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The Impact of Regionalism on Trade Among MERCOSUR States

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Anotace

Tato práce zkoumá dopad regionalismu na dynamiku obchodu v rámci bloku Mercosur, který tvoří Argentina, Brazílie, Paraguay a Uruguay. Mercosur byl založen v roce 1991 a je významným uskupením zaměřeným na podporu regionální hospodářské integrace v latinskoamerickém regionu. Hlavním cílem bylo kriticky zhodnotit efektivitu Mercosuru se zaměřením na jeho vývoz a dovoz a také prozkoumat postavení členských států v globální politice prostřednictvím analýzy, srovnání a odvození datových řad. Práce zkoumá teoretický rámec regionalismu a operační struktury Mercosuru a provádí komplexní případovou studii obchodní dynamiky mezi Mercosurem a Evropskou unií. Studie se konkrétně zaměřuje na dovoz zdravotnických prostředků z České republiky do Brazílie.

Studie klade důraz na dopad regionálních hospodářských dohod na obchodní bariéry, zahrnující tarifní i netarifní opatření, a hodnotí jejich důsledky pro hospodářskou spolupráci a obchodní nerovnosti mezi zúčastněnými zeměmi. Případová studie nabízí cenné poznatky o pragmatických překážkách a ekonomických důsledcích spojených s netarifními překážkami a představuje praktický pohled na provádění politik a jejich účinnost

Klíčová slova

Ekonomická integrace, Mercosur, Netarifní bariéry, Obchod EU-Mercosur, Obchodní bariéry, Regionalismus

The Impact of Regionalism on Trade Among Mercosur States

Annotation

This study investigates the impact of regionalism on trade dynamics within the Mercosur bloc, which comprises Argentina, Brazil, Paraguay, and Uruguay. Established in 1991, Mercosur is a substantial undertaking aimed at fostering regional economic integration within the Latin American region. The main objective was to critically evaluate the effectiveness of Mercosur, with a focus on its exports and imports, as well as to study the position of member states in global politics through analysis, comparison, and inference of data series. The thesis examines the theoretical framework of regionalism and the operational structures of Mercosur and conducts a comprehensive case study on the trade dynamics between Mercosur and the European Union. The study specifically focuses on the importation of medical devices from the Czech Republic into Brazil.

The study emphasises the impact of regional economic agreements on trade barriers, encompassing both tariff and non-tariff measures, and evaluates their consequences for economic collaboration and trade inequalities among participating nations. The case study offers valuable insights into the pragmatic obstacles and economic ramifications associated with non-tariff barriers, presenting a practical viewpoint on the implementation of policies and their efficacy

Key Words

Mercosur, Regionalism, Economic Integration, Trade Barriers, Non-tariff Barriers, EU-Mercosur Trade

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List of Abbreviations

ANVISA	Brazilian National Health Surveillance Agency
ASEAN	Association of Southeast Asian Nations
BRH	Brazilian Registration Holder
COFINS	Contribution for Financing Social Security
EU	European Union
FTA	Free Trade Area
GDP	Gross Domestic Product
HS	Harmonized System
IBGE	Brazilian Institute of Geography and Statistics
INMETRO	National Institute of Metrology, Standardization and Industrial Quality
MERCOSUR	Southern Common Market (Mercado Común del Sur)
NAFTA	North American Free Trade Agreement
NTMs	Non-tariff Measures
PIS/PASEP	Social Integration Program / Public Servant Asset Formation Program
SPS	Sanitary and Phytosanitary Measures
TBT	Technical Barriers to Trade
TEC	Tariff Exclusion Code
UNCTAD	United Nations Conference on Trade and Development
USMCA	United States-Mexico-Canada Agreement
WTO	World Trade Organization

Introduction

Under the influence of globalisation on the economic, political, and social aspects of the world, regional integration initiatives are becoming more and more crucial. Furthermore, these programmes not only facilitate economic collaboration and advancement but also strive to mitigate regional inequalities and build collective progress among participating countries. The main focus of this thesis pertains to the Mercosur bloc, which was founded in 1991 and comprises Argentina, Brazil, Paraguay, and Uruguay. Mercosur signifies a notable endeavour in the realm of regional economic integration in Latin America, with the aim of surpassing mere geographical proximity by promoting substantial economic congruence and cooperation.

The main objective was to critically evaluate the effectiveness of Mercosur, with a focus on its exports and imports, as well as to study the position of member states in global politics through analysis, comparison, and inference of data series.

The diploma thesis is divided into three main parts. The first part will explore the theoretical foundations of regionalism. This includes defining regional integration, discussing its historical development, and reviewing theoretical models that explain the motivations and outcomes of such economic cooperation efforts.

The second part of the diploma thesis delves into the operational frameworks and policy implementations within Mercosur, exploring the evolution of the agreement's trade policies and their economic ramifications. It entails a comprehensive examination of the tariff and non-tariff barriers imposed by Mercosur, assessing their individual roles within the trading structure. This section concludes with a thorough assessment of Mercosur's effectiveness in promoting economic cooperation and reducing trade disparities among its member countries.

The last section of the diploma thesis will focus on a case study examining the trade dynamics between Mercosur and the European Union. This study aims to illustrate the tariff and non-tariff implications associated with the importation of medical devices into Brazil.

1 Regionalism

Regionalism is widely acknowledged as a comprehensive concept. Nye defines it as the establishment of interstate connections or groupings according to regions and in an ideological sense, the promotion of such formations (According to Nye, cited. Regional consciousness arises from a collective sense of identity among geographically neighbouring countries, fostering cooperation to achieve common goals or tackle economic, strategic, political and other practical difficulties. Regionalism has emerged as a significant aspect of global politics within a multipolar international system, evident via the establishment of many regional cores in North America, Northeast Asia, Europe, the Gulf nations, and other regions (Van Klaveren, 2017). Some of these institutions consist of traditional free trade zones and customs unions, while others exclusively focus on security coordination or solving specific environmental and global issues. While some of those regional cores have created complex transnational institutional structures, others rely on less formal arrangements (Behr and Jokela, 2011).

1.1 History of Regionalism

Regionalism, without a universally acknowledged definition, arose during the 20th century and started to exhibit itself in different historical circumstances. In the 1930s, there were initial signs of regionalism emerging as protectionism and autarchies became dominant structural forms. This resulted in a regionalism that focused on self-sufficiency and internal affairs. Subsequently, the field of regionalism studies has been categorised into several periods or phases. The initial phase of "old regionalism" emerged in western Europe in the 1950s and 1970s and was confined to trade agreements and security alliances. The discourse surrounding regional integration was stimulated by theoretical frameworks such as federalism, functionalism, neo-functionalism, and intergovernmentalism (Da Silva Nogueira de Melo and Papageorgiou, 2021).

Federalism is the distribution of authority between a central government and individual political entities, enabling collaborative governance (Korotina and Abramkina, 2022).

Functionalism highlights the collaboration of several entities to accomplish shared objectives, frequently observed in efforts for economic unification (Oosterlynck, 2010).

Neo-functionalism emphasises the importance of supranational institutions in promoting integration (Abels and MacRae, 2016).

Intergovernmentalism emphasises collaboration between independent governments through discussions and formal agreements (Leuffen et al., 2022).

Subsequently, regionalism was utilised to evaluate regional efforts in the developing countries, while maintaining a Eurocentric perspective (Da Silva Nogueira de Melo and Papageorgiou, 2021).

A new form of regionalism has emerged in different regions across the globe since the end of the Cold War. The primary motivations behind the establishment of these integration organisations were to prioritise collaboration in security matters and foster the development of larger economic structures (Muntstich, 2012). Protectionism is frequently shaped by elements like political economics, demographics, and public state of mind (Bartesaghi and Melgar, 2020; Ethier and Hillman, 2017; Betz et al., 2023).

1.2 Typologies of Regionalism

The complex structure of regionalism and the wide variety of regional organisations and projects make it challenging to categorise or group them based on their structural features (Best, 2009).

Regionalism can be analysed using several typologies to classify areas according to their features and policy requirements. These typologies offer a structure for examining and comprehending geographical variations and commonalities. One viewpoint is the idea of deep regionalism, which entails a significant degree of integration and collaboration among regions, similar to supranational integration frameworks such as the European Union (Verburg et al., 2010). Shallow regionalism involves superficial regional collaboration that lacks the depth of integration found in deep regionalism (Kang, 2016). Macro-regionalism is a significant viewpoint that focuses on regional integration on a broader scale, typically involving numerous countries or continents. This method examines regional cooperation on a larger scale, emphasising broader economic, political, and social connections across regions rather than individual countries (Mariano et al., 2021). Furthermore, regionalism typologies can be utilised in certain circumstances, such as urban centres and subcenters within metropolitan regions (Krehl and Siedentop, 2019).

The typology chosen for the diploma thesis is based on the Scope of regional integration.

1.2.1 The Scope of Regional Integration

Regional initiatives can be differentiated based on their scope, which is one of the most direct methods. This pertains to the number of countries and other entities participating in the process of regional integration. A subset of nations, such as the Benelux countries, is expected to exhibit distinct behaviour compared to a larger regional alliance, such as the African Union. Conversely, the extent of a regional initiative also indicates something about its purpose. While the primary membership criteria for most regional organisations is based on geography, some organisations are also established on the grounds of religion, such as the Organisation of the Islamic Conference, linguistics and culture, such as the Organisation Internationale de la Francophonie, or primarily functional criteria, such as the Council of Europe's emphasis on human rights and the rule of law (Behr and Jokela, 2011).

Regions can be classified into four distinct groups based on their sizes:

- Micro-regions
- Cross-border regions
- Sub-regions
- Macro-regions (Behr and Jokela, 2011).

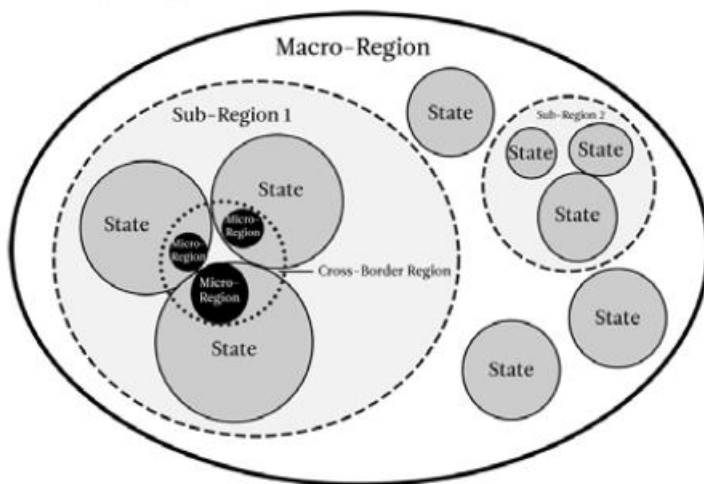


Figure 1 The Scope of Regional Integration
Source: (Behr and Jokela, 2011)

Micro-regions

Micro-regions are territorial units that are smaller than a state but larger than a municipality. Micro-regions typically constitute subdivisions of a state, commonly referred to as provinces or departments. Micro-regions typically exist within territorial nation-states, but occasionally they come together in cross-border regions to form bigger regional governance frameworks (Behr and Jokela, 2011).

Regional economic integration frequently entails the examination of micro-regions within a larger economic framework. Micro-regions are essential for regional integration since they enhance the economic development and competitiveness of a region. Research indicates that the economic advancement and progress of a region are intricately linked to the capacity of Small, Micro, and Medium Enterprises. These companies make a substantial contribution to the Gross Regional Domestic Product (GRDP) and national GDP, underscoring their crucial role in promoting regional economic development (Sabrin et al., 2023).

Cross-border Regions

Cross-border regions are comprised of multiple micro-regions that function as a unified entity spanning across state borders (Behr and Jokela, 2011). Cross-border regions play a key part in regional economic integration by operating as centres for economic activity that reach across national boundaries, promoting collaboration and economic development (Hughes, 2000).

Several examples of these corridors, such as the Maputo Development Corridor, are located in Sub-Saharan Africa, where they typically handle shared development challenges (Behr and Jokela, 2011).

Sub-regions

Sub-regions are comprised of multiple states that are also included in larger macro-regional groupings (Behr and Jokela, 2011). Sub-regions are essential for economic integration initiatives, as demonstrated by multiple studies. Some study indicates that regional economic integration may not always result in quick economic growth in sub-regions, while other studies highlight the potential advantages of economic integration for member countries (Ogbuabor et al., 2019; H. Ekpo, 2020).

Some examples of these sub-regional grouping countries are the Nordic countries, the Maghreb countries, and the Andean countries. Sub-regional groupings frequently arise from distinct geographical or historical origins or may be influenced by shared linguistic or cultural characteristics. Occasionally, they can symbolise the extremes of extensive political and economic unification within a larger territory, while other times, they are more focused on formal or cultural aspects (Behr and Jokela, 2011).

Macro-regions

Macro-regions are vast territorial divisions that consist of multiple states. Like sub-regions, they are frequently defined by shared topography and history. Some examples of these regions include Europe, South America, and South-East Asia. Macro-regional organisations are comprehensive entities that deal with a diverse array of political, economic, and socio-cultural matters (Behr and Jokela, 2011).

This subsection delves into the classification of regional initiatives according to their size and level of involvement, providing valuable perspectives on the many characteristics of regional integration processes. The analysis places emphasis on the diverse sizes and complexities of regional entities by categorising them into micro, cross-border, sub, and macro-regions. Micro-regions, which are frequently located within nation-states, have a crucial impact on fostering economic growth by encouraging the growth of small and medium-sized businesses. Cross-border regions beyond the boundaries of individual states, facilitating economic cooperation and addressing common developmental obstacles. In contrast, sub-regions and macro-regions consist of numerous states, each possessing distinct historical, cultural, and geographical attributes, exemplifying the multifaceted nature of efforts towards regional integration. This analysis of the specific geographical area provides a basis for understanding the processes and consequences of regional economic integration, emphasising its importance in addressing worldwide issues while fostering socio-economic progress and stability (Behr and Jokela, 2011).

1.3 Regional Economic Integration

The process of regional economic integration has steadily increased worldwide over the past few decades, as demonstrated by the existence of over 14 free trade area agreements since 1990. Regional trade agreements offer numerous advantages by facilitating the movement of

physical and human resources and reducing trade barriers. The advantages include decreased consumer prices, increased competition among companies, diminished transaction costs, technological improvements, optimised use of resources, and enhanced productivity. These advantages can stimulate economic expansion in the countries involved in these agreements (Basnet and Pradhan, 2017). Within the literature on economic integration, various terms are employed to describe the distinct forms of economic integration. Balassa's work, usually regarded as the primary point of reference, categorises economic integration schemes based on the level of advancement within integration (Kang, 2016).

Regional integration is regarded as an effective mechanism for handling the complexities of globalisation, as it can be utilised to solve regional insecurity and interdependence while promoting political stability and socio-economic development (Muntschick, 2012). Furthermore, it develops a structured and institutionalised political framework that entails the alignment of values, norms, and behaviours, as well as a predetermined configuration of decision-making processes. Therefore, new regionalism embraces a diverse and globalised perspective (Da Silva Nogueira de Melo and Papageorgiou, 2021)

1.4 Regional Economic Integration Phases

Economic integration involves implementing steps that eliminate certain types of discrimination, such as the elimination of trade barriers. Economic integration may appear in different forms, each representing different levels of integration. The five stages of economic integration are as follows:

- free-trade area
- customs union
- common market
- an economic union
- complete economic integration (Balassa, 1962).

Free Trade Area

Participants in economic integration establish a free trade area where tariffs are eliminated among themselves, yet levies against non-members are maintained. (Balassa, 1962). An example of such an integration scheme is the North American Free Trade Agreement (NAFTA), ratified by Canada, the United States, and Mexico, and has been effective since January 1, 1994

(Primera and Gregorio, 2014). The Mercosur was initially founded with the aim of creating a common market, similar to the European Union. However, it has encountered numerous obstacles throughout its journey. The primary objective was to establish a customs union through the implementation of a unified external tariff among the member nations. Nevertheless, the process of integration has been slow and incomplete. The achievement of specific objectives pertaining to deeper integration measures, such as the establishment of a customs union, has not been fully realised due to the presence of non-tariff barriers and exceptions to common external tariffs inside the bloc (Baur et al., 2021). For example, Brazil has a total of one hundred distinct tariff quota exclusions from the common external tariffs of Mercosur (Fedirka, 2018).

An issue that arises in a free trade area is the necessity of maintaining border controls on goods that come from nations within the free trade area but have been entirely or partially manufactured overseas. In order to address this issue, regulations regarding the origin of imported goods are put in place. These regulations serve to identify the source of the product and allow the relevant authorities to evaluate which products are qualified for customs benefits. As an illustration, one of the regulations specifies that goods originating in a free trade zone are defined as those that include foreign materials, provided that these materials do not exceed 50 % of the total production. Government policies addressing rules of origin may differ. Nevertheless, in an increasingly globalizing world, it is crucial to achieve a level of synchronisation among the methods employed by Members to enforce this regulation (Primera and Gregorio, 2014).

