decline. This blow has been called "punishment for naivety" since the dynamics of the Colombian economy was neglected.

Once the peace process was concluded, the economic fund necessary for the transformation of the country would be substantial, which would weaken the contribution that the country can give to the groups to which it belongs, not only in an economic way but also in a commitment to achieve objectives.

Ecuador presents a difficult reality since it is a country whose economy depends on oil, which has stagnated with the fall of hydrocarbon prices during recent years. In addition, the political situation also presents difficulties. Credibility in state representatives has declined. The latest survey conducted by CEDATOS shows that 52% of respondents disapprove of the President's management.

As for the National Assembly, the percentage of approval decreases in terms of its management in recent years. Its president, Gabriela Rivadeneira, has also lost approval which is reflected in an increase of approximately 12%, in the last year, of disapproval of her management.

Among the main reasons are the multiple loans from third parties, which the government has established that these already reach \$8395 million, equivalent to 8% of the Gross Domestic Product (GDP) of the country. What further jeopardizes the Ecuadorian economy has been the selling of oil barrels in advance, which is a decision that commits the country to the future, making it vulnerable internationally.

The economic situation worsened due to the earthquake that occurred April 16th, 2016, where steps were taken to alleviate this catastrophe. However, the Ecuadorian people have been happy to help the people affected economically, due to the loss of life and all material damages.

Ecuador's bad situation is evident and this has repercussions on its active participation in the block in reference to contributions in the economic sphere, in carrying out projects or in contributions necessary for a common purpose. The level of business and foreign investment are aspects of national concern, which in turn causes for there to be a lack of exist legal security to strengthen the necessary planning. The attractive part of working in a block is the help that other member countries can offer in different ways.

Peru is in a process of change. The new president has direct responsibility for the development of the projects to be carried out. During the last years the country has maintained a promising growth. According to the IMF, Peru is the "economic hope of the Andean region" thanks to the increase in exports and the strengthening of the industry, especially copper. The standard of living has also improved and poverty was reduced by 33.8% in the last ten years.

However, the slowdown in China associated with falling commodity prices, coupled with the financial volatility of recent years, have hampered its economic development. Other obstacles to which the country is subjected are the monetary adjustment by the increase in the value of the dollar and delays in foreign investment, previously mentioned points that will have repercussions in the actions of the State within the role that it wishes to obtain in the regional organizations to which it belongs.

3.5.2 Mercosur

The block has demonstrated itself to be an economic group with strengths, yet, the situation has changed over the last few years. This is due to the different conditions of member countries.

The presidency of Mercosur has a duration of six months and the rotation of government is defined in alphabetical order. Uruguay was the last country in charge of the presidency and Venezuela was the successor country. However, this time not all members of the organization agree with the presidency of Venezuela. Paraguay and Brazil do not believe that the country should assume the position due to its internal conditions.

In spite of these points, it was Venezuela that has declared itself as the new representative State. The Venezuelan chancellor, through a letter to his counterparts, mentioned that Venezuela would assume the pro tempore presidency under Articles 12 of the Asuncion Treaty and 5 of the Ouro Preto Protocol⁵⁰.

The drawbacks are strengthened by the refusal of the countries to meet, since a summit was called to give way to the resolution of the impasse of Venezuela's position in the presidency. Paraguayan Foreign Minister Eladio Loizaga, who did not attend the meeting, said at the end of July, 2016 that if the political situation in Venezuela is taken into account, it is difficult for it to assume the presidency, since respect for human rights, the rule of law and freedom of expression and movement⁵¹ must be taken into account.

⁵⁰Information obtained from the "Katehon" Analysis Center published at www.katehon.com August 3, 2016

⁵¹Information Retrieved from the newspaper La Nación at <http://www.lanacion.com.py/> published on July 29, 2016.

The chancellor also maintained that the presidency is vacant, since the transfer of presidency was realized within the biannual summit⁵². Given this situation, Venezuela could not be considered as a full member. Therefore, it cannot benefit from compliance with the rules of the organization. In order to improve this situation, the coordinating countries (Argentina, Brazil, Paraguay and Uruguay) will hold a meeting to define the role of Venezuela and the measures to be taken.

Despite seeking the solution, the countries have not been able to reach a consensus and have lamented the non-presence of Venezuela at the summit. Also, Venezuela, through its president, commented that it was being persecuted by Brazil, Argentina and Paraguay, that described as "the new triple alliance of South America"⁵³.

Argentina maintains that there is no legal act carried out, for this reason there is no transfer of presidency. Nicolás Maduro, president of Venezuela on a radio and television program, said: "Here is Venezuela, the current president and full member of Mercosur, and from there we are not getting anything or anyone."

