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**IMPACT OF BRAZIL-ARGENTINA RELATIONS ON MERCOSUR**  
**DEVELOPMENT**

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**Abstract**

The paper deals with the formation and development of the South American integration process – MERCOSUR. The authors suggest that such integration process as the Southern Common Market is caused by the change in the perception of each other by Brazil and Argentina, the two member countries and the founders of MERCOSUR, which in 1985 led to a bilateral agreement on preferential association between these countries. To confirm this hypothesis, the authors conducted the analysis of the change and development of relations between the two founding countries of the Southern Common Market – Brazil and Argentina before its establishment – from the beginning of the 20<sup>th</sup> century and after the establishment of MERCOSUR. The paper considers the stages of its development from its foundation to 2020; provides the description and analysis of events characterizing each of the identified stages; identifies the characteristics of the cooperation between the MERCOSUR countries, in order to track and analyze the impact of the relations of these countries on the development of this association, on its internal agenda and the decisions made by the association regarding its participants, such as Venezuela and the suspension of its membership; on agreements and interaction with third countries, as well as with other unions and supranational associations. This study also describes the possible causes of the present unification crisis, one of which is the change of the right-oriented government of Argentina to the left-oriented at the end of 2019, which caused disapproval from Argentina's main partner – the right-oriented Brazil.

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*Keywords:* Argentina, Brazil, Southern Common Market, MERCOSUR, Paraguay, Uruguay



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## **1. Introduction**

MERCOSUR is a process of regional integration initiated by Argentina, Brazil, Paraguay and Uruguay. The main objective of the MERCOSUR agreement is to create a common economic space in the territories of the member countries thus providing commercial and investment opportunities through the competitive integration of national economies into the international market (MERCOSUR, 2015). Subsequently, Venezuela (2012) and Bolivia (2015) joined MERCOSUR, however the first is deprived of all rights and obligations related to its membership in MERCOSUR (2017) (Derechos Humanos..., 2017), and the second is only in the process of accession. The fundamental document of MERCOSUR is the agreement signed by the founding countries of the Argentine Republic, the Federal Republic of Brazil, the Republic of Paraguay and the Eastern Republic of Uruguay on August 26, 1991 in Asunción (MERCOSUR, 1991), but this agreement was preceded by another significant event – the signing of the bilateral agreement of the preferential association by Raúl Alfonsín (Argentina) and José Sernay (Brazil) in 1985. The authors believe that this agreement did not only demonstrate a change in relations between the two countries of South America, but also served as the foundation for further formation of the Southern Common Market.

## **2. Problem Statement**

According to the authors, it was the changes in relations between Brazil and Argentina that contributed to the integration process known as MERCOSUR. This view was presented by the German scientist Bechle (2011), who believed that MERCOSUR is a consequence of the change of political regimes in these countries, which formed the basis for the Southern Common Market, which the rest of the participants joined later.

## **3. Research Questions**

- One of the issues raised in this paper is the impact of relations between the two countries – Argentina and Brazil – on the establishment of a supranational association in South America and on its further development.
- Another issue of this study is the continued impact of relations between the two largest MERCOSUR countries – Brazil and Argentina – on the trajectory of development of this association.

## **4. Purpose of the Study**

This work is devoted to the study and analysis of changes in international relations between Brazil and Argentina before and after the formation of the Southern Common Market – the result of the interaction between the two countries. The purpose of the study is to show how relations between these two states influenced the formation of MERCOSUR, as well as how their relations affect the work of this association, and to this end, to gradually consider its development.

## 5. Research Methods

The main methods of study include the descriptive method, the comparative method, the analytical method, as well as the statistical analysis.

## 6. Findings

### 6.1. Establishment of MERCOSUR with Argentina and Brazil

Argentina and Brazil are the two “major” countries in terms of territory and economic opportunities of the MERCOSUR member. However, the relations between these countries are rather more competitive than friendly. At the end of the 19<sup>th</sup> century, when Brazil’s conservative elites designated its foreign policy objective as the consolidation of regional hegemony and development of the idea of superiority of power in relations with neighbors, this idea was not supported in Argentina (Borzova, 2012). This means that the rivalry between these countries has deep roots and has developed historically. In the 20<sup>th</sup> century, the position of Brazil’s perception of Argentina as its main geopolitical rival also dominated. Only the Southern Common Market turned two rivals into major trade and economic partners.