Custom Union

The establishment of the customs union includes the coordination of tariffs in trade with countries outside the union and the reduction of discrimination within the union for the movement of goods (Balassa, 1962). This coordination entails establishing shared external tariffs, which may result in higher tariff rates compared to those before the union (Goyal and Joshi, 2006).

Customs unions are viewed as a higher level in the progression of regional integration agreements, advancing from free trade zones to customs unions and then to economic unions (Tembo and Makina, 2020). Establishing a customs union can impact trade with countries outside the union, influencing trade terms and potentially causing changes in profitability (Estevadeordal et al., 2008).

The European Union is a notable example of a customs union that aims to enhance market openness among its member states (OECD, 2023). As another example of custom union is the Eurasian Economic Union. The Eurasian Economic Union was established by Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia to improve economic collaboration in the region (Mostafa and Mahmood, 2018).

Common Market

A higher phase of economic integration is achieved in a common market, where both trade restrictions and restrictions on factor movements are eliminated. Achieving a higher level of economic integration can be accomplished not only by eliminating trade barriers but also by imposing limitations on the movement of factors inside the common market (Balassa, 1962). The advanced integration seeks to establish a single market in the region, fostering economic growth and efficiency by enhancing competition and resource distribution. Creating a common market can result in improved market entry, increased efficiency due to larger-scale operations, and smoother movement of production resources between countries (Choiruzzad, 2017).

The European Single Market is a shared market inside the European Union that enables the unrestricted movement of goods, services, capital, and people among member states. This integration has promoted trade and investment within the EU, resulting in enhanced economic collaboration and expansion (Leslie, 2016).

Furthermore, the economic environment in South America has been influenced by domestic politics, institutional quality, and trade restrictions, which have had an impact on the viability of building common markets (Owusu-Nantwi, 2019; Jacobs et al., 2014). The establishment of a common market is one of Mercosur's goals, but it hasn't been accomplished yet (Campos, 2016). Another case is the Common Market for Eastern and Southern Africa, which seeks to establish a unified market among its member nations to enhance economic growth and regional trading (Wilson and Pholo Bala, 2019).

An Economic Union

This advanced level of integration seeks to establish a cohesive economic structure among member states, resulting in enhanced economic convergence and collaboration (Naert, 2013). In contrast to the common market, an economic union involves the elimination of restrictions to the movement of resources and limitations on the trade of goods. This combination requires

the alignment of national policies to mitigate discrimination and eventually eliminate differences in these policies (Balassa, 1962).

Economic unions are essential for achieving economic convergence, improving market efficiency, and supporting regional economic growth. Economic unions attempt to establish a fair business environment, promote investment, and boost economic growth by coordinating economic policies and regulations across member countries (Naert, 2013).

An example of an economic union is the Eurasian Economic Union (Eurasian Economic Union). The Eurasian Economic Union seeks to enhance economic integration among its member states through the coordination of monetary policies, harmonisation of regulations, and promotion of the free movement of goods, services, capital, and labour. The union aims to establish a unified economic area and improve economic collaboration in the Eurasian region (Roberts and Moshes, 2016).

Complete Economic Integration

Complete economic integration is the most advanced form of regional economic integration, involving unrestricted movement of products, services, capital, and labour across countries, along with coordinated economic policies among member nations (Massalha, 2022). In order to achieve complete economic integration, it is necessary to create a supranational agency that has the authority to make decisions that all member states must follow. Additionally, this integration involves combining social, fiscal, and countercyclical policies (Balassa, 1962).

This phase aims to establish a completely integrated economic system within the region, exceeding a typical market or economic union, with the goal of optimising economic efficiency, growth, and collaboration. Economic integration is achieved by removing all trade barriers and creating a unified economic environment among member states (Ouedraogo and Drabo, 2019).

The European Union represents complete economic integration through the creation of a single market, a customs union, and the harmonisation of economic policies, including the adoption of a common currency, the Euro. The EU represents full economic integration, allowing for the free movement of commodities, services, capital, and labour across borders while also harmonising economic policies to establish a unified economic area (Firat, 2013).

The many stages of regional economic integration, which range from the establishment of free trade areas to the achievement of full economic integration, illustrate a continuum of

relationships between the regions involved. These integration phases represent different levels of collaboration and synchronisation in trade policy systems. For example, free trade areas such as NAFTA (USMCA) and Mercosur abolish tariffs between member countries but retain them for countries that are not members. Customs unions, such as the European Union and Mercosur, enhance the synchronisation of tariffs with nations outside the union and attempt to reduce discrimination within the union. Common markets remove limitations on trade and the mobility of factors within the market, promoting economic growth and effectiveness.

When moving on to the next section about trade policy, it is important to consider these integration phases as they influence the framework in which trade policies are developed and put into action. As regions move towards deeper integration, trade policies are more closely aligned and coordinated among member nations. This development signifies a transition towards more cohesive strategies for trade, which enables easier trade movements and strengthens economic cooperation. Hence, it is crucial to understand the complexity of regional economic integration in order to fully comprehend the complexities of trade policy exchanges between different regions.

2 Trade Policy

Trade policy plays a crucial role in influencing economic relationships between countries. It includes a range of regulations that control the transportation of goods and services between different countries. Trade policies, like trade agreements and measures, can have a considerable impact on several sectors and areas of society by standardising legislation throughout member countries (Santeramo et al., 2019). Moreover, the use of trade policy tools such as antidumping measures strategically can help achieve trade objectives while appearing to be committed to fair trade principles (Matschke and Schöttner, 2013).

Trade strategies involve more than just economic factors; they also include aspects related to environmental sustainability. Studies have investigated the relationship between trade policy, corruption, and the development of environmental policy, highlighting the interdependence of these factors (Damanian et al., 2003). Research indicates that trade openness and urbanisation policies can influence energy consumption and sustainable economic growth, underscoring the complex nature of trade policy (Han et al., 2022).

Trade policy evolution is shaped by elements such as political dynamics and international trade theory. The government's influence on politics and foreign trade has a substantial impact on the economic well-being of nations (Islam et al., 2019). The interaction among trade liberalisation, democratisation, and technology adoption highlights the intricate connection between trade policy and wider socio-political changes (Cervellati et al., 2018).

2.1 Protectionism

Protectionism, within the context of international trade relations, refers to a strategic approach aimed at protecting the domestic economy against external influences. It signifies an approach of action that eliminates adverse external effects arising from the surrounding economic environment. Similar to the concept of liberalism, it is challenging to definitively establish the exact scope of the economic effects resulting from protectionist measures, regardless of whether they are negative or positive. In a broader sense, these measures generally reinforce stereotypes within domestic production, maintain the structure and quality of the product base, hinder competition within the domestic market, and foster a conducive environment for domestic industry. Additionally, these factors contribute to a reduction in technological advancement, an increase in consumer prices, diminished benefits from comparative

advantages, increased salaries or unemployment rates, inflationary inclinations, the establishment of fundamental economic self-sufficiency, and the reduction of dependency on foreign resources. The term "autarky" is used to describe the practice of protectionist measures ad absurdum, which refers to the complete isolation of an economy from foreign economic pressures. The fundamental principle of trade policy entails the prohibition of both exports and imports. The economy aims to achieve complete autonomy (Kalínská et al., 2010).

Nevertheless, these efforts merely result in the development of poverty or the decline of technology, as the nation's inherent strengths are not fully utilised. The era of protectionism persisted until the 18th century, during which the initial inclinations towards liberalism started to emerge. The gradual elimination of trade barriers was evident through the establishment of bilateral or multi-trade treaties, encompassing not only matters related to trade. The process of negotiation led to the establishment of bilateral or multilateral agreements related to free trade or other forms of trade policy arrangements with other countries (Kalínská et al., 2010).

The trade policies of the majority of nations worldwide, encompassing both members of the World Trade Organisation (WTO) and potential members, are governed by the multilateral trading system. Consequently, the implementation of protectionist measures to restrict international commerce is both restricted and subject to regulatory frameworks. Furthermore, the trade policies of countries remain reliant upon additional trade agreements with one or more countries. Upon conducting a concise examination of the protectionist measures employed, they can be classified into two fundamental classifications: tariff and non-tariff. Tariffs encompass a range of tariffs that can be categorised based on diverse characteristics. An example scenario involves the categorization of tariffs based on their direction into export and import operations, based on their type into prohibitive, greenhouse, preferential, reciprocal, compensatory and their method of calculation into ad valorem, specific, and combined tariffs. Refer to the chapter on tariff barriers for additional details. The present trend is to abandon these tariff measures while there is a greater emphasis on promoting non-tariff measures. These measures encompass tariff surcharges, import deposits, tariff quotas, anti-dumping measures, and a range of quantitative measures as well as technical and control measures. Refer to the chapter concerning non-tariff barriers for further information (Kalínská et al., 2010)

2.2 Liberalism

The concept of liberalism in the context of international economic or trade relations entails the elimination of trade barriers. This refers to the traditional trade barriers, both tariff and non-tariff, that are present in the economy. It involves allowing foreign competition in all sectors of the domestic market and completely eliminating any form of state support, both direct and indirect, in all areas of the economy. The liberal approach has the potential to lead to both advantageous and disadvantageous outcomes for the economy (Kalínská et al., 2010).

Broadly speaking, this phenomenon results in the introduction of foreign influences into domestic production and the composition of products, a change in the structure of products, increased competition within the domestic market, an expansion of economic specialisation, the potential for greater realisation of comparative advantages through international trade, decreased consumer prices, the elimination of inflation and price stability, a decrease in wages, and a reduction in unemployment. States typically undertake measures towards achieving a greater level of liberalisation not autonomously but rather within the context of bilateral or multilateral international agreements (Kalínská et al., 2010).

2.3 Tariff and Non-Tariff Barriers

Tariff and non-tariff barriers are important factors in determining trade policies and impacting global trade patterns. Tariffs are charges on imported goods, while non-tariff barriers are various constraints that restrict trade, including quotas, licences, technical specifications, and regulatory measures (Santos-Paulino, 2005). The effect of these obstacles on trade can differ, as some research indicates that nations might replace tariff barriers with non-tariff policies to safeguard their local economy (Hu et al., 2021). Countries participating in trade agreements may substitute traditional tariff barriers with non-tariff barriers as they aim to lower tariff rates (Baylis et al., 2022). Removing both tariff and non-tariff obstacles is essential in regional trade integration to improve trade flows and maximise the advantages of economic cooperation (Boughanmi et al., 2016).

2.3.1 Tariff Barriers

Customs, often known as tariffs, are imposed by the government upon the entry of goods across the customs border. The utilisation of a currency by a nation or a collective of nations serves

multiple purposes, including safeguarding its domestic market against imports from adjacent countries, engaging in economic and political competition, and, notably, generating revenue. The responsibility for the collection of duties lies with the customs administration, namely the customs office, of the respective country, and is governed by customs legislation (Clo, 2024).

The classification of tariff barriers may differ based on:

- Trade and political divisions
- Divisions in terms of the movement of goods
- Division in terms of purpose
- Tariff divisions by calculation

Trade and Political Divisions

Trade and political divisions can be categorised into two main types:

- Autonomous
- Contractual

In the case of Autonomous, the imposition of tariffs is determined by a state's discretion, regardless of any international treaty. On the other hand, in the case of a contract, the determination of tariffs is dependent upon an international convention, which may be either bilateral or multilateral (Clo, 2024).

Divisions in Terms of Movement of Goods

Divisions in terms of movement of goods can be categorised into three main types:

- Export
- Import
- Transit

The first scenario involves Export, wherein a tariff is levied on products that are being exported. Infrequent, it relates to the exportation of strategic commodities such as oil and is frequently enforced for fiscal purposes. The second situation is Import, when payment is made for products that have been imported. Another scenario is the concept of transit, which

involves the payment being made for products that are being transported across national borders (Clo, 2024).

Division in Terms of Purpose

Division in terms of purpose can be categorised into:

- Fiscal
- Protective
 - Prohibitive
 - Greenhouse
 - Anti-dumping
 - Preferential
- Reciprocal
- Compensatory
- Negotiating

The first case relates to fiscal matters, which involve the generation of revenue to support the state budget. Originally, tariff duties were intended for this purpose. However, in the present day, customs duties are very minimally utilised for fiscal purposes (Clo, 2024).

The second case is Protective, which serves to safeguard local enterprises against foreign competition. The Protective tariffs can be further subdivided into prohibitive, greenhouse, anti-dumping and preferential. In the context of Prohibitive Protection, a tariff is imposed at a level that is sufficiently high to effectively impede the importation of the specific commodities under consideration. The purpose of Greenhouse Protection is to safeguard a developing sector inside the local economy, commonly referred to as the infant industry, against the impact of foreign competition. It is preferable to implement a temporary measure until the sector is well established and then progressively reduce restrictions to encourage the industry to achieve more efficient production (Clo, 2024).

Anti-dumping protection refers to the implementation of an extra tariff on goods that are priced below the prevailing market value in the exporting nation (referred to as dumping) and have the potential to adversely affect domestic producers. Preferential Protection entails the implementation of a reduced tariff on commodities originating from nations that have been provided with a preference over alternative countries. The imposition of this tariff is often

authorised by the Generalised System of Preferences of the World Trade Organisation (Clo, 2024).

The third scenario refers to reciprocal trade, wherein tariffs are levied on goods originating from a foreign nation in accordance with its trade rules. Compensatory refers to a fourth scenario in which tariffs are implemented to offset the lower cost of imported items that are subsidised by the foreign government, such as agricultural produce. Last but not least is Negotiating, which functions as a mechanism for negotiating in the context of trade policy negotiations (Clo, 2024).

Tariff Divisions by Calculation

Tariff divisions by calculation can be categorised into three main types:

- Specific
- Ad Valorem
- Differential (combined)

The first case is Specific, which is set at a fixed amount per physical unit (e.g. per tonne or per piece). The second case is the Ad valorem, which is set as a percentage of the value of the goods. The last case is Differential (combined), where the value of the duty is calculated as a combination of the previous ones (Clo, 2024).

2.3.2 Non-tariff Barriers

Trade rules, encompassing product and production standards, as well as conformity assessments, are having a growing influence on trade dynamics by determining the parties involved in trade and the amount of trade. Non-tariff measures (NTMs) provide a significant issue for policymakers, importers, and exporters. The main objective of many NTMs is to safeguard public health, safety, and the environment. However, they can have a significant impact on trade by imposing costs linked to information, compliance, and procedures. Non-tariff measures refer to policy measures that extend beyond conventional customs tariffs and possess the ability to exert an economic impact on global commerce in goods. These measures may affect the quantities exchanged, prices, or both. This impartial definition refrains from making assessments regarding the validity of the metrics or the potential trade implications they may have (United Nations Conference on Trade and Development, 2022).

Non-tariff measures have the potential to either impede trade, such as in cases when trade costs rise or stimulate trade, such as when there is an increase in trust towards foreign products. The notion encompasses a broad range of policy measures. Two main categories can be identified: traditional policy measures, such as quotas and price control measures, which primarily aim to affect trade, and technical measures, particularly sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT), which primarily focus on protecting health, safety, and the environment. Regulatory NTMs play a crucial role in ensuring sustainable growth. Non-tariff barriers are a specific category of non-tariff measures that are designed to safeguard domestic industries or are excessively restrictive in order to achieve public policy goals. A comprehensive comprehension of the applications and implications of New Technologies and Methods is crucial in the development of effective strategies aimed at attaining the Sustainable Development Goals. Enhancing openness and comprehension of Non-Tariff Measures can assist traders in recognising the obstacles they encounter and enhancing the capabilities of policymakers, trade negotiators, and academics to strike a harmonious equilibrium between minimising trade expenses and safeguarding public goals. (United Nations Conference on Trade and Development, 2022).

The demand for systematic, reliable, and comparable data on non-tariff measures has been on the rise due to the rising relevance and significance of NTMs in international trade. UNCTAD has been leading the way in identifying and categorising non-tariff measures. The creation of a definition and standard taxonomy of non-tariff measures was launched by UNCTAD in 2006 in partnership with the Multi-Agency Support Team. The purpose of the common language was to facilitate collective comprehension and facilitate the gathering, measurement, examination and enhanced clarity of data pertaining to NTMs (United Nations Conference on Trade and Development, 2022).

The composition of the Multi-Agency Support Team includes UNCTAD, the Food and Agriculture Organisation of the United Nations, the International Trade Centre, the Organisation for Economic Co-operation and Development, the United Nations Industrial Development Organisation, the World Bank, and the World Trade Organisation (WTO). In 2012, the Multi-Agency Support Team produced a taxonomy of NTMs as a result of their work. Subsequently, the classification has undergone revisions in order to adapt to the evolving dynamics of global trade and the need for data collecting. The latest revision of the International Classification of Non-Tariff Measures was conducted by the Team throughout the period of 2016-2019, leading to the publication of the newest edition. This categorisation has

been accepted by the United Nations Statistical Commission (United Nations Conference on Trade and Development, 2022).

Overview of the Classification

The International Classification of Non-Tariff Measures (UNCTAD) for the year 2019 is structured into 16 chapters, which provide a comprehensive overview of different classifications of measures (see Table 1). Chapters A through O cover import-related Non-Tariff Measures (NTMs), which are the regulations that countries impose on products entering their borders. In contrast, Chapter P pertains to export-related measures, outlining the requirements imposed by nations on goods intended for export. The categorisation differentiates between technical measures, as outlined in chapters A-C, and non-technical measures, as outlined in chapters D-O (United Nations Conference on Trade and Development, 2022).