It is evident that the situation of the political and economic group is declining, despite being countries with strengths in comparison to neighboring countries. It is expected that the effective work of the organization's leaders can overcome this dilemma.

Below we can find a brief analysis of the current conditions of each member, reasons that will undoubtedly influence the development and achievement of its objectives.

3.5.2.1 Brazil

This powerful country has developed as one of the main economies of Latin America, forming part of the BRICS. However, 2015 was a year of great negative economic impact, according to statistics released by the IBGE (Brazilian Institute of Geography and Statistics), the economy decreased by 3.8%⁵⁴, which was the largest recession of the last twenty-five years.

⁵²Information Retrieved from the newspaper La Nación at <http://www.lanacion.com.py/> published on July 29, 2016.

⁵³Information Obtained from the Telesur Page at <http://www.telesurtv.net/opinion/Surge-una-nueva-Triple-Alianza-20160803-0070.html> published on August 3, 2016.

⁵⁴Information obtained from the Brazilian Institute of Geography and Statistics

Experts also say that during 2016 this situation will not change, since a contraction of 3.43%⁵⁵ is expected. Statistical information tells a lot about the country's condition since in previous years the government struggled to move the economy by encouraging the minimum wage, tax exemption and subsidies and currently this model is no longer effective.

It is estimated that more than 1.5 million jobs have been lost and that the family economy has reduced its consumption by 4%⁵⁶. The measures implemented to improve this scenario have not been efficient, since the government is in constant bid with the legislative body. The Brazilian state has suffered another major blow for corruption scandals. Petrobras's investments fell by 25% during the period 2015-2019⁵⁷, and other companies that also strengthened the industry like Odebrecht, Andrade Gutiérrez and OAS are going through judicial problems, which has caused the Brazilian industry to contract.

Finally, everything concludes in a lack of confidence towards the market, noting the lack of credibility of the best international creditors, which have removed the state of good payer from Brazil. Being the largest economy in South America, the impact of its problems also greatly affects its trading partners.

Argentina decreased its exports to Brazil by 47.9%⁵⁸. The list does not remain in these two countries, since Uruguay, Peru and Bolivia have shown their concern, mainly due to the decrease of tourism. The impact of the crisis will be noticeable within the group, due to the instability of one of its main members.

3.5.2.2 Argentina

The last Argentinian government ended up presenting low levels of popularity, which generated a great distrust in the people, besides leaving behind a great economic instability. The challenges of the new president Macri will be the inflation generated previously, a static economy, the scarce reserves and the excessive economic expense.

⁵⁵Information obtained from the Brazilian Institute of Geography and Statistics.

⁵⁶Information obtained from the Brazilian Institute of Geography and Statistics.

⁵⁷ Information obtained from the newspaper El País at <http://www.elpais.com.uy/mundo/venezuela-se-declara-batalla-salvar-mercosur-alianza.html> published on August 17, 2016.

⁵⁸Information obtained from the World Bank at <http://www.worldbank.org>

These were sufficient reasons to create an internal crisis that does not promote the development of the national market. Construction and industry have suffered a severe blow, and in June 2016, the economy declined by 19.6%, a situation that had not occurred since September 2002 (20.2%)⁵⁹. Although the industry is expected to show improvement in the second half of the year, this will not obscure the negative data expected during 2016.

Macri, the new president, seeks new alternatives that support foreign investment in key sectors such as agriculture and alternative and renewable energy. Still, the Argentinian government still faces poverty levels and wage delays⁶⁰.

Similarly, the government has committed itself to fight to improve the current situation, seeking to control marketing in favor of citizens. The private sector suffered the loss of jobs since industries, such as construction and agriculture, collapsed⁶¹.

3.5.2.3 Paraguay

This country has also been linked to the crisis, yet, Paraguay shows growth in its economy, and it is expected to expand by 3.5% during 2016. It seeks to promote both public and private investment, providing greater market rotation. It is also intended to increase productivity by creating a more dynamic and stable economy. Bolivia plans to work with Paraguay to improve the situation of the hydrocarbons industry.

Another method to improve the economy is poverty reduction and social development, inclusive economic growth, and the inclusion of the country in global markets, which are the three bases on which the latest development plan lies upon that was presented by the state⁶².

The Paraguayan government plays a key role in improving the country's growth conditions. The improvement of infrastructure, increases the level in quality of life. It also improves the connectivity, integration and productivity of those who make use of these reforms. The percentages of investment in infrastructure were and are high, and

⁵⁹Information taken from El Cronista in <http://www.cronista.com> published on July 29, 2016.

⁶⁰ Information from the World Bank at www.worldbank.org

⁶¹Information taken from The Capital at <http://www.lacapital.com.ar/el-gobierno-admite-la-perdida-60-mil-empleos-privados-registrados-n1199174.html> on July 29, 2016.

