

Formation and structure of Union of South American Nations

By: Tereshchenko Andrii

Student Number: 38 279

Course:

Globalization and Regionalization in the World Economy

Course Coordinator:

Prof. nadzw. dr hab. WOJCIECH BIEŃKOWSKI

Date of Submission:

January, 2016

Introduction

After creation of European Union (EU) overall idea of an integration between countries within one region became interesting. In addition, any countries, which would like to make any kind of union, could use experience of EU and avoid most difficulties and mistakes. These are two main reasons why South American countries decided to unite in Union of South American Nations (USAN). The third reason is that there were two similar unions on continent already, which united two groups then why not create one big with benefits for everyone. This work is divided on three chapters. In first chapter, I will look through history of union, its background, main events and its goals. The second chapter will be dedicated to the structure of union's institutions, their functions and overall correspondence to goals of union. The last chapter will compare key points of EU and USAN, their economic performance and results. I hope to reveal in this work that USAN has a chance to repeat success of EU or there is no chance.

Chapter 1. Formation of Union of South American Nations

USAN meant to combine integration processes inside MERCOSUR and Andean Community of Nations (CAN). MERCOSUR was established in 1991 with Treaty of Asuncion as it's main document. Later in 1994, Treaty of Ouro Preto made several updates and changes. In 2004 presidents of south American countries agreed to add the MERCOSUR Parliament in the structure of union. Members of MERCOSUR are Argentina, Brazil, Paraguay, Uruguay and Venezuela. Main goals of the union are: free movement zone of goods and services between member's states, also elimination of nontariff restrictions or another measures, which have similar effects; coordination and enacting of common trade policy to other countries and unions, additionally discussing common position in international economic and trade meetings; coordination of common sectorial policy of members concerning agriculture, services, industry, transport, taxation and monetary systems in order to provide free competition between member states.

Second part of USAN, which previously were members of CAN includes such countries: Bolivia, Colombia, Ecuador and Peru. This union was established in 1969 with Cartagena Agreement. Main achievements of the union: formation of Court of Justice in 1983; ending of formation of customs union by enacting Free Trade Zone and Common External Tariff for Bolivia, Ecuador, Venezuela during 1993-1994; creation of broader Free Trade Zone that includes Mercosur members in 1998.

History of USAN began in 2004 when presidents of 12 South American countries signed Cusco Declaration. The document was dedicated to intention of foundation of new countries union the South American Community. Later, during 2005-2007 presidents of South American countries met several times and discussed formation of new union. Finally, on May 23rd of 2008 main document of USAN the Treaty of the Union of South American Nations was approved. In 2011

the Constitutive Treaty was enforced and during Foreign Ministers laid foundation stone for the Secretariat Headquarters in Mitad del Mundo in Ecuador.

There are 21 goals of USAN that cover environmental protection, economic changes, integration process and social security. Environmental goals of union include protection of ecosystems and water resources, prevention of natural disasters, limiting causes and effects of climate change. Economic goals: provide means to solve poverty problem in region, economic and trade cooperation between members, specific approach to small and medium business to create unity in the Industrial and Productive areas, create and enact complementary policy in technology and research. Integration goals: increasing political interactions to strengthen integration in union and participation of USAN worldwide, create mechanisms of adaptation fiscal policy of members to increase economic integration, provide equitable integration for all members, increasing sectoral cooperation using exchange of experience, information and training. Social goals: provide equal access to health and social security services, regularization and harmonization of human and labor rights policies, cooperation to strengthen public safety. Other goals include legislative cooperation, fighting against terrorism, cultural exchange etc.

According to the announcements the union main goal to create united territory like European Union with free trade, unified person identity system and free movement, only one currency inside union with central bank responsible for providing monetary policy. However, in goals of the union these significant points are not stated thus it is possible that union will never achieve such success as European Union. Now members have only benefits from free trade agreements, but they are result of previous work of MENCASUR and CAN thus cannot be accepted as achieves of USAN. At the same time, this union is very young comparing to European Union, which is 18 years older, thus it is possible for USAN members to use European experience and enact necessary documents in very no time.

Chapter 2. Structure of Union of South American Nations

Structure of USAN consists of Council of Heads of States and Government, Secretary General, Council of Delegates, Council of Ministers of Foreign Affairs, Ministerial and Sectoral Councils, other institutions that include Bank of South, South American Parliament, South American Institute of Government in Health (<http://www.unasursg.org/>, 2015). Such structure repeats government of an average European country; it fits the announced long-term vision of union. In this case, all countries unite and organs of the USAN take responsibility of corresponding national institutes.

Head institute that enacts significant strategic decisions in USAN is the Council of Heads of States of States and Government. Its main functions are to make decisions about implementation of projects, changes in general union policy. In addition, the council can create new Ministerial level Councils and request their meetings. The council provides policy rules for relations outside the union.