Technical measures include SPS measures, TBT practices, pre-shipment inspections, and other formalities that are primarily intended to achieve public policy goals, such as protecting human, plant, and animal life and health, ensuring national security, or preserving the environment. While these measures may not have a direct trade-related purpose and might also affect domestic producers, they have a major impact on international commerce and are therefore classified as non-tariff measures (NTMs). Non-technical measures encompass a range of policies, which include traditional trade policies such as contingent trade-protective measures (e.g., anti-dumping and countervailing duties - chapter D), quotas and non-automatic import licencing (chapter E), and price controls and para-tariff measures (chapter F) (United Nations Conference on Trade and Development, 2022).

Table 1 UNCTAD Classification of Non-Tariff Measures

Import-related measures	Technical measures	A	Sanitary and phytosanitary (SPS) measures
		B	Technical barriers to trade (TBT)
		C	Pre-shipment inspection and other formalities
	Non-technical measures	D	Contingent trade protective measures
		E	Non-automatic import licencing, quotas, prohibitions, quantity-control measures.
		F	Price-control measures, including additional taxes and charges
		G	Finance measures
		H	Measures affecting competition
		I	Trade-related investment competition
		J	Distribution restrictions
		K	Restrictions on post-sales services
		E	Subsidies (excluding export subsidies)
		M	Government procurement restrictions
		N	Intellectual property
		O	Rules of origin
<i>Export-related measures</i>	P	Export-related measures	

Source: Own processing according to (United Nations Conference on Trade and Development, 2022)

The categorisation of NTMs follows a hierarchical structure, with each of the 16 chapters being subdivided into multiple subcategories to provide more precise classification. The chapters are divided into categories with a maximum of three levels. For instance, at the most detailed level, chapter A comprises 34 codes for NTMs, as shown in Table 2 (United Nations Conference on Trade and Development, 2022).

Table 2 A Sanitary and Phytosanitary (SPS) Measures

Tree structure, for example:
A Sanitary and phytosanitary (SPS) measures
A1 Prohibitions/restrictions of imports for SPS reasons
A11 Temporary geographic prohibition
(...)
A2 Tolerance limits for residues and restricted use of substances
(...)
A3 Labeling, marking, packaging requirements
(...)
A4 Hygienic requirements
(...)
A5 Treatment for elimination of pests and diseases
A51 Cold/heat treatment
A52 Irradiation
(...)
A6 Requirements on production/post-production processes
(...)
A8 Conformity assessment
A81 Product registration
A82 Testing requirements
A83 Certification requirements
A84 Inspection requirement
A85 Traceability requirement
A851 Origin of materials and parts
A852 Processing history
(...)
A86 Quarantine requirement
A89 Other conformity assessments

Source: Own processing according to (United Nations Conference on Trade and Development, 2022)

A complete understanding of the complexity of international commerce necessitates the examination of non-tariff measures (NTMs). Non-tariff measures (NTMs) cover a wide range of policies and regulations that go beyond conventional customs tariffs, exerting a substantial influence on the worldwide flow of products (Hoekman and Nicita, 2011; Tudela-Marco et al., 2014). Acquiring this comprehensive understanding is crucial for policymakers, importers, and exporters since it has the potential to significantly impact trade patterns and economic results. Hence, conducting a comprehensive examination of NTMs establishes the foundation for comprehending the intricate characteristics of worldwide trade (Khaliqi et al., 2018; Kuenzel, 2023).

Nevertheless, although National Trade Marks (NTMs) largely concentrate on the legal factors that impact trade, the Harmonised System (HS) Classification offers a structured framework for classifying the tangible commodities engaged in global commerce. The HS Classification,

created by the World Customs Organisation, provides a uniform approach to classifying commodities in order to maintain statistical uniformity and simplify analysis(Hoekman and Nicita, 2011).

By switching from the examination of Non-Tariff Measures (NTMs) to the investigation of the Harmonised System (HS) Classification, our attention is redirected from comprehending the regulatory structures that impact international commerce to identifying the precise commodities being exchanged. This development facilitates a more thorough understanding of the dynamics of international trade, incorporating both the legal framework and the tangible goods engaged in trade. Therefore, examining the HS Classification improves our comprehension of NTMs by offering unique perspectives on the organisation and makeup of worldwide trade(Hoekman and Nicita, 2011).









2.4 The Harmonized System (HS) Classification


The Harmonised System (HS) is a globally standardised system of nomenclature and numerical identifiers employed for the categorization of traded products. The World Customs Organisation (WCO) has created a system that streamlines global trade by guaranteeing uniform categorisation of products among more than 200 countries involved. The system consists of over 5,000 commodity categories, each distinguished by a six-digit code, organised in a coherent legal manner, and backed by clearly specified rules to guarantee consistent implementation (World Customs Organization, 2024; Harmonized System (HS) Codes, 2024).

The HS plays an important part in the management of customs tariffs and the gathering of global trade data. The standardisation of processes not only facilitates the harmonisation of customs and trade procedures but also contributes to the reduction of expenses connected with international trade. Periodic upgrades, occurring every five to six years, ensure that the system remains in sync with advancements in technology and trade trends. These modifications are overseen by the World Customs Organisation (WCO) through the Harmonised System Committee. The committee is tasked with making determinations about classification inquiries, resolving disputes, and making amendments to ensure the system remains pertinent (World Customs Organization, 2024; Harmonized System (HS) Codes, 2024).

In addition to its main function in customs inspection, the HS is also utilised for several other objectives. Governments, international organisations, and the business sector employ it for various purposes such as internal taxation, trade policies, surveillance of regulated products, freight charges, and economic research, among other applications. The extensive range of applications of the HS renders it a universally recognised economic language and coding system for commodities, playing a crucial role in facilitating worldwide trade activities. The general breakdown of the categorisation of products is presented in Table 3 (World Customs Organization, 2024; Harmonized System (HS) Codes, 2024).

Table 3 The Harmonized System (HS) Classification

	Section I	Animal Products
		01 - Live animals
		01.01 - Horses
		01.02 - Bovine
		01.03 - Pigs
		01.04 - Sheep and Goats
		01.04.10 - Live Sheep
		01.04.20 - Live Goats
		02 - Meat & edible offal
		03 - Fish, crustaceans, & molluscs
04 - Edible products of animal origin, n.e.s.		
05 - Animal originated products, n.e.s.		
	Section II	Vegetable Products
	Section III	Animal and Vegetable Bi-Products
	Section IV	Foodstuffs
	Section V	Mineral Products
	Section VI	Chemical Products
	Section VII	Plastics and Rubbers
	Section VIII	Animal Hides

	Section IX	Wood Products
	Section X	Paper Goods
	Section XI	Textiles
	Section XII	Footwear and Headwear
	Section XIII	Stone and Glass
	Section XIV	Precious Metal
	Section XV	Metals
	Section XVI	Machines
	Section XVII	Transportation
	Section XVIII	Instruments
	Section XIX	Weapons
	Section XX	Miscellaneous
	Section XXI	Art and Antiques
	Section XXII	Unspecified

Source: Own processing according to (OEC, 2024)

3 Introduction to Mercosur

Established in 1991, Mercosur is a South American regional economic organisation that aims to promote commerce, goods, services, and movement of people among member nations to encourage regional growth (Ursavaş and Yilanci, 2023).

Mercosur members made the decision to shift to a customs union in 1994, and the transition officially started in 1995 (Estevadeordal et al., 2008). Full members of Mercosur consist of Brazil, Argentina, Uruguay and Paraguay (Aparecida Bastos et al., 2022). Mercosur's establishment has had a substantial influence on trade dynamics (Bengoia et al., 2020). The preferential tariff liberalisation in Mercosur has caused trade diversion and trade creation impacts, impacting trade patterns in the area (Kim and Yoo, 2023; Olarreaga and Soloaga, 1998).

Brazil, Argentina, Paraguay, and Uruguay engage in Most-Favored Nation (MFN) commerce. The inclusion of a Most-Favored-Nation (MFN) clause in a trade agreement necessitates that a government extend any advantages, privileges, or immunities that have been granted to one country to the other countries involved in each corresponding agreement. This section often pertains to members of the World Trade Organisation, who are obligated to provide any preferential treatment to all other member countries of the World Trade Organisation regarding the subjects addressed in such agreements (EU-Lex, 2020).

3.1 History of Regionalism in Latin America

The concept of Latin American regionalism has deep historical roots. Regional integration in Latin America has been a longstanding concept that has remained a consistent aspect of Latin America's international relations since the early nineteenth century. The fight for autonomy in the early 1800s was fought with a shared feeling of unity, resulting in subsequent regional meetings and various proposals for unity, either within Latin American alliances or as part of Pan-Americanism, which involved the United States (Van Klaveren, 2017).

Pan-Americanism was a theoretical framework that sought to foster collaboration and solidarity among the nations comprising the Americas. Traditionally, it has been linked to endeavours aimed at promoting economic, political, and cultural unity throughout the region. Nevertheless, the effectiveness of Pan-Americanism has been a topic of disputation since several individuals contend that its advantages have predominantly favoured the northern

nations and Mexico, while its influence in the southern region has been constrained. The concept of Pan-Americanism was found to be unfeasible (Torres, 2011).

Simon Bolívar, José de San Martín, Andrés Bello, and other prominent figures in the establishment of the new nations were instrumental in the fight for independence and the subsequent formation of a league of Republics. They played crucial roles in the creation of shared political, defence, and commercial institutions, which also included the establishment of a supranational parliamentary assembly. Although their plans were unsuccessful, the concept of regional cooperation has endured to this day. The process of integration in Latin America has had various ups and downs, with each phase being initially met with great excitement, only to later regress and leave behind a lengthy catalogue of unfulfilled promises for further integration. Real progress in integration has been elusive. Following the conclusion of the Second World War, Latin American countries have made several efforts to establish regionalism. These endeavours have occurred in distinct phases, often linked to the distinctive economic and political frameworks embraced by the participating nations. Furthermore, they have exhibited a tendency to divide geographically, resulting in the gradual formation of distinct groups and the emergence of overlapping initiatives (Van Klaveren, 2017).

The latest waves of regionalism in Latin America have been linked to structuralist, neoliberal, and post-liberal economic and political experiments in the area. The era of structuralist regionalism commenced in the 1950s and endured until the 1970s. Subsequently, open regionalism emerged in the 1980s and 1990s, and to some degree, it was superseded in the next decade by post-liberal regionalism. Nevertheless, the constraints and even potential failure of post-liberal initiatives in the key economies of Latin America raise concerns about the prospects of regionalism (Van Klaveren, 2017). In the historical context of the South Americas, the only integrationist alliances observed are the Mercosur and the Andean Pact, serving as notable manifestations of regionalism within the region (Lopez and Carvajal, 2020).

3.2 Tariff and Non-Tariff Barriers within Mercosur

Although regional trade agreements often remove tariffs, achieving true market integration necessitates the resolution of non-tariff measures. This statement suggests the removal of explicit non-tariff barriers, such as quotas and non-automatic licences, as well as the promotion of regulatory cooperation and alignment. In the present day, the latter has significant importance, given that the influence of regulatory measures exceeds that of conventional trade

barriers. The 1991 Treaty of Asunción envisions the Southern Common Market (MERCOSUR) as a forward-thinking and ambitious initiative aimed at completely eliminating tariffs and non-tariff obstacles, as well as standardising technical, sanitary, and phytosanitary regulations. In order to enhance competition and foster the establishment of regional value chains among the members, several institutional and methodological approaches were devised, which encompassed the implementation of a dispute settlement process. Over time, there has been a noticeable increase in the implementation of restrictive non-tariff measures, although the process of incorporating regional judgements into national legislative frameworks has remained fragmented. MERCOSUR's objectives and economic development have been hindered by this. The current internal dissatisfactions appear to be driving a renewed political determination to revitalise the internal market of MERCOSUR. Moreover, the emergence of competitive pressure might be attributed to the potential exclusion from "deep" trade agreements that are booming on an international level (United Nations Conference on Trade and Development, 2022).

Tariffs have undergone significant reductions on a global scale, particularly within the MERCOSUR region. The region exhibits a mainly duty-free trade environment, with a limited number of significant sectoral exceptions. Nevertheless, the simple removal of tariffs proved to be inadequate in achieving true economic unity. Addressing non-tariff barriers is essential for promoting further regional integration. Overall, their influence is approximately two to four times greater than that of tariffs. Non-tariff measures can be categorised into two distinct groups: conventional trade policy instruments, such as quotas or price controls, commonly referred to as non-tariff barriers and regulatory and technical measures that arise from significant non-trade goals associated with health and environmental preservation (sanitary and phytosanitary (SPS) measures and technical barriers to trade). In the contemporary era, technical measures have assumed a prominent role and impose a more substantial influence on commerce compared to conventional barriers (United Nations Conference on Trade and Development, 2022).

3.3 Economic Development in Mercosur

The Mercosur region, which includes Argentina, Brazil, Paraguay, and Uruguay, has a distinctive combination of interrelated yet varied economic environments. The purpose of this section of the thesis is to examine the economic paths of these four countries, providing insight into their past and present economic difficulties and accomplishments. This analysis

aims to highlight the relationship between regional cooperation and individual economic strategy within the Mercosur bloc by examining the economic development of each member country.

In this part, we will examine how these nations have addressed their distinct economic issues, the consequences of their policy choices, and their combined and individual contributions to the wider Mercosur alliance, using a comparative approach. This analysis aims to offer a comprehensive understanding of the intricate nature of economic development within a regional framework. It will take into account the influence of global economic dynamics, internal policy frameworks, and significant milestones that have shaped the economic trajectory of each country in the early 21st century.

3.3.1 Argentina

Argentina, formally called the Argentine Republic, encompasses a landmass measuring 2.8 million square kilometres, positioning it as the eighth-largest nation worldwide and the second-largest in the Latin American region (OECD, 2018). The nation possesses an approximate population of 45.8 million inhabitants (Statista, 2024).

Argentina continues to be the second largest economy in South America, following Brazil, and the third largest in Latin America, although facing recent economic difficulties. Due to its abundant resources, the nation possesses considerable potential for a resurgence in previous levels of wealth. According to its Constitution, Argentina functions as a representative, federal, and democratic republic. Buenos Aires is the capital city of the federation, which consists of 23 provinces and one autonomous federal district. In every province, a distinct constitution is established, and provincial legislators and governors are elected. The President holds executive authority, assuming the dual roles of Head of State and Head of Government (OECD, 2018).

The political landscape of Argentina has played a significant role in shaping its trajectory from independence to economic success and subsequent downfall. After achieving independence from Spain in 1816, Argentina experienced a prolonged period of economic stagnation and internal conflict, characterised by a civil war between the Unitarian and Federalist factions throughout two centuries. The proclamation of a constitution in 1853 represented a pivotal moment since it established a political framework that drew inspiration from James Madison's republican model of power division. The objective of this action was to establish

a robust system of governance consisting of an executive branch, two legislative chambers, and an autonomous judiciary in order to address the prevailing influence of the executive and legislative branches. The establishment of this constitutional framework marked a departure from the turbulent period of colonial conflicts and the governance of regional caudillos, presenting the prospect of enduring economic expansion and progress. Argentina's dedication to modernisation and the rule of law was highlighted by subsequent legislative reforms, which encompassed the implementation of new commercial and civil regulations (Spruk, 2019).

Additionally, the country's prospects were further enhanced through expenditures in infrastructure, including the establishment of a contemporary railway system and enhancements to the postal system. Nevertheless, Argentina's political environment remained unstable, marked by conflicts over authority and ideological schisms. During the Infamous Decade of the 1930s, the conservative Concordancia alliance employed electoral fraud as a means to consolidate its hold on power. Under Juan Perón's leadership, the Supreme Court's support for the military administration and its implicit approval of election misconduct laid the foundation for populist policies and institutional changes. The emergence of Peronism marked the onset of a period characterised by populist economic strategies and extensive rent-seeking behaviour, resulting in the diversion of resources from productive pursuits. Although Argentina initially focused on domestic industrialisation through import substitution, its institutional stability gradually declined, leading to a prolonged period of stagnant productivity and economic growth. If Argentina had upheld an equivalent level of institutional stability as nations such as the United States, Canada, and Australia, its historical track of long-term economic growth could have been significantly altered. However, Argentina faced political instability and economic uncertainty throughout a significant portion of the 20th century due to the deterioration of the rule of law and the disintegration of institutions associated with contracting and property rights (Spruk, 2019).