The relations between Argentina and Brazil may be conditionally divided into three stages. The first stage – from the beginning of the 20<sup>th</sup> century to the end of the 1950s; during this period, Brazil could not compete with Argentina for regional dominance as it lagged far behind its rival in economic, political and cultural aspects. Brazil began to be perceived by Argentina as a serious geopolitical rival and threat on the border only by the beginning of the 60s of the 20<sup>th</sup> century. For a long time the main cause of disputes between the two countries has been the issue of control over the La Plata basin and the leadership in Latin America (Kazakov, 2007). The situation began to change in the mid-80s; gradually the process of rapprochement between the two countries began to be monitored. The relations reached a new level when Brazil supported Argentina in its territorial disputes with Great Britain over the ownership of the Falkland Islands (Malvinas). In 1985, a turning point occurred in Argentine-Brazilian diplomatic relations with the beginning of a gradual but steady process of economic integration and bilateral political cooperation promoted by the Presidents Alfonsín and Sarney, which ended in 1991 with the signing of the Asunción Treaty.

MERCOSUR laid the foundation for close cooperation between the two largest countries of South America replacing the usual competition with a tinge of hostility to countries – competition of economic partners. However, even within MERCOSUR, the relations between the two countries are not without disagreements and conflicts, but such differences have ceased to be perceived by the countries as threats to security. Currently, there are no large-scale differences between Argentina and Brazil that could lead to an armed conflict.

The establishment of MERCOSUR fostered the increase in the economic interaction between countries. Argentina increased its imports from and exports with Brazil, thus increasing the weight of Brazil in the Argentine economy, and making it significantly larger than the Argentine in the Brazilian economy (Yakovlev, 2008). However, this pattern suggested that the relations between Brazil and Argentina are extremely asymmetric and disadvantageous to the latter, especially for sectors of the

Argentine economy that duplicate Brazilian production. In general, with the exception of sectors that contributed to the establishment of MERCOSUR, it has been said that in the Argentine industrial sector that there is no balance between costs and revenues; and there was no benefit from the integration with Brazil.

The advent of left-wing governments in both countries – Lula da Silva and Nestor Kirchner – brought the awareness of the need to strengthen good-neighborly relations and build a close political partnership. During this period, many meetings were held between the two presidents and important documents were signed, for example, the Buenos Aires Consensus. In this document, the two presidents overestimated the consolidation of democracy as a mechanism to combat poverty and unemployment and identified the state as the entity responsible for this activity (Rapoport & Madrid, 2011). Besides, “they proposed a development policy taking into account regional diversity and pledged to jointly strengthen the multilateral order based on the sovereign equality of states both in the UN and in the WTO” (Cortes & Creus, 2009). In this agreement, the heads of state note that “MERCOSUR is not just a commercial bloc, but also a catalyst for values, traditions and common future”. At this stage the priorities of MERCOSUR are focused on integration, again in the field of production and development, promotion of the integration of energy and infrastructure, macroeconomic coordination, defense and international security, and the full enjoyment of human rights (MERCOSUR, 2015); making a bloc more political. Besides, in 2003 the *Program for the Consolidation of the Customs Union and the Launch of the Common Market* was adopted at a meeting of MERCOSUR, which meant an even greater strengthening of the integration.

During the same period in 2004, Brazil supported Argentina’s position towards the International Monetary Fund and private creditors; the Copacabana Act was signed, and the *Day of Argentine-Brazilian Friendship* was introduced on November 30.

It is possible to note external factors that contributed to the political rapprochement of the two countries: payment of the IMF debt; need for common ground with respect to America’s Free Trade Area; negotiations on agricultural subsidies with the United States and the European Union in the framework of the WTO; promotion of North American military deployment in the region; and crises of some Latin American countries, which required joint work on diplomatic issues to avoid increasing destabilizing factors in the region (Pereyra, 2012).

The inauguration of Mauricio Macri in Argentina coincided with the political crisis in Brazil, when in 2016 Brazilian President Dilma Rousseff was removed from power by impeachment, and Michel Temer came to power. The right-wing government of Argentina, represented by Macri, quickly found a common language with the new president of Brazil. The countries continued to maintain good neighborly relations, as well as to cooperate together towards MERCOSUR development.