Second most powerful institution inside USAN is General Secretariat with its head Secretary General, which is appointed by the Council of Heads of State and Government. It has wide range of responsibilities because General Secretary has to link work of head council with all other councils of lower level. Main functions are to provide necessary support for councils, search and propose valuable initiatives from different parts of USAN, present draft version of budget for Council of Delegates, coordinate with other entities of South America for better development of activities. General Secretary is responsible for publication of necessary USAN agreements; prepare Annual Report and other reports for USAN organs; serve as secretary on all meetings.

Council of Delegates is a main link between Council of Heads of State and Government and the Council of Ministers of Foreign Affairs. Functions of the council are preparing meetings, draft decisions, resolutions and apply resolutions of Council of Ministers of Foreign Affairs; enact decisions of head council; coordinate and monitor working groups.

Council of Ministers of Foreign Affairs provide draft decisions, adopt resolutions and implement decisions for Council of Heads of State and Government. In addition, the council organize and deal with issues that appear during South American integration. Evaluation and monitoring of integration progress is also its responsibility.

Structure of USAN also includes ministerial and sectoral councils, which cover different fields of work. Economic regulations take South American Energy Council, South American Council of Economy and Finances, South American Council of Infrastructure and Planning, South American Council of Science, Technology and Innovation. Social functions take South American Council of Social Development, South American Council of Education, South American Council of Culture. Crime level is rather high in South American countries that is why there are councils that deal with internal security South American Council of Citizen Security, Justice and Coordination of Action against Transnational Organized Crime, South American Council of fight against the drug traffic. In addition, there is Electoral Council that monitors elections and provide clear political process.

In the structure of USAN there is also a Bank of the South, which performs function of lender like World Bank. It supposed that inside USAN Bank of South would finance main infrastructure projects or social programs. It was founded in 2009 by presidents of Argentina, Brazil, Paraguay, Uruguay, Ecuador, Bolivia and Venezuela (MercoPress, 2009). These countries are also main contributors in the initial capital of the bank, additionally Uruguay, Ecuador, Paraguay and Bolivia invested in capital. Total initial capital was \$7 bln. consisted from equal parts from main contributors so none could control most of shares.

Structure of USAN institutions is highly concerned with government structure including central bank (Bank of South), ministries of economic and social policy, defense. It means that in some distant future, when integration process of USAN members reach it's high point, these institutions would replace corresponding countries authorities.

Chapter 3. Correspondence of USAN plans with reality

Since USAN was created as South American analog of European Union with main goal in integration process of all members. This means custom and monetary union, additionally it includes common citizenship and parliament with representatives from all members of USAN, which would make important decisions. To assess achievements of USAN first of all European Union progress should be reviewed as a model for future.

Main base for European Union is Single Market, which is based on four freedoms: free movements of people, capital, goods and services (European Commission, 2015). The Law of the European Union, which is adopted by EU members, guarantees these rights. Important part of EU market is Common Agricultural Policy, a system of programs and subsidies in agricultural sector. The system has long history and works through European budget, where its share is about 40%. Mainly system transfers money for price intervention, which covers agricultural products like vegetables, fruits, cereal, sugar etc. In addition, Common Agricultural Policy helps economic sector with programs, which help small and new farms because its main goals are to increase productivity in sector and ensure that consumers have food at reasonable price. At the same time, system uses production quotas 'set-aside' payments to maintain market supply and prices on adequate levels. Despite numerous critics of the system, countries keep donations in it, there are new proposals, which would make range of direct payments to farmers wider and would keep steady growth. These facts show that Common Agricultural Policy works properly in EU.

Another important part of EU regulations is Schengen Area, which gather 26 countries in one borderless territory. This agreement includes common visa policy, regulations for external border control and passport system. This agreement fulfills one of basic freedoms of Single Market of EU – freedom of people movement. In addition, Schengen agreement simplifies labor distribution between members that may have positive economic effect.

European Union is also a monetary union with Central European Bank as a provider of monetary policy and emission center. There are nine members of EU, which did not join euro area due to different reasons; now euro is used as national currency in 19 countries. Despite the fact that common currency leads to inflexible monetary policy, single financial regulator provides one of Single Market freedoms – capital movement. Plan of development till 2025 Economic and Monetary Union of the European Union includes further integration of members through competing banking union and creation of capital market union, common and integrated fiscal policy.

Source: World Trade Organization, author's estimations.