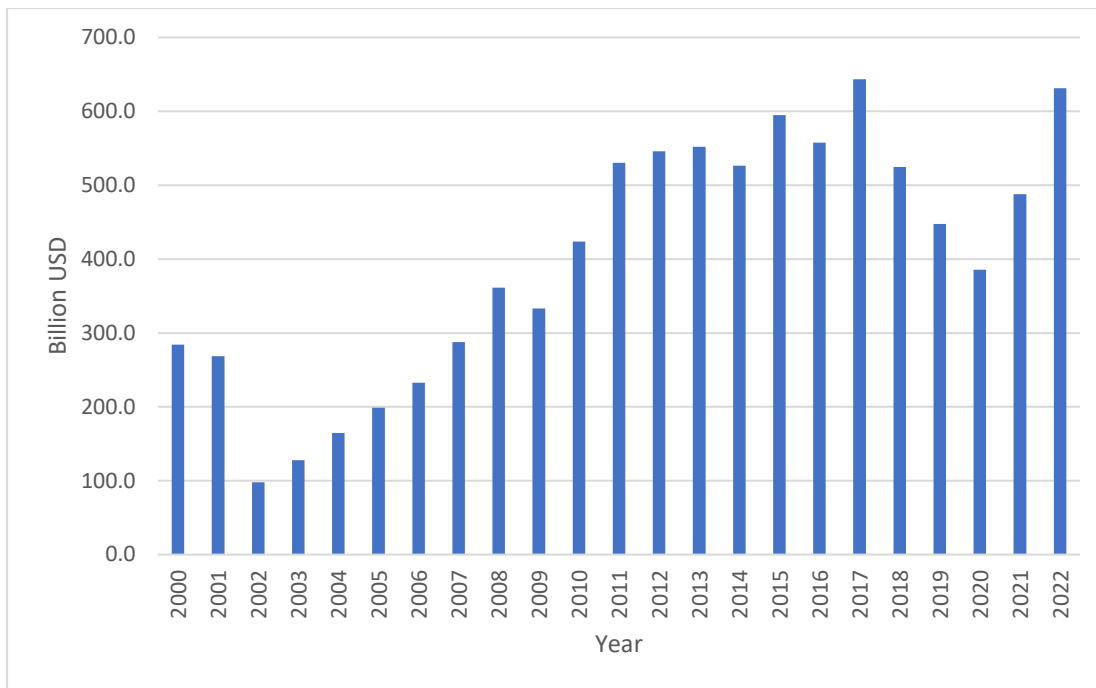


Figure 2 GDP in Current Prices in Argentina

Source: Own processing according to World Bank (2024)

The GDP of Argentina is shown in Figure 2. In the studied time frame, the gross domestic product in Argentina significantly plummeted in two cases. The first significant decrease may be seen in the year 2002. Argentina entered a recession, which started in 1998. The mix of external factors, flawed policies, and political instability precipitated the economic crisis in Argentina throughout the late 1990s and early 2000s (Joint Economic Committee, 2003). The GDP in current USD decreased from 298,95 billion USD in 1998 to 97,72 billion USD in 2002. That accounts for approximately 67% decrease.

The external factors included the East Asian currency crisis of 1997-1998 and the Russian currency crisis of August 1998. These events made investors in developed countries cautious about investing in developing countries. Brazil, Argentina's largest trading partner, experienced a currency crisis in 1998 and allowed its currency to float in January 1999, leading to a sharp depreciation of the Brazilian real. This economic instability in Brazil contributed to stagnant or declining trade between Argentina and Brazil in 1998 and 1999 (Joint Economic Committee, 2003).

The crisis in Argentina was not solely the result of external economic forces but also stemmed from internal vulnerabilities and policy mistakes. Key among these internal factors were the country's failure to address its public debt dynamics, which led to excessive borrowing without

implementing necessary fiscal adjustments, ultimately resulting in an unsustainable debt burden. Additionally, while the currency board initially provided policy credibility, it became a constraint, limiting monetary policy flexibility and the government's ability to effectively address economic challenges. Persistent structural weaknesses, such as high unemployment and insufficient labour market reforms, were not adequately addressed despite the economic boom during the 1990s. Furthermore, policy mistakes made during the crisis, including tinkering with the currency board and implementing capital controls, exacerbated the situation. The lack of urgency in addressing vulnerabilities during the boom years and the inconsistency of fiscal policy further contributed to Argentina's economic demise (Daseking et al., 2004)

By the year 2003, there was a notable stabilisation of economic and political tendencies, leading to the resumption of economic growth. The Executive Board of the International Monetary Fund (IMF) granted approval on January 24, 2003, for a \$6.8 billion interim programme. This programme effectively addressed Argentina's financial obligations to the IMF until August 2003 while also facilitating the provision of supplementary aid from the World Bank and Inter-American Development Bank (IDB) (EveryCRSReport, 2003).

Argentina encountered a second substantial economic difficulty in 2020, which was intensified by the COVID-19 epidemic. The economy had a recession for the third consecutive year, as seen by a decline in GDP of 10.5%. The decrease can be primarily explained by the negative impacts of the pandemic on private consumption, investment, and exports. In response to the crisis, fiscal policy adopted an expansionary approach, implementing higher real primary spending with the goal of safeguarding employment and vulnerable industries. Nevertheless, this increased budget deficit, ascending to 6.8% of the Gross Domestic Product (GDP). The central bank implemented an expansionary monetary policy by reducing the policy interest rate and offering financial aid to cover higher fiscal spending (Caribbean, 2020).

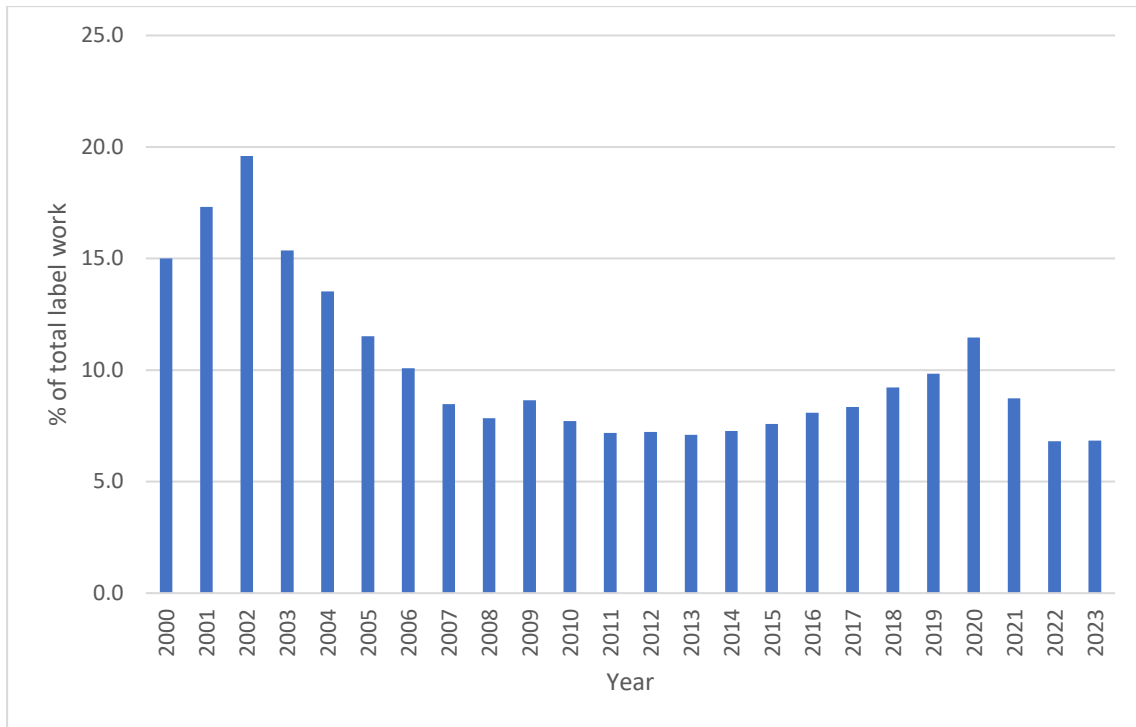


Figure 3 Unemployment in Argentina in % of Total Label Work
 Source: Own processing according to World Bank (2024)

Unemployment of Argentina is shown in Figure 3. The unemployment rate in Argentina is closely connected with the crisis in Argentina. The official unemployment rate experienced a significant increase to 19,6 %by 2002 due to a series of events. These events encompassed the government's default on a substantial portion of its US\$132 billion debt, resulting in the devaluation of the peso. Additionally, there was a decline in domestic demand, leading to the closure of numerous businesses and the subsequent loss of skilled employment opportunities (Ozarow, 2014).

In 2002, Plan Jefes was introduced to decrease the unemployment rate and provide direct financial support. The Plan Jefes programme provided a voluntary employment opportunity to unemployed heads of households through a community project. It received funding from the federal government but was managed at the local level (Tcherneva, 2013).

Nevertheless, the unemployment rate mainly decreased during the studied period. A noticeable increase can be seen in 2020 due to the COVID-19 crisis (Ernst et al., 2020).

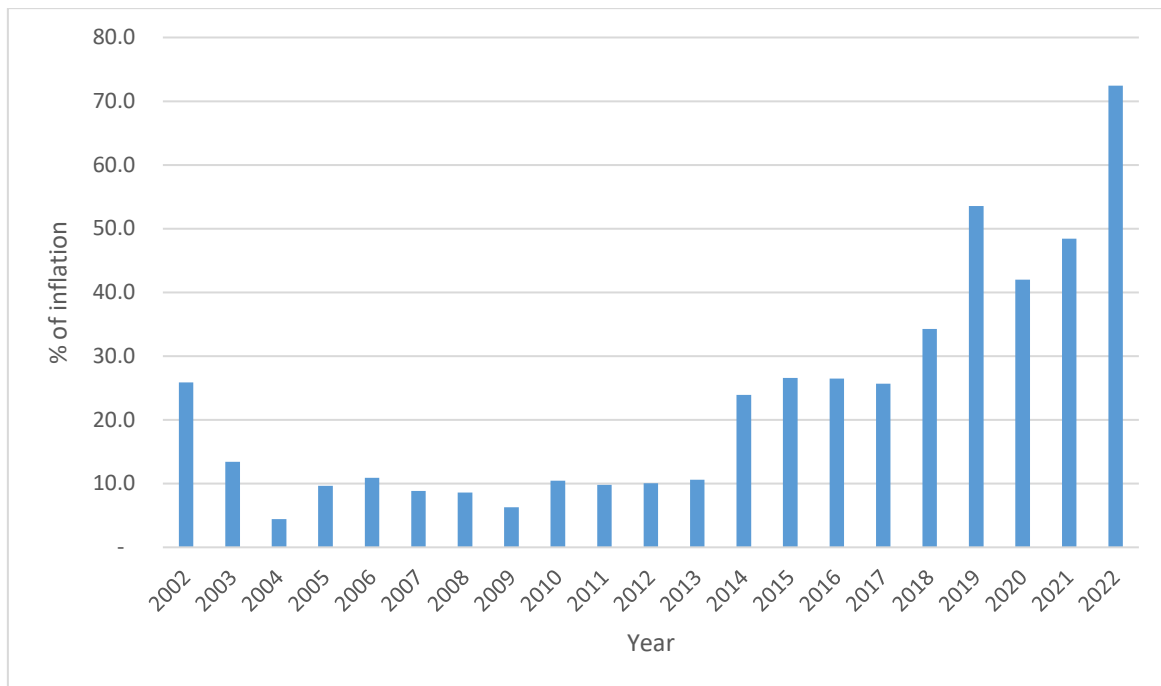


Figure 4 Inflation of Argentina (CPI)

Source: Own processing according to World Bank (2024)

The inflation of Argentina is shown in Figure 4. The inflation rate measured by the consumer price index shows that from 2013, the inflation significantly started to rise from 10,6% and hit its peak of 211,4% in 2023, which is the highest rate in 32 years (Rey, 2024). The rising inflation rate is caused by economic instability, currency devaluation, and fiscal deficits (Focus Economics, 2024). The new president, Javier Gerardo Milei, and his government adopted „Shock Therapy“, which is a radical economic plan to stabilise the economy. The inflation rose because of the devaluation of pesos from 366 pesos per dollar to 800 pesos per dollar with the intention of encouraging producers and exporters (Hilaire and Hilaire, 2023).

3.3.2 Brazil

Brazil, with a population of over 200 million, is the fifth-largest and fifth-most populous nation globally (Statista, 2024). Brazil occupies the tenth rank in the global economy, exerting substantial influence in the sectors of mining, agriculture, and manufacturing. The country holds a significant position in the global mining industry, demonstrating exceptional proficiency in the extraction of niobium, iron ore (which is the second largest producer globally), tin, bauxite, manganese, gold, quartz, and various gemstones. Brazil has had an important change in its agricultural sector, transitioning from its previous reliance on coffee, sugar, and chocolate exports in the 1960s and 1970s to establishing itself as a prominent

international provider of soybeans, maize, cotton, sugar, coffee, orange juice, meat, and ethanol. Roughly 20% of the workforce is involved in agricultural activities and livestock husbandry, making a contribution of approximately 12% to the Gross Domestic Product (GDP). Furthermore, the agricultural industry in Brazil holds significant importance in terms of its contribution to the country's energy supply. Specifically, sugarcane biomass, hydraulic energy, and firewood collectively account for nearly 50% of the overall energy production. The manufacturing sector in Brazil accounts for approximately 20% of the country's GDP and employs more than 10% of the workforce. The country engages in the exportation of a wide range of commodities, encompassing autos, electronics, and consumer goods. Nevertheless, a conspicuous pattern of 'reprimarisation' has emerged within the economy, characterised by the proliferation of primary sector endeavours such as mining, oil extraction, cattle rearing, and soybean cultivation, while manufacturing has been neglected. The slow unfolding of this change has been observed since the beginning of the 21st century, with China's increasing trade involvement in the region playing a significant role (Delivorias, 2022).

From 1822 to 2019, many factors, such as inflation, human capital development, and institutional instability, have significantly influenced Brazil's economic growth trajectory, either strengthening or weakening it. Furthermore, these aspects provide valuable insights into the processes of convergence and divergence in real-world scenarios. The trajectory of Brazil's progression towards attaining developed nation status has been a protracted undertaking characterised by intermittent phases of falling behind rather than bridging the gap with prominent economies such as the United Kingdom, United States, and even its colonial predecessor, Portugal. Significantly, Brazil witnessed a noteworthy increase in genuine convergence during the mid-20th century, specifically from 1950 to 1980. Nowadays, Brazil nevertheless faces the ongoing challenge of attaining extended periods of economic growth required to reduce the per capita income disparity with developed countries (Doré and Teixeira, 2022).

Within the domain of international trade, two prominent aspects emerge as significant: import tariffs and the degree of economic openness exhibited by a nation. These variables indicate a country's inclination to participate in international markets. Throughout Brazil's historical trajectory as a sovereign state, there has been a constant decline in the average tariff rates imposed on imported commodities. This decline has occurred in tandem with a progressive rise in economic openness, albeit with a more pronounced effect observed in recent decades. Historically, protectionist policies have been employed to restrain excessive imports and promote indigenous industrial expansion. The aforementioned strategy, in conjunction with

initiatives aimed at mitigating the negative consequences of the Dutch disease, has played a significant role in enhancing the variety of the manufacturing industry and augmenting the exportation of items with more value added. Nevertheless, a significant disadvantage of these policies is their impediment to the dissemination of knowledge and the formation of sophisticated research and development collaborations with more advanced countries, hence intensifying competition difficulties. Over the course of nearly two centuries, there have been only a few noticeable alterations in the structure. Brazil's abundant natural resources, particularly its expansive territory, have consistently provided significant support to the primary sector of the economy, thereby functioning as a central hub for oligarchic elites. Agricultural landowners were unable to make significant expenditures in technology, training, and automated systems to improve production due to the abundance of resources and the use of slave labour until 1888. The major rise of manufacturing activity occurred in 1905, mostly driven by the implementation of importation restrictions that facilitated the development of the industrial sector. In addition, Brazil's industrial sector experienced significant growth and became one of the most dynamic economies globally due to proactive policies and investments made during the developmental phase (Doré and Teixeira, 2022).

The perilous nature of Brazilian institutions is notably demonstrated by the unpredictable behaviour of its political authorities. This particular element imposes a considerable impact on the economy and has the potential to yield enormous and long-lasting advantages, contingent upon the presence of and effective institutions. Brazil has seen a series of political upheavals and crises throughout its independent history. These include instances of coups d'état in 1889 and 1964, impeachments, and periods of dictatorship. Notable examples are the dictatorships of Getulio Vargas from 1930 to 1934, his reign from 1937 to 1945, and the military government from 1964 to 1985. In addition to enduring political instability, Brazil confronts entrenched corruption challenges. Corruption has flourished since the colonial era as a result of the widespread immorality in the political realm, presenting itself in different manifestations throughout history. Between the years 1822 and 1930, there existed a close association between criminal activity and governmental structures. The period spanning from 1930 until the termination of the military administration in 1985 witnessed the intertwining of corruption with various societal issues. After the re-establishment of democratic governance, corruption has transformed into a pervasive issue that significantly impacts the operations of institutions and erodes public confidence in their ethical conduct. Inflation has exhibited a consistent pattern, with the exception of a transitional phase between developmentalism and neoliberalism, during which the government mismanaged monetary policies, resulting in

a significant increase in inflation that reached persistent levels, such as 2737% in 1990. (Doré and Teixeira, 2022)

During the period from 1990 to 1992, President Fernando Affonso Collor de Mello's administration adhered to the principles of liberalisation outlined in the 'Washington Consensus'. This involved the reduction of customs tariffs and the initiation of privatisation efforts for state-owned enterprises. The government concluded negotiations at the international level to form a Southern Common Market (Mercosur) with Argentina, Paraguay, and Uruguay. This process was begun by the previous administration. (Delivorias, 2022) The adoption of the 'Macroeconomic Tripod' policies and other monetary measures engendered a sense of assurance and facilitated economic expansion during the initial years of the 21st century. This highlights the significance of synchronised, strategic planning by the government and central bank, drawing lessons from previous errors and achievements (Doré and Teixeira, 2022).