⁶² Information taken from the World Bank at www.worldbank.org.

these have promoted the increase of the commercialization of goods and services, in both public and private sectors.

This creates a greater movement in the national economy. According to the Technical Secretariat of Planning, Paraguay has a deficit of infrastructure, which is why it is vital for the next governments to continue with the development of the economy. It intends to keep promoting private investment, since it has given great agility to the national market.

3.5.2.4 Uruguay

The Uruguayan State has had to endure negative changes in its economy. At the end of 2015, analysts expressed their position on the situation of the country, and among the points analyzed, it was determined that the GDP growth was an average of 1%, a labor market with 8% unemployment, inflation of 10% which does not match the percentage mentioned by the government that is between 3% and 7%⁶³.

For this reason, it was concluded that the search for foreign investment was extremely necessary to counteract the situation. The country's exports have declined because its two main trading partners (China and Brazil) have reduced consumption. Diversification has been an alternative for which the country has opted for in order to reduce its dependence on trading partners.

On the plus side, the government generates confidence because of its low levels of corruption and the stability of its institutions. Uruguay has reached a high level in terms of education and basic services and the level of unemployment has decreased. It also has gone through economic openness and a solid social pact⁶⁴

Another measure taken is the increase in public tariffs. However, various Institutions and organizations have spoken out against this measure and call it "the collection arm" to be able to shovel the fiscal deficit. Issues such as employment, economic growth, average real wages, and the sale of assets of the national reserve have been put on the table to modify the way in which these operate to strengthen the state. The value of the

⁶³ Information taken from the World Bank at www.worldbank.org.

⁶⁴ Information taken from the World Bank at www.worldbank.org.

dollar should increase to improve the country's competitiveness, as it currently does not allow them to be competitive with their trading partners.

3.5.2.5. Venezuela

This country is going through a situation that for many is the worst political and economic crisis in its history. Scarcity of staple goods, smuggling of goods or money and violence within the country are some of the evils that affect it daily. The reasons for this deep crisis are the drop in the price of oil, which like other economies are afloat thanks to their reserves. However, the low price of hydrocarbons meant that the fiscal coffers were not able to collect enough money.

The currency has lost its value and the state tried to solve this problem with the implementation of multiple exchange rate regime and through additional exchange controls⁶⁵. The Bolivar, with its current price of 10 Bs=\$1 dollar, has promoted changes in the currency with unofficial values, which badly affect the market.

On the other hand, the country has not been able to obtain the money for the payment to suppliers due to the exports that equals a total that is similar to the one of the acquired debts. This situation does not seem to improve and the lack of resources makes it impossible to import basic necessities, generating a food crisis among the population.

Added to this is its increasingly intense political struggle. The opposition has already made its first victory, by winning the majority of seats in the last legislative elections⁶⁶. Complementing this is a decrease of confidence in the government. This is fully visible in the collection of signatures that could cause for there to be a recall, which could happen at the end of October 2016⁶⁷.

This situation should conclude with a referendum, which would be held before January 10, 2017 to be effective and give the opposition the opportunity to occupy the presidency, otherwise Nicolás Maduro would fulfill 2/3 of his mandate and his successor would be the vice president.

⁶⁵ Information taken from the World Bank at www.worldbank.org.

⁶⁶ Information Retrieved from the official BBC website at <http://www.bbc.com>

⁶⁷ Information Obtained from the Journal El Observador <http://www.elobservador.com.uy/> published on August 9, 2016.

The government, along with its new economic adviser, Professor Alfredo Serrano, consider that they should have greater control over Venezuelan food productivity, a situation that seems to threaten living conditions. This scenario complicates the future of the country, reflected in the lack of confidence on the part of its fellow block members, to such an extent that they refuse to be represented. This is a factor that limits the development of the block.

3.6 Possible Future of both regional blocks.

The analysis of the existence of both blocks will be divided into two points. The first one answers the question of: Why they exist and the purpose of the blocks under study and the second one summarizes the work that has been done and a possible future of both the CAN and Mercosur.

The existence of both regional blocks has much to do with the international image and the global tendency to opt to work together to achieve shared objectives in the best way. An example of this is the European Union, which despite the political instability it currently faces with England's decision to leave the regional bloc, is the main regional block that exists.

The countries of the rest of the world see this initiative as an excellent trend that promotes and seeks development, choosing to follow the guidelines of this mentality. As a result, it is possible to keep the region within this global trend, which is positive for its international presence and at the same time provides an up-to-date regional image with new paths for economic development.