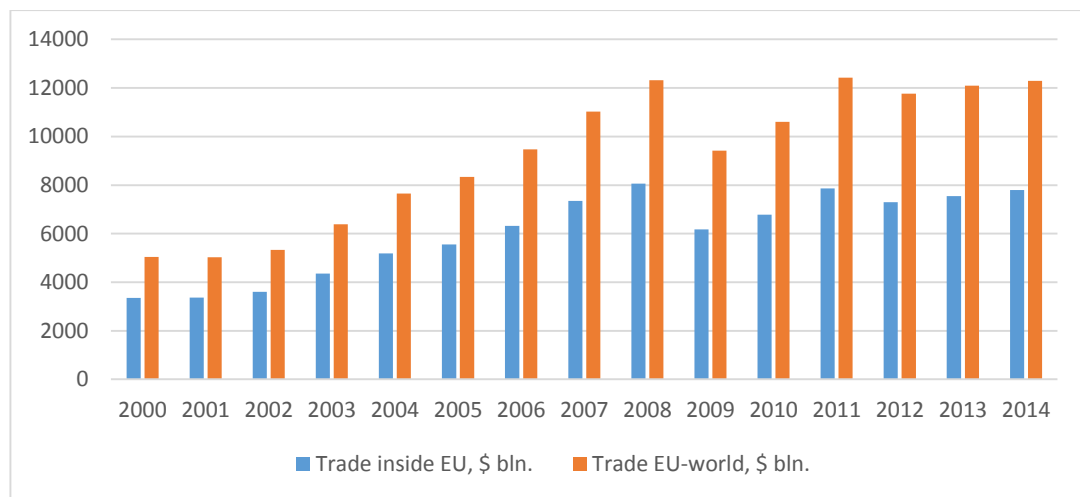


Figure 3.1 Dynamics of merchandise trade of European Union

Effectiveness of European Union can be shown on economic level. Each of members, which entered after 2004 like Poland, Cyprus and Czech Republic, showed increase in GDP growth. In addition, European Union investments in infrastructure of Poland allowed its economy grow even during severe economic crisis of 2008. Another significant economic index, which reflects benefits from union, is volume of trade. Figure 3.1 shows volumes of trade between EU members comparing to trade EU members and world. Figures show that trade ratio EU/World was in average 66% during 2000-2014 period, and lowered after crisis to an average 64% during 2008-

2014. These numbers prove significant role of internal trade between European Union members and has definitely positive economic effect.

USAN consists from two economic unions MERCOSUR and CAN, both have achieved some integration progress, which may be assessed through EU benchmark. First significant union basis is a free internal trade and common customs external tariff both unions have such agreements: in 1997 Peru was the last member of CAN that joined Andean Free Trade Zone; in 1998 MERCOSUR and CAN representatives signed Framework Agreement about establishing a free trade area between the two blocs. Second significant factor is a common passport system for free migration inside union. CAN have Andean passport, which was created in 2001; MERCOSUR also have their own passport system, which allows to move free within the union. It means that at the moment both union have separate passport systems, and now USAN attempt to create South American Citizenship, which is stated on their web-site (<http://www.unasursg.org/en/political-actions>).

Economic situation in the region was bad lately, not only due to world economic crisis of 2008, but also due to internal economic problems. That is why using GDP growth rate of USAN members, as a benchmark is not quite correct. On the other hand, trade volumes may show more clear picture. Only organization, which has adequate data about trade is WTO, but there is no information about internal trade volumes of CAN members unlike MERCASUR. Thus whole CAN trade accounts as only about 30% of USAN trade we may use MERCASUR data as main benchmark. I estimated internal trade between MERCAUSR members as a difference between MERCASUR/World trade and separate members of MERCASUR/World, such approach may have error about 5%, but still is precise enough for the task of the work. Figure 3.2 shows two main trade directions, internal/world trade ratio during 2000-2014 period was in average 24.5%, later during 2008-2014 it was 22.1%. Such trend after crisis is quite similar to EU, where the ratio also dropped from 66% to 64%. Difference between USAN internal trade and EU are far more in terms of real volumes, which was \$7800 bln. for EU and about \$202 bln. for USAN.

Source: World Trade Organization, author's estimations.