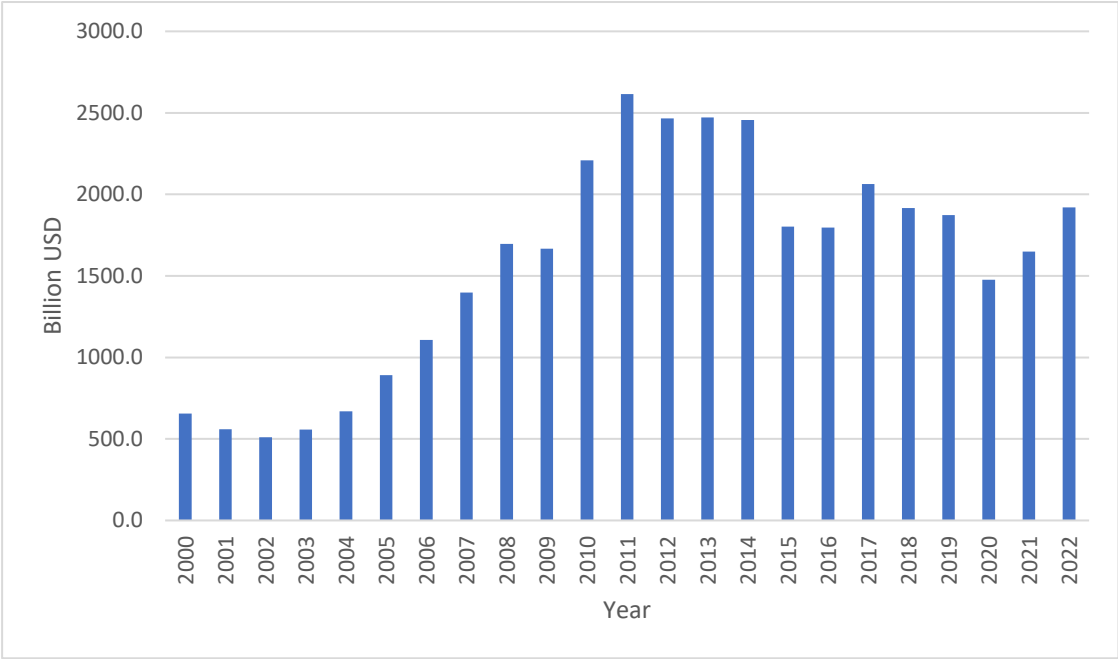


Figure 5 GDP in Current Prices in Brazil
 Source: Own processing according to World Bank (2024)

GDP of Brazil of shown in Figure 5. Following a period of significant inflation, slow economic growth, and six monetary stabilisations, Brazil started the 2000s against a backdrop of diminished economic growth rates. Since 2002, the country has seen a favourable economic cycle attributed to various factors, including a positive external environment and a surge in commodity prices (Cardoso Leal and Issao Nakane, 2022).

However, from 2012 to 2014, growth slowed, with weak investment and infrastructure constraints hampering progress (Kaufman and García-Escribano, 2013). According to Vartanian and Garbe (2019), Brazil faced a recession that lasted from 2015 to 2016, which was brought on by a combination of internal and external factors. A decrease in output and aggregate demand was caused internally by adjustments made to fiscal and monetary policy, particularly a move away from expansionary measures. External factors also contributed significantly, including declining commodity prices, the Federal Reserve's termination of its monetary stimulus programmes, and weaker global economic development.

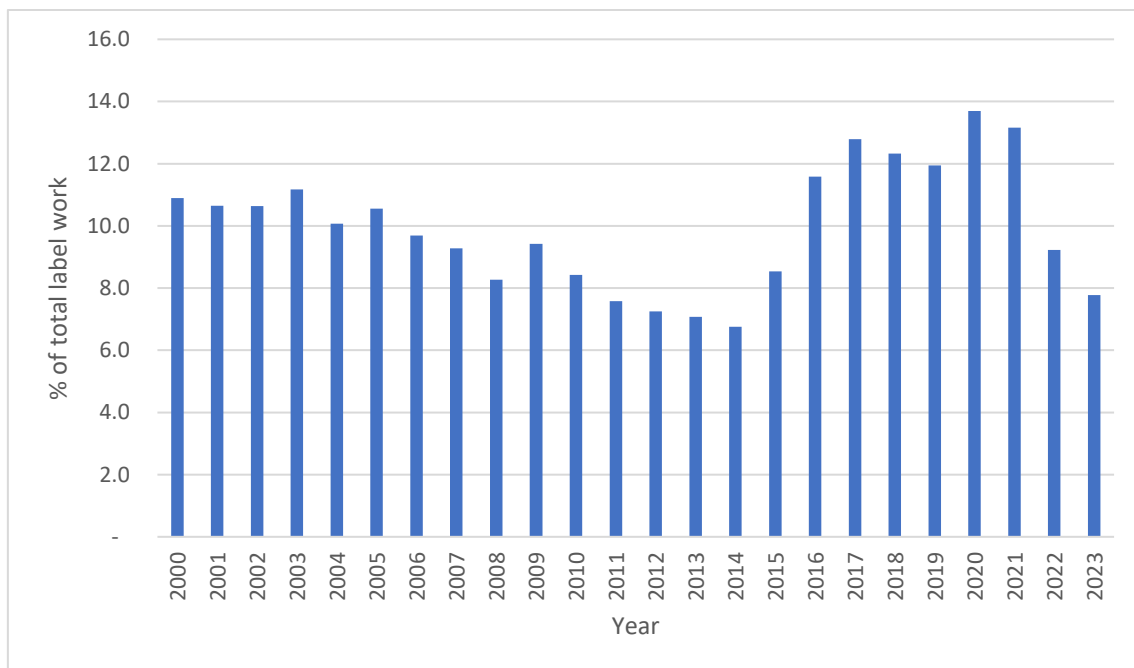


Figure 6 Unemployment Rate in Brazil
Source: Own processing according to World Bank (2023)

Unemployment in Brazil is shown in Figure 6. The unemployment rate has significantly decreased from 2000 to 2014. According to the official statistics office of Brazil, the IBGE, the country's unemployment rate ended in 2014 at 4.8%, which is the lowest result in the country's history (Tavener, 2015). As mentioned before, Brazil went into an economic recession in 2015. Therefore, unemployment increased from the historic minimum of 4,8% in 2014 to 8,5 % in 2015. Political instability and economic distress were the primary factors that were closely linked with the rise of unemployment. According to Rodrigues-Silveira (2023), the individuals who suffered the greatest number of job losses were those who were white, young, residing in rural areas, and held formal jobs. In addition, during COVID-19, which contributed to the increase in unemployment, the rate reached 13,7% in 2020.

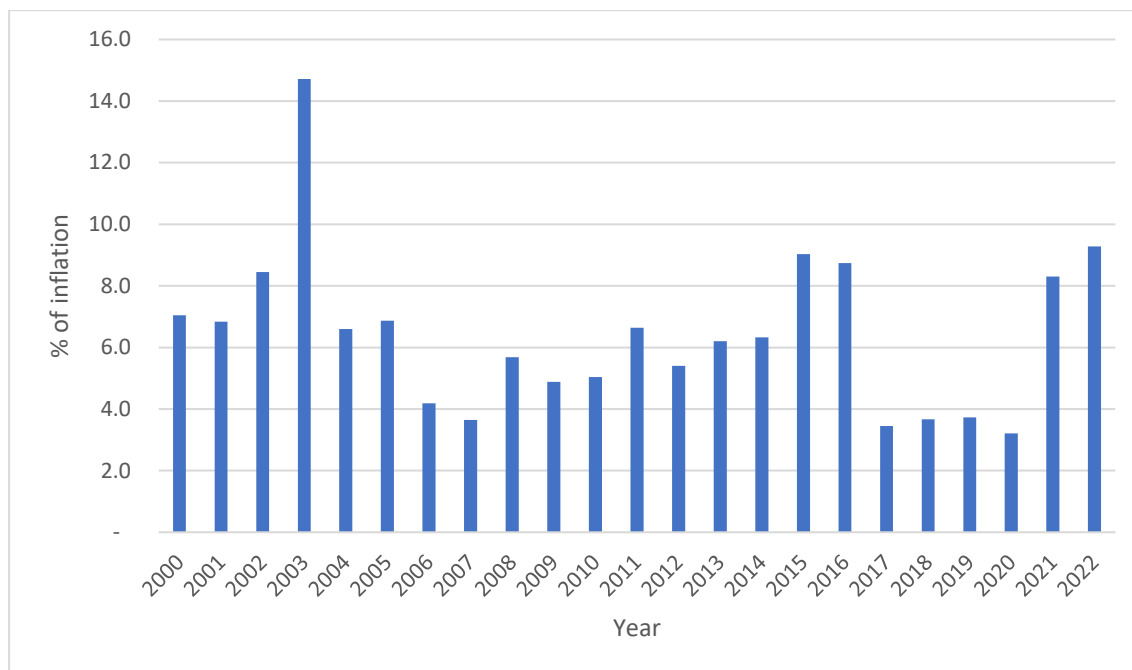


Figure 7 Inflation of Brazil (CPI)
 Source: Own processing according to World Bank (2024)

The inflation of Brazil is shown in Figure 7. The most noticeable spike in the studied period is the year 2003, in which the inflation skyrocketed and reached 14,7%. It was primarily driven by the currency depreciation of 2002, which led to higher prices for imported goods and increased production costs for domestically manufactured products reliant on imported inputs. Additionally, the impact of the currency depreciation was passed through to prices of non-tradable goods, such as services, further fuelling inflationary pressures in the economy (IMF, 2003). From 2017 to 2020, the inflation rate was stable around the average of 3,5%.

3.3.3 Paraguay

Paraguay is situated in the central region of South America, inside the borders of Brazil, Argentina, and Bolivia. Approximately 6.78 million people live in Paraguay. Asunción is the capital and most populous city in Paraguay. Although the country's urbanisation is not as advanced as in other Latin American nations, its economy is undergoing a shift towards a predominantly market-oriented system, with a growing emphasis on soy production. Consequently, this has led to a decline in the need for agricultural labour and a rise in urban migration. Subsistence farming is the main economic activity in the country, and agriculture plays a significant role in the nation's GDP. However, issues pertaining to land ownership have arisen, and disparities and societal turmoil persist. The nation ranks among the leading global

producers of soy, and an increasing amount of forested area is being deforested for its cultivation. Consequently, there has been a rise in the utilisation of genetically modified crops and pesticides, leading to the pollution of both land and water, as well as a decline in biodiversity (Statista, 2024).

The exports of Paraguay exhibit a significant concentration in the sectors of soy, soy products, electrical energy derived from the Itaipu dam, and meat products. They have a significant share of energy exports within the area, mostly supplying Brazil and Argentina. Petroleum, electrical equipment and machinery, motor vehicles, and chemicals are the primary sectors that import the most (UNCTAD, 2017).

The current period signifies a deviation from the economic path that has characterised the nation since the middle of the 20th century. In the aftermath of the turbulent civil war of 1947 and the consequent decrease in the market for agricultural commodities, the economic progress of the nation diminished, resulting in a relative lag behind its neighbouring countries. Nevertheless, a significant change took place with the substantial financial commitment to build the Itaipú dam, which is one of the greatest hydroelectric power plants in the world. This project was jointly undertaken by Brazil and Paraguay from 1973 to 1982. Simultaneously, the proliferation of the agricultural frontier during the 1970s resulted in substantial economic expansion, characterised by an average growth rate of 8.8%. This growth was particularly driven by a remarkable 20% increase in the construction industry. Despite this time of vitality, the economy underwent a resurgence of inactivity following the boom in Taipei, contending with the difficulties posed by the Latin American "lost decade" in the 1980s and enduring political and economic instability throughout the transition to democracy in 1989 until the crisis of the early 2000s. The changes implemented subsequent to the transition to democracy, and subsequently emphasised in contemporary times, have enhanced the country's capacity to capitalise on a conducive external context. Although the implementation of important macroeconomic changes throughout the 1990s did not immediately result in a significant increase in growth, these reforms played a crucial role in establishing improved macroeconomic management and laying the foundations for the country's current development model. The 1990s witnessed several significant reforms, including the process of consolidating the currency rate, simplifying the tax system to prioritise indirect taxation, implementing fiscal adjustments and public finance reforms, and integrating into the MERCOSUR common market, which was founded in 1991 (Charotti et al., 2019).

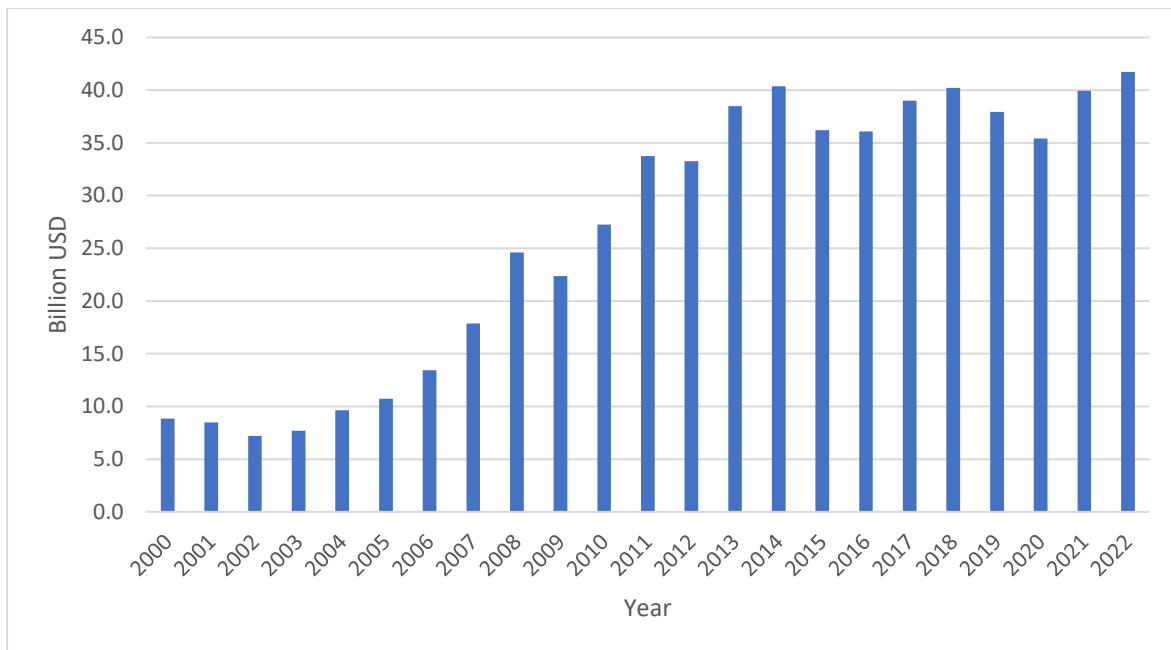


Figure 8 GDP in Current Prices in Paraguay

Source: Own processing according to World Bank (2024)

The GDP of Paraguay is shown in Figure 8. Paraguay has exhibited impressive results across various development indicators since 2003, after its recovery from an extended period characterised by economic and political volatility. The economy has had a real annual growth rate of 4.6%, while the poverty rate has decreased from 58% to 27%. Given its development model, the Paraguayan government encounters two significant obstacles concerning the country's future vision: guiding the economy towards sustainable growth in the medium term and enhancing the nation's ability to reduce inequality. The implementation of an agriculture-based development model poses significant challenges to these activities. Mechanised agriculture yields limited employment opportunities and produce concentrated incomes (OECD, 2018).

Paraguay implemented its first National Development Plan (PND) in 2014. The PND, which has been developed through an extensive national consultation process, is a comprehensive agenda for mid-term development spanning until 2030. This agenda is structured around three major areas:

- poverty reduction and social development
- inclusive economic growth
- inserting Paraguay into the world

Since 2003, Paraguay's economy has been growing without any substantial drawbacks. The average annual growth from 2003 to 2022 is 3,67% (OECD, 2018).