The situation with Brazil has changed with the return of Kirchner supporters to power in Argentina – Alberto Fernandez as a president and Cristina Kirchner as a vice president. Thus, in 2020, Argentina announced a partial suspension of its participation in MERCOSUR (Churikov, 2020) explaining this by an attempt to protect its economy from a situation related to the spread of Covid-19. In fact, this decision meant that the international activities of MERCOSUR turned to be “frozen”, which caused disapproval among the rest of the organization. Argentina will no longer participate in MERCOSUR free trade

negotiations with South Korea, India, Canada, Singapore, Lebanon and other trading partners, because it believes that this could lead to another crisis of the bloc.

## 6.2. Stages of MERCOSUR development

Conditionally, the development of MERCOSUR may be divided into several stages. Like any political and economic entity, during its existence MERCOSUR had its “ups and downs”.

The first stage may be described as the “take-off stage”. Its time frame dates from 1991 to 1998. During this period, trade was liberalized and regional trade increased. Between 1991 and 1995, exports within the zone increased from 11% to 20.4%. Intra-alliance trade increased from \$4.1 billion in 1990 to \$20.3 billion by 1997. During this period, MERCOSUR actively conducted negotiations with other countries (Chile, Mexico), associations (the European Union, the Free Trade Zone of America, the Andean Community, Lai) and organizations (WTO).

The second stage may be called the stage of the crisis of the organization. Its time frame is from 1999 to 2002. The beginning of this period may be considered the devaluation of the national currency in Brazil, which led to a decrease in the intra-zone trade. By the end of 1999, trade between MERCOSUR countries had declined by 25 % and the bloc’s total trade with third countries had declined by 9.4 % (Informe MERCOSUR, 1999–2002). This was followed by a series of crises in other MERCOSUR countries – Paraguay (Paraguay March) and Argentina, where there was a crisis of political power, which ended with the premature resignation of the presidents. In the latter country, 4 presidents were replaced from December 1999 to May 2003, the last of which Nestor Kirchner came to power on May 5, 2003.

The aggravated internal conflicts of the MERCOSUR countries provoked disagreements among the countries within the organization, the relations between Brazil and Argentina were most seriously affected, and the latter feared dependence on Brazil; there were also discontents from Uruguay and Paraguay due to the deplorable consequences for their economies provoked by the crisis of their large partners.

This is followed by the *stage of recovery from the crisis* and the renewal of the organization. This period may be attributed to 2003–2007. Coincidentally, Nestor Kirchner, who came to power in Argentina, Lula da Silva in Brazil, Tabare Vazquez in Uruguay prioritized regional integration in foreign policy. During this period, a working program for 2004–2006 was adopted; a decision was made to establish the Bank of the South, the development of a Structural Convergence Fund and the holding of the First Meeting on Productive and Social MERCOSUR. During this period, MERCOSUR was actively interested in South-South negotiations. Venezuela expressed its desire to join the bloc in 2006 under the leadership of Hugo Chavez.

This was followed by *the uncertainty stage* of 2008–2011. This stage was caused by the global economic crisis, and although the previous crisis of the region was much stronger, the change in the global context also affected the regional trade of the MERCOSUR bloc countries.

In 2008, with the onset of the global financial and economic crisis, the integration process faced a decline in the growth rate of the economies of the countries of the region, which especially affected Brazil, their main trading partner. This slowdown forced the governments to focus on the commercial aspects of integration in terms of protection, creating more obstacles and barriers within MERCOSUR.

This was the wrong decision, because in the emerging multipolar world, with a strong concentration and foreigners of the economies of the countries, one of the priorities should be to give a new impetus to regional integration (Taiana, 2016).

By mid-2010, the dynamics of MERCOSUR's domestic agenda had improved overcoming some of the paralysis created by differences between countries.

Despite all the problems and differences among the MERCOSUR member countries during this period, as well as the impact of the global economic crisis, the indicators of intra-zone trade remained at the level of previous years.