In the case of the CAN and Mercosur, both are born from the desire of their member countries to expand trade amongst them and eliminate barriers that impede the growth of trade in the region. The regional blocks contribute to joint action and play a role as a barrier to conflicts between member countries that were common in the past. In this way, it is possible to reduce mishaps and misunderstandings, with the aim of working together and based on a key principle, which is a better development for the country and its inhabitants.

Another point for which both regional blocks exist is the fact of the prestige that these generate for their member countries. Regional blocks become teams and the countries look for the one in which they can best perform and take advantage of the benefits that

it represents. This means avoiding the construction of blocks where their participation would be reduced, and instead try to belong to the block that brings greater benefits. From this it can be seen that the CAN is a regional block that groups countries with balanced levels in terms of economy, that seeks to work in a symmetrical environment supporting each other for the development of its different aspects.

On the other hand, Mercosur is an association that presents great economic asymmetries among its members. Despite these differences, it has a better international outreach of its products exerted by its major representatives such as Brazil and Argentina. However, it is important to always seek to form a homogeneous group, because this situation will strengthen the group both to achieve objectives and their approach.

Within a more balanced environment, it is possible to visualize the best path to follow, seeking the best benefits for each member. A clear example is the situation of the European Union that has ended with the departure of Great Britain, which was caused because it was not fully compatible with the ideology and conditions of the other members.

The future, although uncertain, will be related to the advance of the decisions that both blocks take. The CAN has lost its participatory strength and today the member countries threaten to leave the association if the decisions taken do not match their personal interests. The loss of members and the bad economic situation of its members affect its correct functioning.

The CAN and Mercosur are under pressure due to the creation of new blocks created in the region that capture the views of individual states such as UNASUR or CELAC. While these associations have different objectives, they attract countries to participate.

Mercosur is more likely to remain in operation since it has member countries that have influential economies in the international arena. The incorporation of Venezuela and Bolivia is a sign of the attractiveness of the block for the region. Discussions and misunderstandings exist within the organization, but belonging to this block provides greater status and commercial openness.

South American countries must unite in pursuit of the common good and seek the best way to group together to achieve regional and individual goals. The people and their

needs is what should be prioritized. Many countries have governments that have not allowed the proper progress of their states and are inclined to act on their own interests and their economic ambition. The South American people need to work together, an objective that is complicated by meeting with individual interests and the sovereignty of each State.

If these trade blocks disappear, the member countries would seek new alliances and mutual benefits to continue the trade incentive in the region. What should be sought then is to promote good relations among states and to understand that together will be able to improve the situation of the South American region.

3.7 Conclusions

The two clusters have well defined structures, which show solidarity of strength and a good performance. Despite that, what actually interferes in the development of its objectives is the political, economic and social reality that each member country. The search to fulfill their internal needs causes them to be neglected in joint work points of which they are participants.

A closer bond will generate greater dependence among those involved, leaving them subject to a predictable domino effect. This distrust that a block generates is important because it limits the achievement of common goals among the subjects of international law, giving way to the refusal of the association.

The realities of the commercial blocks allow us to appreciate different points. On the one hand, the CAN shows us a more even and balanced reality in different areas. In international trade, no state in this block has a relevant participation. However, bilateral agreements are being carried by countries that favor them individually.

Membership in the CAN has brought benefits to the region which is currently not in top condition. The CAN must re-emerge as a purely economic plan that encourages intraregional trade and activates the region's economy.

Mercosur presents greater asymmetries between its member countries, but at the international level it has market power and a greater influence in the global market. Having big participants at a global and regional level, such as Brazil, it has managed to remain more focused in the economic field. Brazil is a reference point for the region despite its internal problems, since it is the main trading partner of several of the

region's countries. Mercosur should not lose its focus on the regional trade incentive, and despite the internal problems of each country, it should seek the joint work of the states to promote the overall welfare of the member countries.

The validity of the regional blocks will only be possible with the support of its members and with the improvement of their relationship. The blocks should aim at promoting the well-being of the region and the commercial flow. This will be achieved by a good action of each State and its willingness to collaborate and cooperate. Neither CAN nor Mercosur are essential to the region because they remain as mechanisms that promote and encourage trade and interstate relations.

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ANNEX 1

Abbreviations Used.

ALADI	Latin American Integration Association
ALAC	Latin American Free Trade Association.
CAN	Andean Community of Nations
DAV	Andean Value Declaration
DUA	Single Customs Document
MERCOSUR	Common Market of the South.
BNP	Payroll for Non-Produced Goods
PEC	Common Foreign and Security Policy
SAFA	Andean System of Authorized Firms for qualification and certification of origin
SAFP	Andean Price Strip System
AIS	Andean Integration System
UNASUR	Union of South American Nations.
FTA	Free Trade Agreement.
FTZ	Free Trade Zone.