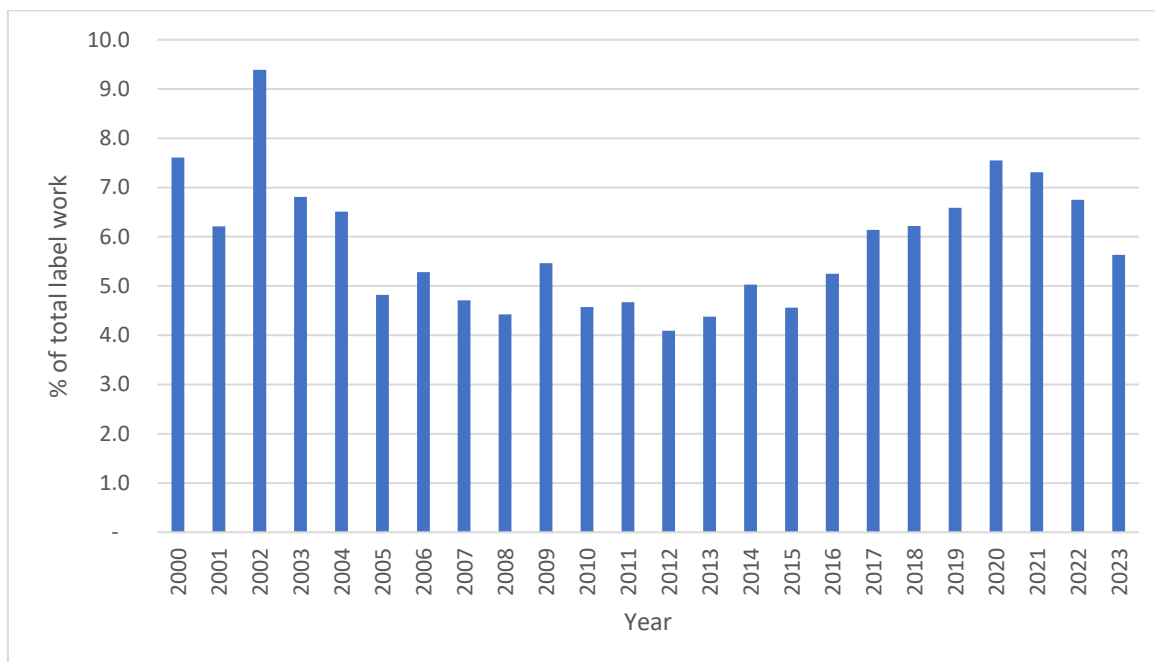


Figure 9 Unemployment in Paraguay
 Source: Own processing according to World Bank (2024)

Unemployment in Paraguay is shown in Figure 9. The unemployment rate moved jointly with the economic cycle. The rate increased between 2001 and 2002 when the economy was immersed in a major macroeconomic crisis, climbing from 6,2% to 9,4%. From 2002 to 2008, the unemployment rate decreased, dropping to 4,4% in 2008. This reduction was not steady; the unemployment rate experienced an increase in 2006. In 2009, the unemployment rate increased once again as a result of the international crisis, reaching 5.5%. The increase in the unemployment rate led by the international crisis held for all population groups (Cruces et al., 2017). From 2015, the unemployment rate was increasing and hit its maximum in 2020. After that, the rate started decreasing from 7,6% in 2020 to 5,6% in 2023 (World Bank, 2024).

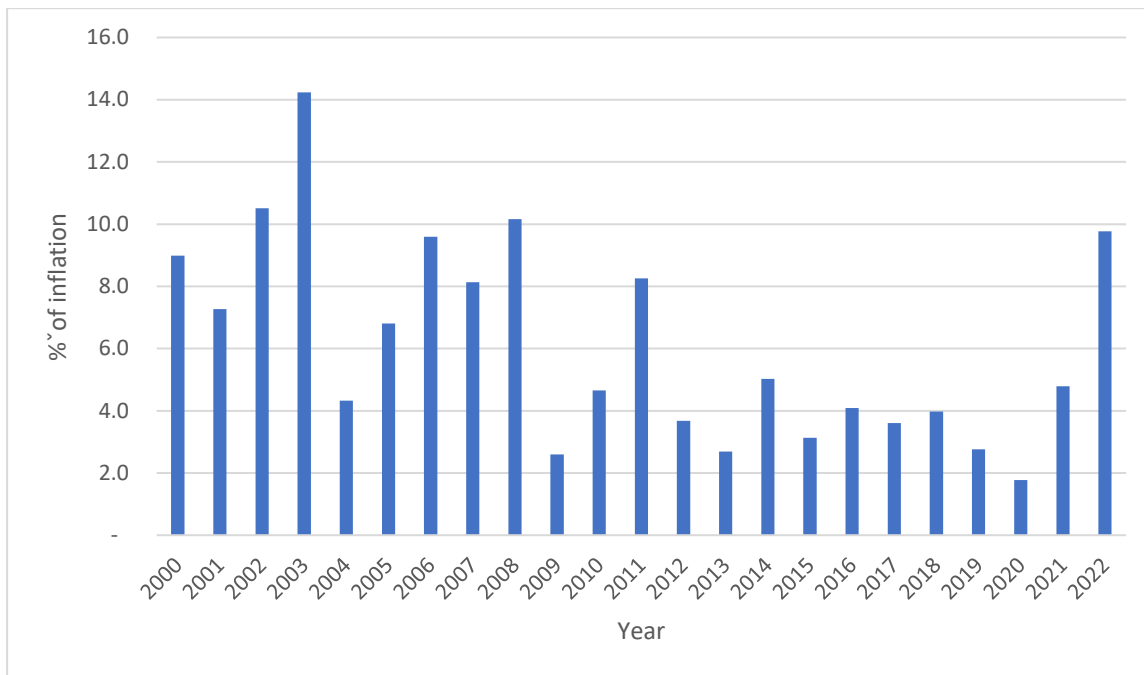


Figure 10 Inflation Rate in Paraguay
 Source: Own processing according to World Bank (2024)

The inflation of Paraguay is shown in Figure 10. During the financial crisis, the inflation rate skyrocketed in 2003 to 14,2%. In 2004, the central bank initiated a gradual migration toward an inflation-targeting scheme. From 2004 to 2011, this institution adapted and modernised its operational instruments to change its monetary policy, which until then had been based on a scheme of monetary aggregates. Monetary policy and the inflation-targeting regime, which was formally adopted in 2011, have helped to control inflation volatility with both the explicit target and the tolerance range being gradually adjusted (Charotti et al., 2019). Since then, the inflation rate has decreased from 8,3% in 2011 to 1,8% in 2020. In 2020, due to the international price shock, the inflation rate rose to 9,8% and exceeded the inflation target (Vereinte Nationen, 2022).

3.3.4 Uruguay

In the South American region, Uruguay encompasses a land area of 176,215 square kilometres. The population of this country was approximately 3.5 million (Statista, 2024). Despite the presence of economic and social stability, the country continues to face substantial social and economic disparities. These disparities can be attributed to structural limitations that hinder the government's ability to effectively address and narrow development gaps. The most significant factors include lagging educational attainment, limited integration into global trade,

an inadequately competitive environment, shallow financial markets, and persistently high inflation. The occurrence of an unprecedented drought in Montevideo, Uruguay, has had significant implications for agricultural productivity and the availability of potable water. This situation highlights Uruguay's dependence on its natural resources and its vulnerability to the impacts of climate change (The World Bank, 2024).

Uruguay primarily engages in the exportation of meat, soy, and various cereals to global markets, with dairy goods and timber following behind. Dairy products, cars, and cereals are the primary exports within the region. The highest proportion of imports is attributed to mineral fuels, with machinery and electrical equipment following closely after. Moreover, the industry experiences a negative trade balance due to the importation of automobiles and parts from both the region and other global sources (UCTAD, 2017).

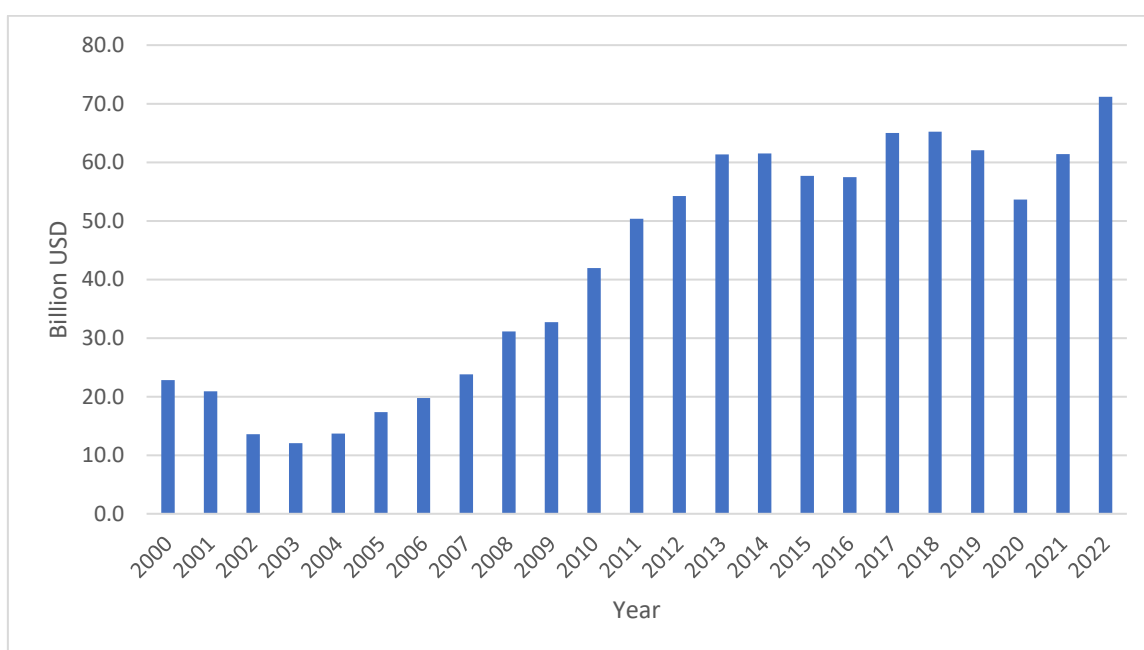


Figure 11 GDP in Current Prices in Uruguay

Source: Own processing according to World Bank (2024)

The GDP of Uruguay is shown in Figure 11. Uruguay is not an exception, and the financial crisis affected the country's economic development in the early 2000s. The economic growth started in 2004 in, when the GDP was 12 billion USD, and it was constantly growing with small fluctuations in 2015 and 2016. The economic expansion observed in Uruguay from 2004 to 2014 can be attributed to a mix of factors, including favourable external demand shocks, recovery from the crisis, and the establishment of new sectors. The decade-long period of rapid

economic expansion that began in the mid-2000s was the most significant economic upturn in Uruguay's history during the last 50 years. (Oddone and Marandino, 2019)

The external demand shocks, both within and outside the region, notably from Argentina and Brazil, fuelled Uruguay's economic growth, driven primarily by the commodity price boom. However, with the end of the commodity super-cycle in 2014, Uruguay faced subdued commodity prices and lowered potential growth in global economies, including key trading partners like China. Despite these difficulties, rising export sectors, including ICT, forestry, and paper pulp, present opportunities for long-term expansion, as long as structural obstacles are resolved. Uruguay's institutional strengths, including governance and stable regulations, are crucial for sustainable growth alongside ongoing infrastructure projects (Che, 2021).

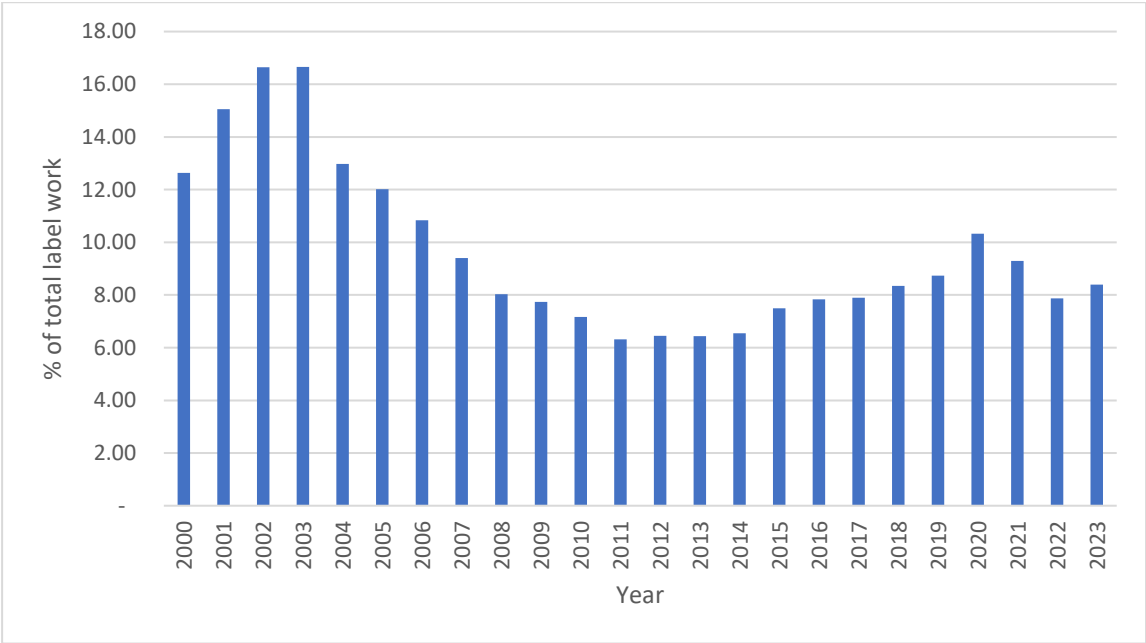


Figure 12 Unemployment Rate in Uruguay
Source: Own processing according to World Bank (2024)

Unemployment in Uruguay is shown in Figure 12. Uruguay's labour market was following the development of the economic decrease during the early 2000s. The unemployment rate dropped from 16,7% in 2002 to 6,31% in 2011 thanks to the economic growth and increase in export demand and new policies included tax reforms designed to incentivize labour hiring, investment in fixed capital and human resources, and promotion of investments to create new jobs (International Labour Organisation, 2014). A slight increase occurred in 2020 due to the COVID-19 crisis.

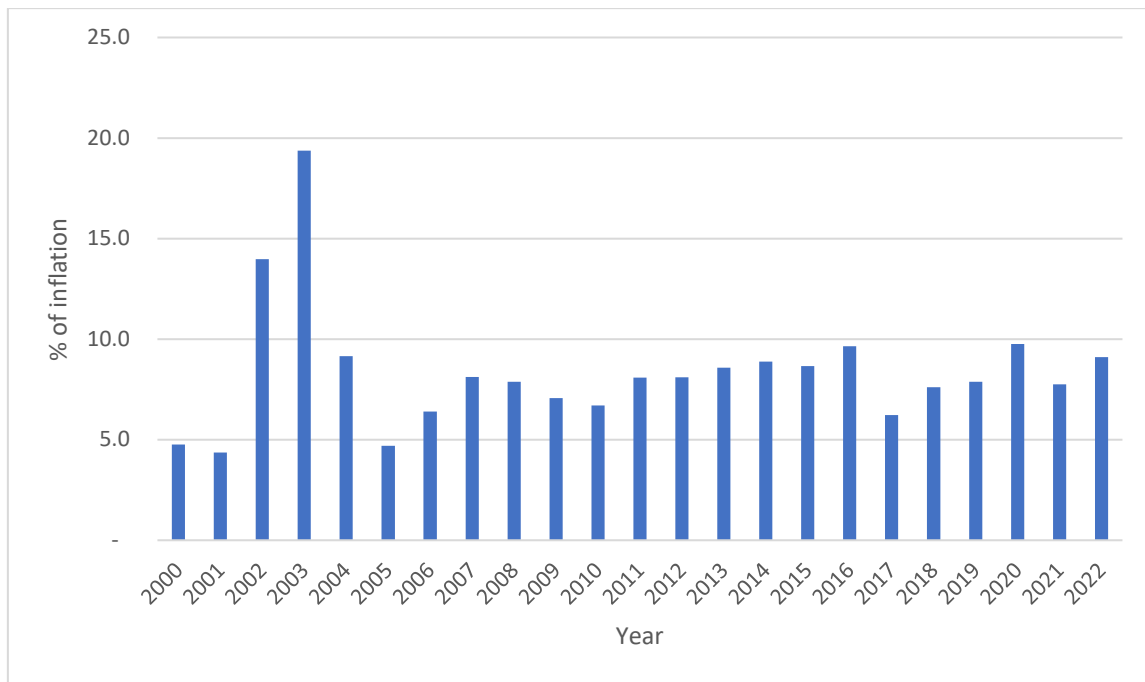


Figure 13 Inflation of Uruguay

Source: Own processing according to World Bank (2024)

Inflation of Uruguay is shown in Figure 13. After experiencing persistent high inflation, Uruguay implemented a disinflation programme in the 1990s, gradually decreasing inflation to single digits by 1998. Inflation has exhibited a consistent moderate trend, with the exception of a notable surge observed during the financial crisis and subsequent devaluation in 2002. During that particular year, Uruguay transitioned to a flexible exchange rate system, resulting in a rapid decrease in inflation after the stabilisation in 2003, to the low single digits by the year 2005. (Iriundo, 2008). Subsequently, inflation has remained consistent, experiencing a notable decline in 2017, primarily attributed to the appreciation of the peso and the gradual integration of wage negotiations within the newly implemented framework (BBVA, 2017).

3.4 Mercosur Economic Indicators

This part of the diploma thesis delves into the economic indicators of Mercosur, with a specific emphasis on the trade dynamics among its member nations and the broader global market throughout the preceding two decades. The analysis reveals notable patterns and variations in trade, illustrating the economic durability and difficulties encountered by the bloc.

The Mercosur organisation, which seeks to promote economic cooperation and integration among nations in South America, has encountered diverse levels of achievement in its trading

partnerships. The research commences by providing an in-depth examination of Mercosur's trading patterns with the international community, highlighting instances of growth and decline that are shaped by global economic circumstances and domestic strategies.