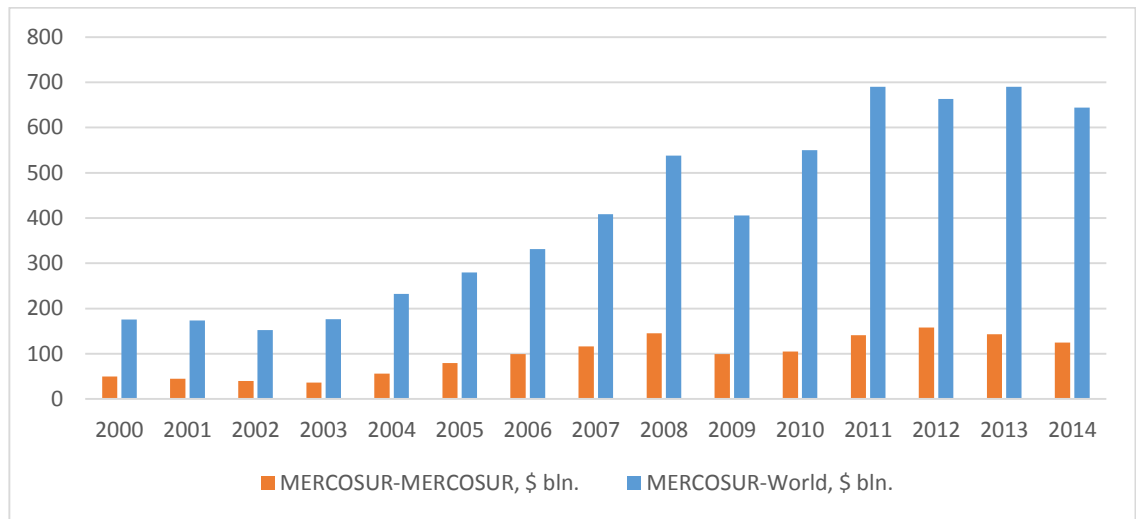


Figure 3.2 Dynamic of merchandise trade of MERCOSUR

If comparing EU and USAN achievements, the second one shows very poor performance. Enforced agreements within USAN include only free trade zone and may enact free migration in nearest future. In addition, both this agreements were adopted earlier, when USAN did not exist. Economic performance in way too bad to demonstrate benefits from free trade zone, moreover, trade volumes show that USAN countries mostly rely on EU and USA as their main trade partners and import new technology and equipment to show economic increase in the future.

Conclusions

USAN is a very young union with old roots of MERCOSUR and CAN, which gave most of it's basis. As a main example creators of the union used EU and because the idea was affordable for all members the formation of main institutions of union was rather fast. The first mentioning about USAN was in 2004 and the final document Constitutive Treaty was adopted in 2011. Because members of union were previously in MERCOSUR or CAN they did take a high pace at first.

Comparing USAN goals and structure showed that they correspond each other. In general, structure of USAN looks more like a government of European country, that means that in future it may take all the duties of local member's institutions. It seems rather slow as any bureaucratic structure, but at the same time because countries have long membership history in similar organization, they may overtake this negative side.

Due to USAN, main goal is to become new EU in South America and make all members highly developed countries; it will be used as a main benchmark. There are four main freedoms, which make union, a union: free movement of capital, people, goods and services. Capital movement is supplied by single regulator ECB in EU, which provides single monetary policy and holds one currency. In USAN Bank of South should take these functions, but now all members have their own currency and there is no information about participation of the bank in common infrastructure projects of union. Common customs and Common Agricultural Policy reflect high integration of EU members; on the other hand, USAN has only common customs and internal free trade zone, without any internal balancing mechanisms. Free people movement within EU is regulated by Schengen agreement, which works not only for EU members; USAN is only starting process of implementation of unified passport system for MERCASUR and CAN members. The last but not the least factor of union performance is economic. Trade volumes reflect how members interact with each other and it's ratio to world trade shows somehow overall efficiency from union. When talking about EU, internal trade volumes count about 60% of world trade, which is rather

high comparing to 20% for USAN. Moreover, in EU countries have agricultural balancing mechanism that allows everyone to produce but keep prices affordable for both farmers and consumers, also this makes countries have specialization, which makes overall performance even higher.

Talking about future EU has a plan of complete integration by 2025, which includes political and fiscal common policy. There are no data about precise terms or some roadmap from USAN, which would show their way of development. Moreover, poor economic performance and numerous internal political imbalances within union makes hard to believe in its further steps as a whole. All these facts prove that European Union can be built only in European Union and USAN nothing but a deadweight.

Bibliography

1. <http://www.unasursg.org/> - USAN official web-site
2. <https://www.wto.org> – World Trade Organization web-site
3. <http://stat.wto.org/> - database of WTO
4. <http://www.comunidadandina.org/> - CAN web-site
5. <http://www.mercosur.int/> - MERCOSUR web-site
6. Herman Van Rompuy, José Manuel Barroso, Jean-Claude Juncker, Mario Draghi, 2012. TOWARDS A GEUIE ECONOMIC AND MONETARY UNION, European Commission.
7. http://ec.europa.eu/priorities/internal-market/index_en.htm - Internal Market
8. http://ec.europa.eu/growth/single-market/index_en.htm - European Single Market strategy
9. <http://www.consilium.europa.eu/en/policies/cap-reform/> - European Council. Reform of the Common Agricultural policy
10. European Commission, 2008. The Schengen Area, European Commission.
11. http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/borders-and-visas/index_en.htm - Schengen borders and visas.
12. http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/borders-and-visas/visa-policy/index_en.htm - Schengen visa policy.
13. <http://en.mercopress.com/> - Merco Press, South Atlantic News Agency.