Following the stage of "uncertainty" there is the stage of "economic stagnation" of 2011–2020. The beginning of this period was characterized by stagnation in the world economy, a sharp drop in commodity prices, which also affected the MERCOSUR countries. In the current situation, the countries could not come to a general decision on the development of trade and the protection of domestic markets, which led to a change in the level of trade within the bloc, the indicators of which fell in the period 2011–2012, but were compensated in 2013.

The main events that will simplify the understanding of the dynamics of events in MERCOSUR include the Paraguayan Crisis of 2012, which caused an immediate reaction in MERCOSUR, as a result of which Paraguay was excluded from participation in the bodies and discussions of the bloc; such a decision was made in accordance with the Ushuai Protocol on Democratic Obligations. Along with the exception of Paraguay, MERCOSUR decided to include Venezuela in the bloc, which raised concerns about this decision, especially in Paraguay.

Two more major political events that clearly characterize this period are the election of Mauricio Macri to the presidency of Argentina in 2015 and the impeachment of Brazilian President (parliamentary coup) Dilma Rousseff in 2016.

As a result of these three successive events, right-wing governments came to lead the three MERCOSUR countries – Brazil, Argentina and Paraguay, which sabotaged Venezuela's interim presidency in the alliance when it came to take the reins of government. This was followed by the suspension of Venezuela's membership in the alliance according to Article 6 of the Ushuai Protocol in connection with the undermining of the democratic regime in the country (MERCOSUR, 2017). We cannot neglect the political pressure of the right-oriented governments of the MERCOSUR countries at that time on left-oriented Venezuela.

The change in orientation of the two largest MERCOSUR countries – Argentina and Brazil also led to a change in the agenda of the bloc shifting it towards rapprochement with the Pacific Alliance and with the European Union, with which the Strategic Association Agreement was signed (15.07.2019), as a result of which MERCOSUR began to export its goods to the European Union with a minimum duty, while high-quality European goods were subject to a large tax. This situation caused concern on the part of trade unions of the MERCOSUR countries, which believed that this will negatively affect the bloc's industry.

The situation was aggravated by a bunch of Alberto Fernandez and Cristina Kirchner coming to power in Argentina. Brazil has made it clear that if Argentina's leftist newly-minted government begins to hinder ideas and deals promoted by the bloc's right-wing governments, Argentina may be excluded

from integration mechanisms. Perhaps such statements did not frighten the new Argentine government, because after only a couple of months, in April 2020, Argentina announced a partial withdrawal from the existing and future MERCOSUR agreements, with the exception of the agreement with the EU. Argentine President Alberto Fernandez said that his priority is to protect local companies in the face of the Covid-19 pandemic.

## 7. Conclusion

Currently, MERCOSUR is a fairly promising supranational entity in South America. The participation of Argentina and Brazil in MERCOSUR is a good opportunity for the countries to continue to develop its export industry, maintain and improve good-neighborly relations with neighboring countries, although it is obvious that for Brazil this association is much more profitable than for Argentina; however, regional economic integration is an opportunity to pursue a more independent policy from the United States.

The background of MERCOSUR begins with a positive trend in the relations between Brazil and Argentina, which is subsequently enshrined in bilateral agreements between these countries, and later in the Asunción Treaty in 1991. It is worth noting that the Argentine perception of Brazil began from the perception of it as an opponent, and only later, as a partner. If in the 1970s the views on seeing Brazil as a rival converged – as to what it was considered a hypothesis of a military conflict – today these views are based on the perception of Brazil as an economic competitor.

From its establishment to date, the association has proved that, despite the problems during its existence, the association has continued to function improving the economic performance of the participating countries, as well as contributing to the preservation and maintenance of a democratic regime in its states. However, during its existence, it became clear that it was very sensitive to an unfavorable external environment. One of the major pressing challenges of unification is the differing political positions of the participating governments. It is possible that today's position of Argentina in relation to the activities of MERCOSUR is the result of the rise of the peronismos Alberto Fernandez and Cristina Kirchner to power.

Partial withdrawal of Argentina from the MERCOSUR agreements temporarily “froze” the international activities of the entire bloc. None of the agreements will have legal force without the signatures of the representatives of all four countries of the bloc. Besides, this situation may weaken the rules that prohibit MERCOSUR members from signing bilateral agreements without the approval of all participants in the bloc (Riveras, 2020).

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