3.4.1 Trade Between Mercosur and World

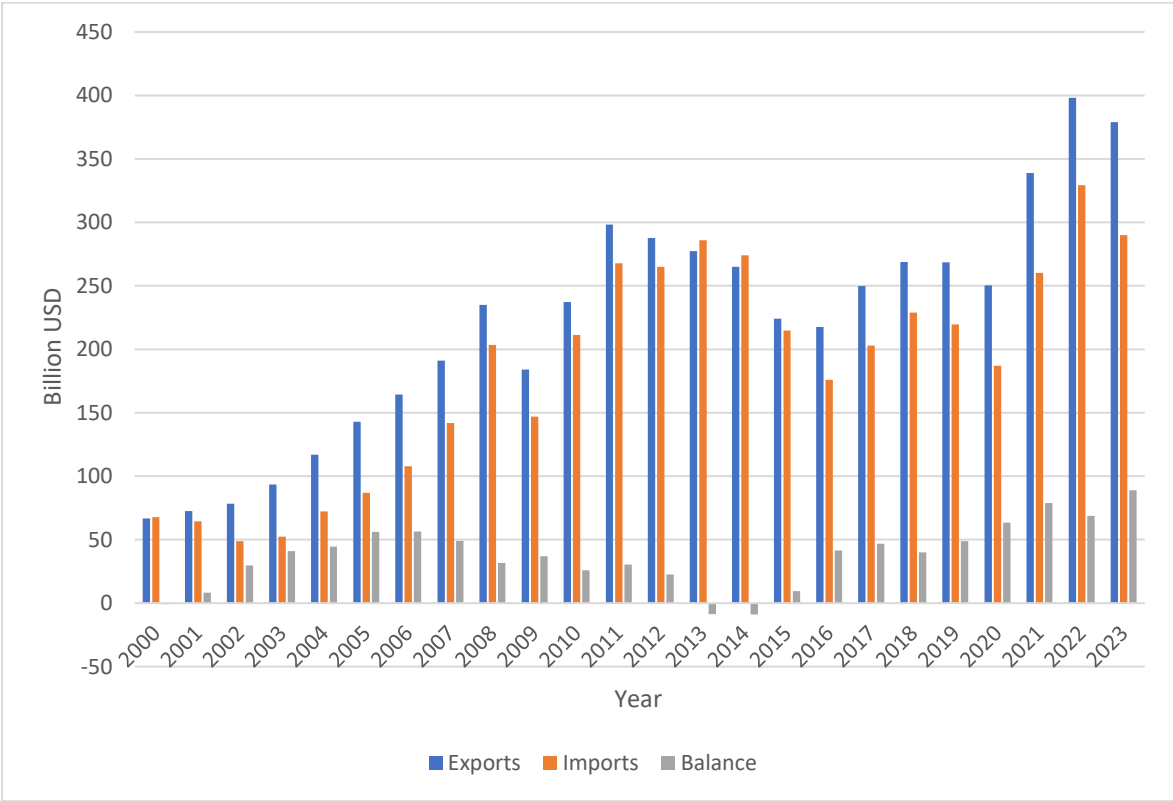


Figure 14 Trade between Mercosur and the World
 Source: Own processing according to MERCOSUR (2024)

Figure 14 illustrates the progression of trade in goods between the MERCOSUR region and other global markets from 2000 to 2023. A notable upward trend was observed in export activities between the years 2000 and 2011. In the year 2000, the MERCOSUR region achieved an export value of 66.6 billion USD, but at the end of the year 2011, the group's exports amounted to 298 billion USD. In eleven years, the export of goods more than quadrupled. A significant decline was evident in 2009. There was an approximate decline of 21.7% in the year-on-year data. Official reports from (2010) suggest that the primary cause could be attributed to the decline in worldwide demand resulting from the world economic crisis. However, exports had a significant increase of approximately 28.9% in 2010 and reached their greatest point in 2011. Since 2011, the export activities have decreased and reached the

minimum in 2016. The average decrease during the five-year period was 26,85%. Subsequently, the exports experienced a consistent upward trend, with a minor decline in 2020. In 2022, the group of states exported goods amounting to a total of 398 billion USD. This figure is the highest recorded value during the investigated period, surpassing the figures recorded from the establishment of the agreement in 1991.

The trade balance of the group was, in most cases, in surplus. The only exceptions are the years 2000, 2013 and 2015. Based on the depicted figure, there is a notable inclination towards an increase in international trade between MERCOSUR and the rest of the world.

The largest trading partners of MERCOSUR¹ primarily reside in the Asian region. China is the largest Asian partner, with Japan, South Korea, and India following suit. The United States of America is the second largest sole partner. The European Union is the second largest in terms of the size of the economic group. The largest partners from the European Union (EU) include the Netherlands, Spain, Germany, and Italy. The export share is depicted in Figure 15.

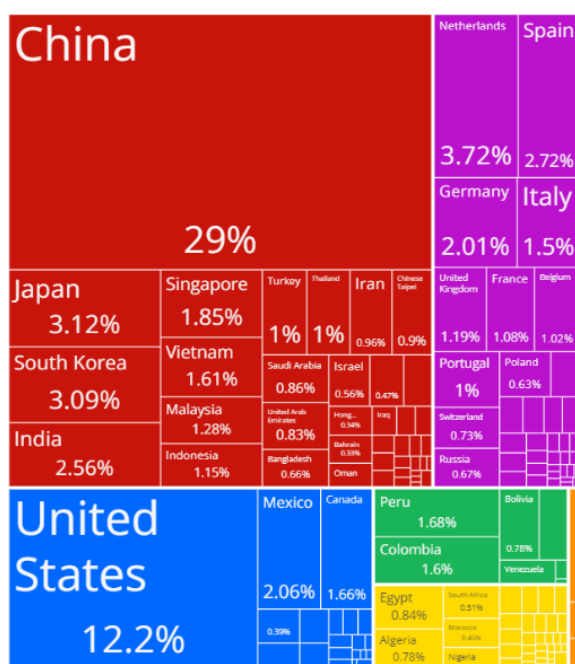


Figure 15 External Trade Destination in 2022
Source: Own processing according to OEC (2022)

¹ The trade partners are from the year 2022.

Concerning the biggest importer partners outside the MERCOSUR are identical to the biggest exporter partners mentioned above. The individual share of the countries may be seen in Figure 16.

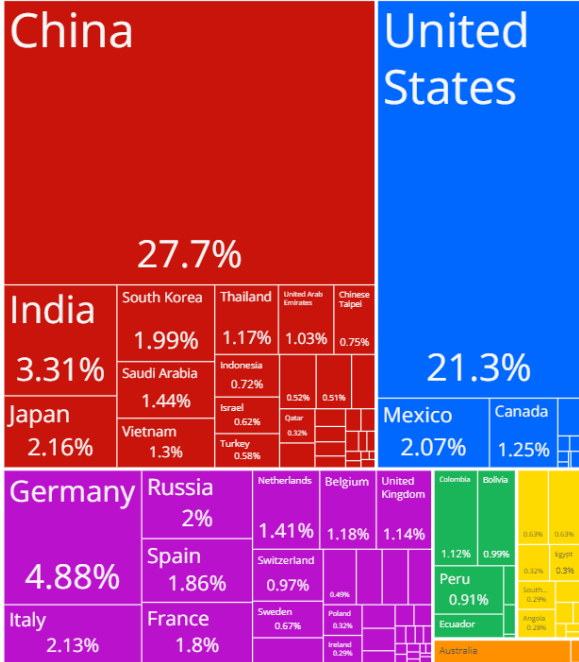


Figure 16 Internal Trade Destination in 2022
 Source: Own processing according to OEC (2022)

The major component of the global trade in goods outside the MERCOSUR group is mineral resources. Examples include petroleum fuels and various types of ores. Agriculture products rank as the second most exported goods. Primarily, the export of soybeans covers almost 10% of the total exports of MERCOSUR. Soy holds the utmost importance primarily in Brazil, which plant production sector accounts for around 44% of the global market (BusinessINFO, 2022). In 2023, the amount of exported soybeans in Brazil accounted for 53,24 billion USD (Tradeimex, 2024). No less important is the export of meat and other edible offal, which accounts for more than 6,2% of all exports. The most important is the bovine meat, in which Brazil is the world export leader. In 2023, Brazil exported 3,012 million tons of beef (Fleck, 2024). The detailed share can be seen in Figure 17.

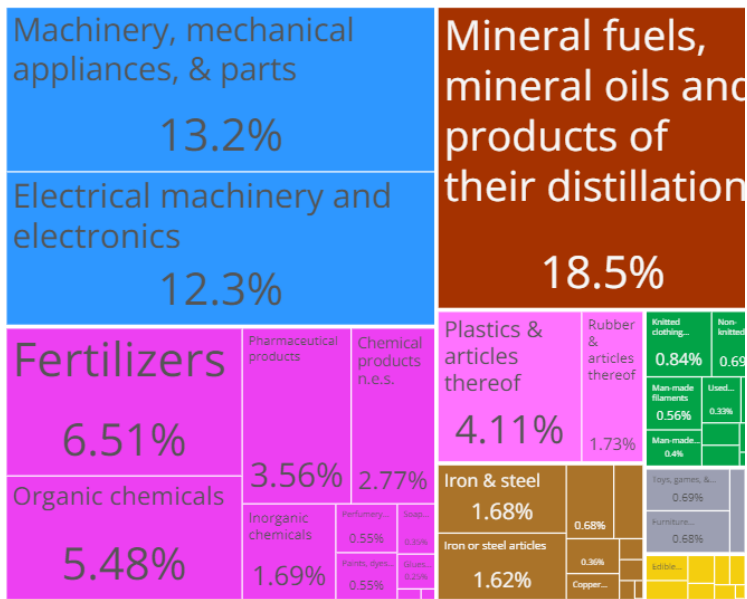


Figure 18 Import of Goods 2022
Source: Own processing according to OEC (2022)

3.4.2 Trade between Mercosur States

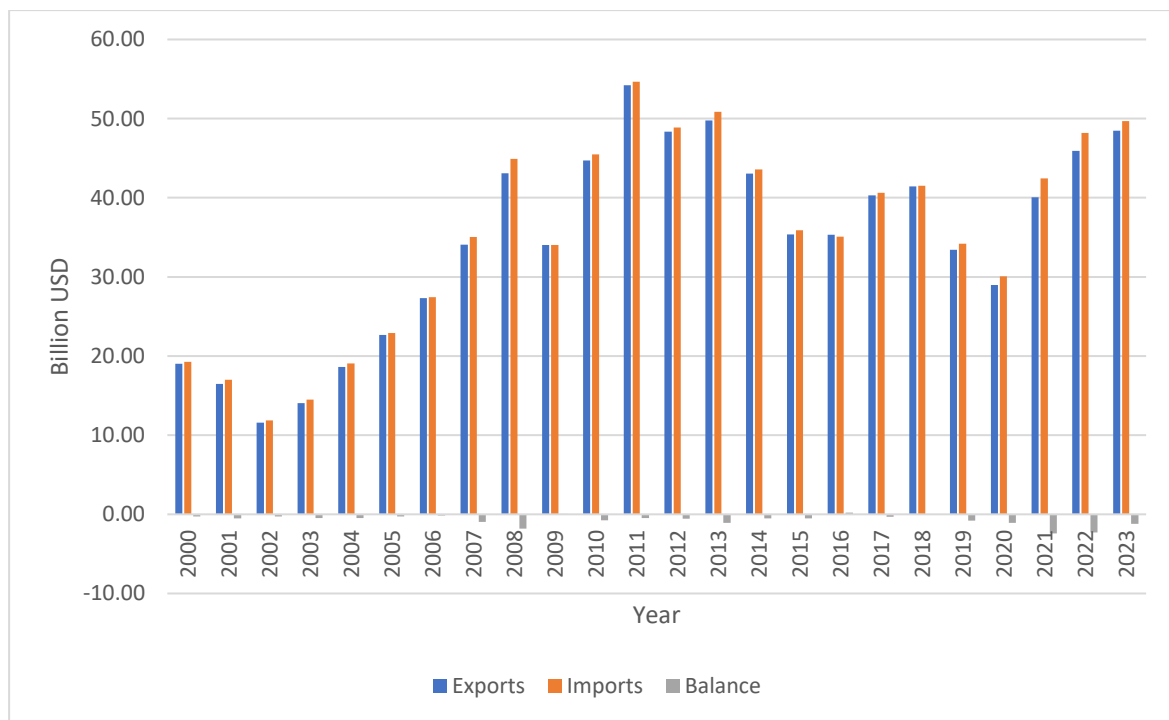


Figure 19 Trade in Goods between Mercosur States
Source: Own processing according to MERCOSUR (2024)

Figure 19 illustrates the economic indicators of exports, imports, and trade balance (measured in billion USD) among the member countries of Mercosur for the period spanning from 2000 to 2023. The exports are represented by the blue bars, the imports are indicated by the orange bars, and the trade balance for each year is indicated by the grey bars.

Upon careful examination of the graph, it becomes evident that there has been a consistent upward trajectory in both exports and imports during the observed time period. The trade balance, defined as the disparity between exports and imports, appears to have a tendency to remain close to zero, indicating a very equitable economic relationship among member states, devoid of substantial and consistent surplus or deficit.

According to the data presented in Figure 19, the quantity of imports in the year 2000 amounted to around 19.285 billion USD, while the value of exports was significantly lower, approximately 19.034 billion USD. This observation implies the presence of a small trade deficit, characterised by a tiny surplus in the value of imports relative to exports. In 2023, imports reached approximately 49.672 billion USD, while exports experienced a substantial growth to 48.458 billion USD. Despite the fact that imports continued to surpass exports, the total trade volume for both entities had a growth of over 100% during the 23-year duration, indicating a significant increase in trade activity among the Mercosur member states.

The observed increase in trade volume provides evidence that Mercosur is effectively achieving its goal of enhancing commerce among its member nations. The available data indicates the presence of an integrative impact on trade, which is consistent with the principles of regional economic integration theory. This theory posits that economic blocs are formed with the aim of promoting trade and fostering economic collaboration among member nations.

This interpretation is consistent with the goals of Mercosur, which aims to facilitate unrestricted commerce and the seamless flow of commodities, individuals, and financial resources. The objective of member countries is to enhance economic activity inside the bloc and foster mutual economic growth through the reduction or elimination of trade barriers. To prove the increasing tendencies of the Mercosur Integration pact and the sense of Mercosur as well, we focus on Brazil's Export and Import with the rest of the Mercosur members.

Figure 20 illustrates Brazil's export data in comparison to the remaining countries of Mercosur. In the year 2000, Brazil's total exports accounted for around 10.77% of its exports to Mercosur members. The percentage had a modest dip to 9.74% in the year 2005. In 2010, there was an

increase in exports to Mercosur, accounting for 13.16% of the total. The percentage decreased to 9.53% in 2015. In 2020, there was a little decrease to 8.97%. Finally, in the year 2023, there was a marginal increase in the proportion to 9.57%.

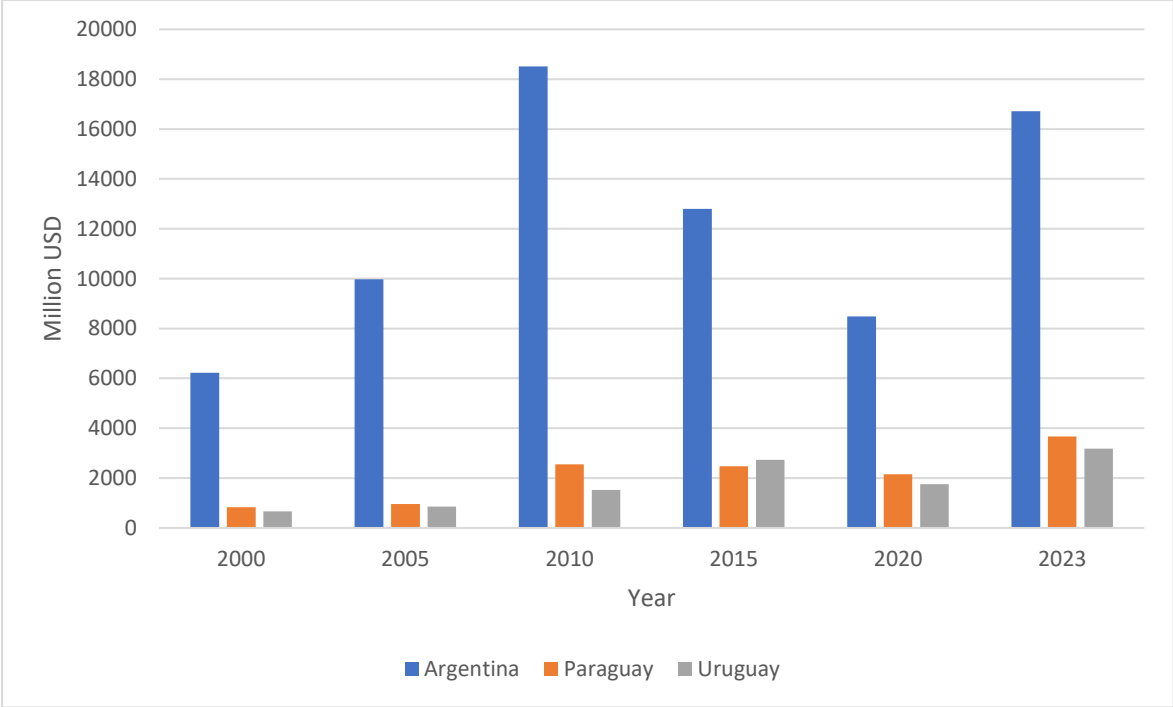


Figure 20 Export of Brazil to Mercosur
 Source: Own processing according to MERCOSUR (2024)

Figure 21 illustrates the import activities of the remaining Mercosur countries. Brazil's overall imports in 2000 were comprised of around 7.80% imports from Mercosur members. The percentage had a modest reduction to 7.33% in the year 2005. In the year 2010, there was a further decline in the proportion to 6.86%. In 2015, there was a decline to 5.09%. In the year 2020, there was a notable rise of 15.19%. In the year 2023, there was a significant rise in the percentage, reaching 26.85%.

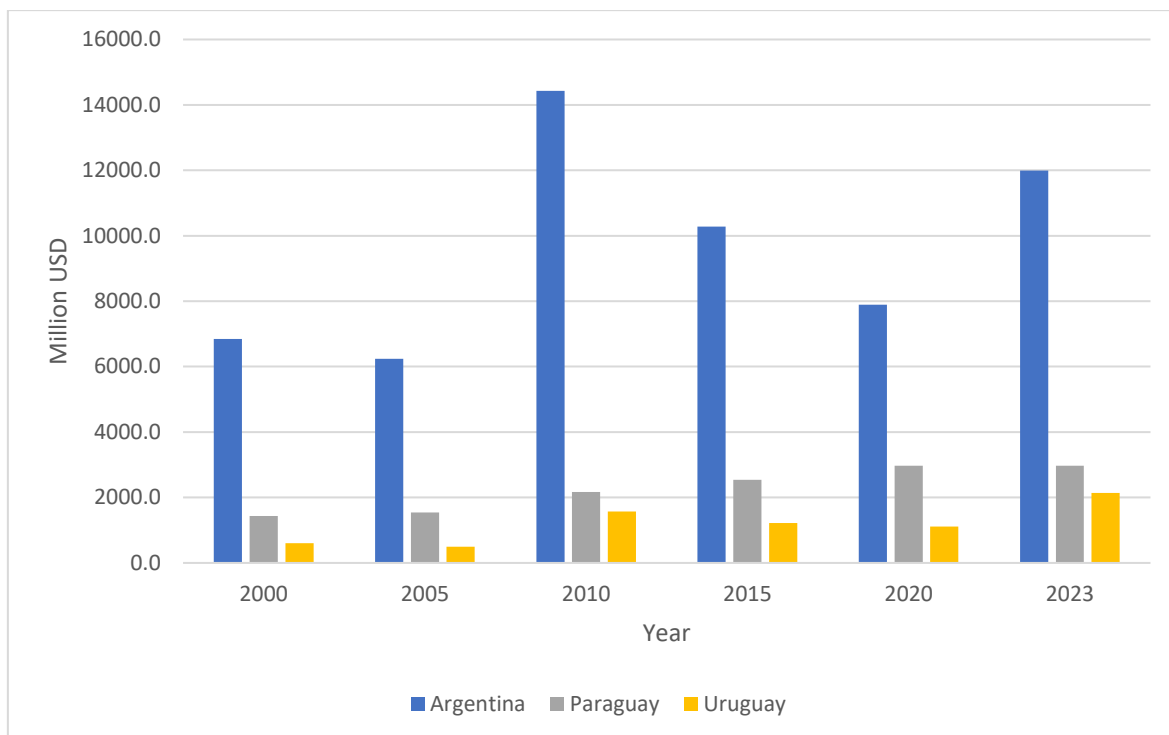


Figure 21 Import of Brazil to Mercosur
Source: Own processing according to MERCOSUR (2024)

Products such as vehicles, tractors, lorries, and a variety of mechanical components are among the most important commodities that Brazil exports to other countries that are members of the Mercosur. In the year 2022, the percentage of these commodities that were exported in relation to the total amount of goods exported was 35.15 %. The second most important resource is the unprocessed mineral resources, which make up around 8.03% of the total. Processed ores, primarily iron and steel, are Brazil's primary exports, accounting for 5.43% of the country's total exports. Detailed analysis can be seen in Figure 22.

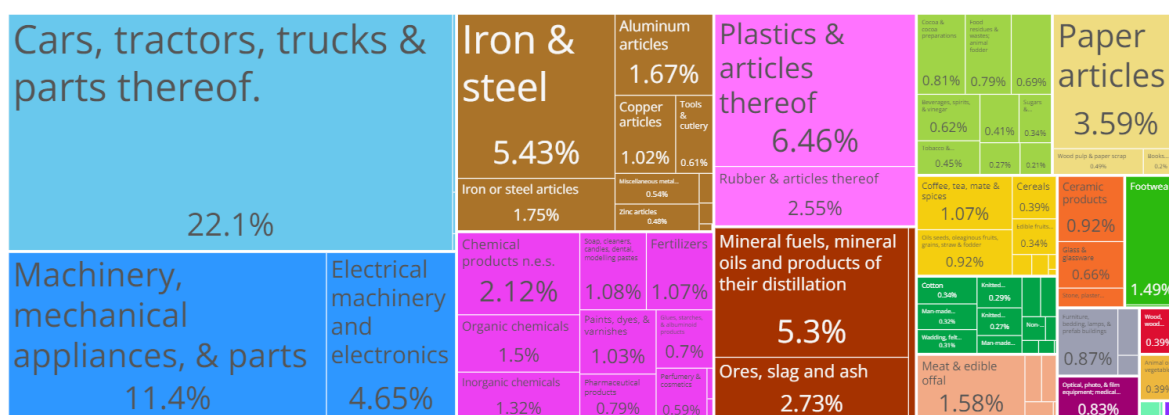


Figure 22 Brazil Export to Mercosur
Source: Own processing according to OEC (2022)

Brazil mainly imports agricultural products from other member states of Mercosur. The Observatory of Economic Complexity (2022) estimated that the value of these products imported was 6.19 billion USD, which accounted for nearly 34% of the total goods imported. Cereals amount to 14.7% of the total agricultural commodities that are imported, making them the most important agricultural commodity. In addition to this, Brazil is involved in the importing of a variety of machinery and automobiles. In terms of the overall improvements, this accounts for 29.8%. A total of 5.41 billion US dollars is the worth of all the imported automobiles and machinery. The importation of mineral fuels and oils holds equal significance. The import accounted for 13.1% in 2022. Detailed analysis can be seen in Figure 23.

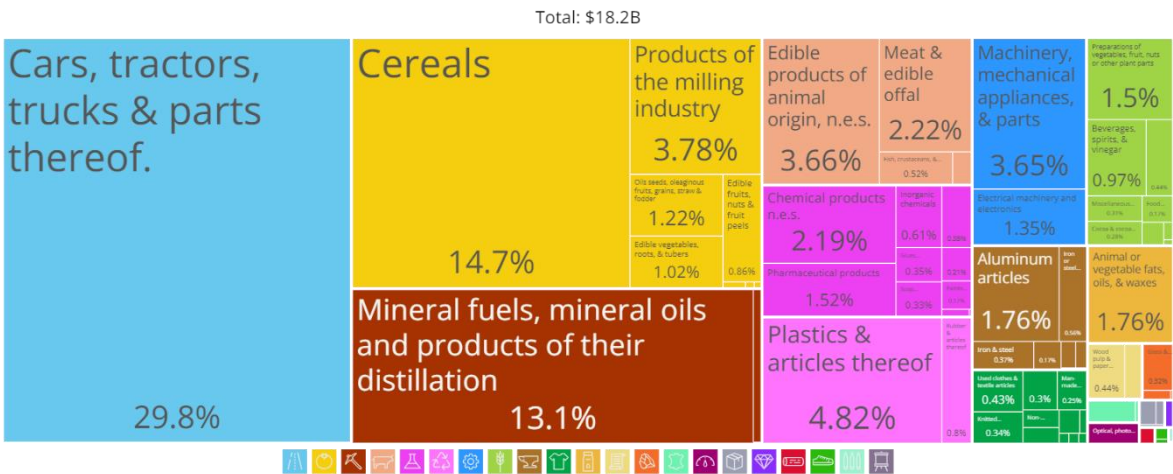


Figure 23 Brazil Import to Mercosur
 Source: Own processing according to OEC (2022)

Based on the statistics shown on the official website of MERCOSUR, it is evident that the economic integration within the Mercosur bloc has exhibited both fluctuation and growth in trade contacts, particularly in the context of Brazil's export and import efforts with its Mercosur counterparts. Based on the data, the trade tendencies and the benefits of economic integration can be summarised as follows.

The Mercosur economic integration deal, as demonstrated by Brazil's trade patterns with its partner countries, highlights the advantages and increasing inclination towards intra-block business. The presented figures illustrate the export and import patterns of Brazil with Argentina, Paraguay, and Uruguay for the period spanning from 2000 to 2023. These graphs demonstrate a multifaceted yet eventually favourable trajectory in economic cooperation. The exports from Brazil to its Mercosur partners have demonstrated a consistent and robust trend, making a significant contribution to the country's overall trade volume. Although there were

instances of a decrease in the proportions of overall exports to Mercosur nations, such as in 2005 and 2020, the overall trend has been characterised by recovery and growth. Significantly, in the year 2010, Brazil's exports to its partners accounted for an impressive 13.16% of its overall exports. This resurgence exemplifies the fluidity of the economic interconnections within Mercosur and implies that the alliance have the ability to recuperate and expand even following periods of downturn.

Moreover, the import data presents a more convincing narrative of integration. Although the proportion of imports from Mercosur countries declined until 2015, there has been a substantial and consistent rise since then. In 2020, imports from Mercosur constituted 15.19% of Brazil's overall imports, which significantly increased to 26.85% by 2023. The observed significant expansion signifies an increasing level of interconnection and a trade inside the bloc, which is likely driven by the tariff reductions and trade facilitation measures that are included in the Mercosur agreement.

The European Union holds greater significance as a trading partner for the Mercosur countries compared to the Mercosur members themselves. This is apparent from the greater quantities of exports to Europe compared to the trade among Mercosur countries. The reason for this is the high demand from European countries for agricultural and industrial goods originating from the Mercosur region. To gain a deeper comprehension of this trade partnership, we will examine the trade relations between Mercosur and the European Union in the next part.

3.4.3 Trade between Mercosur and EU

MERCOSUR and the European Union started the EU-Mercosur Trade Agreement negotiation on June 28, 1999. The negotiations between Brussels and Brazil over the EU-Mercosur Trade Agreement have spanned several years, although recent efforts have encountered a state of uncertainty (Tähtinen, 2024). There are many problems concerning the agreement. Many authors point out mainly the environmental issues and possible economic issues. According to Follador et al. (2021) the agreement lacks explicit systems for tracking and overseeing the source and manufacturing of goods, which gives rise to concerns about the potential promotion of deforestation in Brazilian and Argentinian forests. Kehoe et al. (2020) criticised the agreement for not ensuring inclusion, transparency, and enforcement mechanisms, which are essential for sustainable trade practices and do not comply with the EU sustainability standards.

On the other hand, the agreement can potentially benefit the European economy. Nowadays, the average import duties in Mercosur are between 10-12%. In some cases, the duties can exceed 35% (Nozar, 2023). The agreement will remove trade barriers and allow EU companies easier access to the South American market (European Commission, 2024).

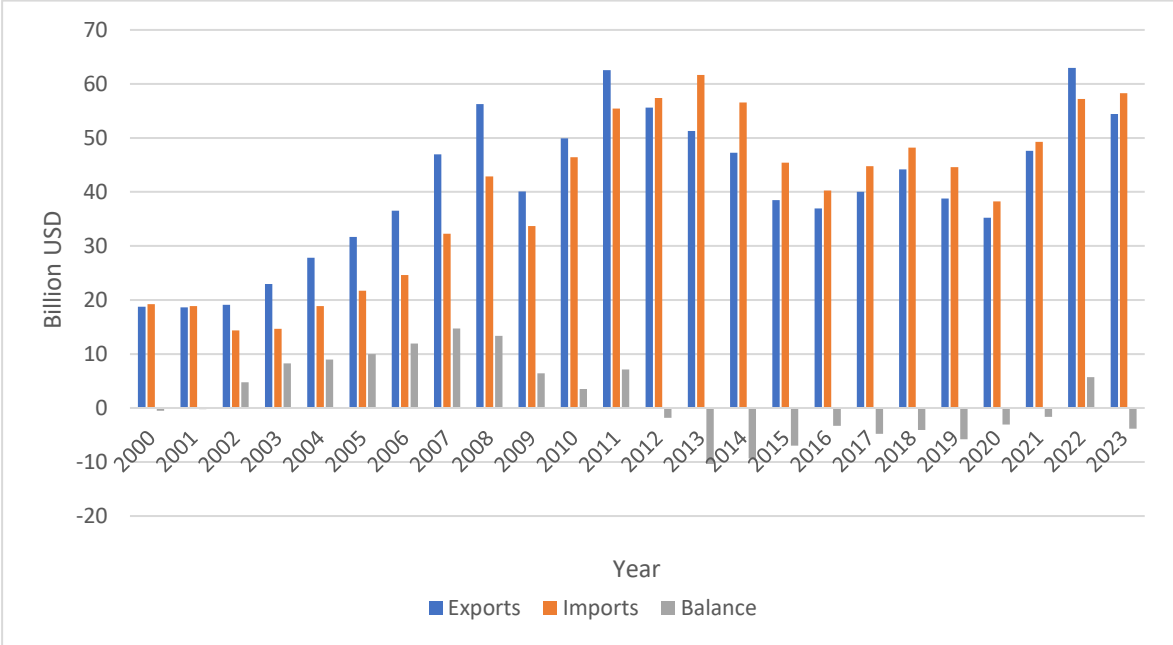


Figure 24 Trade in Goods between Mercosur – EU
 Source: Own processing according to MERCOSUR (2024)

European Union is the second biggest exporter partner. From figure 24, the Mercosur exports to the European Union have been increasing since 2000. From 2000 to 2010, the exports increased by 43,5 billion USD. A significant drop can be seen in 2009 due to the world economic crisis. From 2012, the trade balance changed, and imports exceeded the exports. this trend continued until 2023, with the exemption in 2022.

The main goods which are exported from the economic group MERCOSUR to the European Union may be seen in Figure 25. The biggest share has the mineral fuel, oils and products of their distillation, which accounts for 16.3%. The second biggest group are agricultural products and food. In total, in the agri-food category, the main exported types of products are arable crops and plant-based products, which, according to the European Commission (2023), 2022 accounted for 55,1% of the whole agricultural exports.

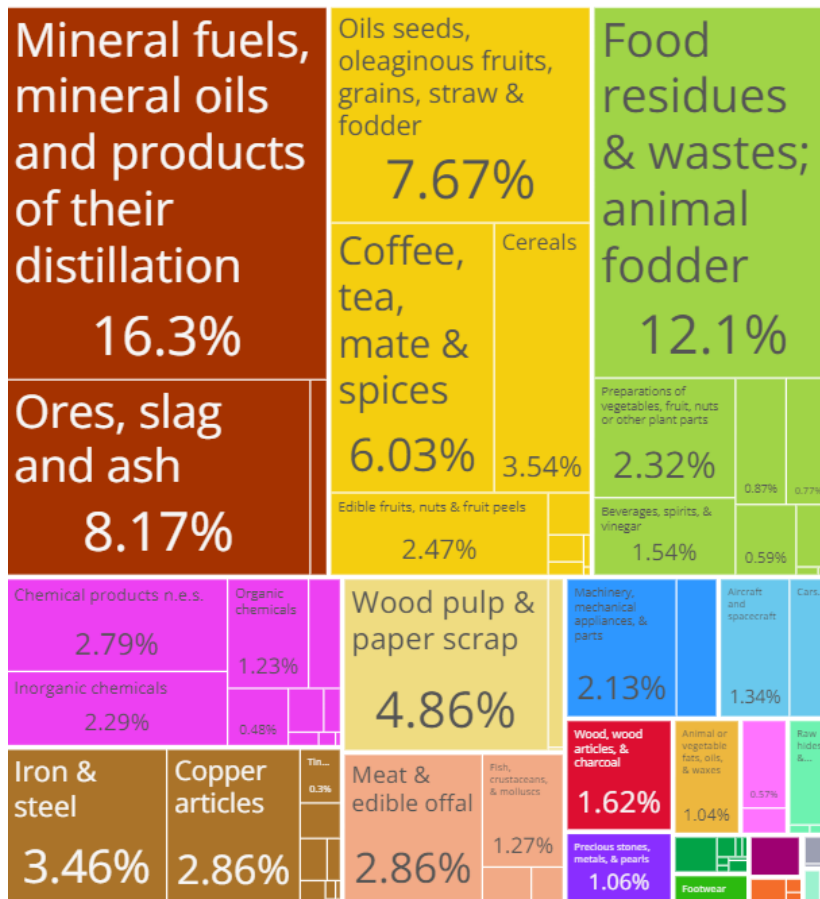


Figure 25 Export of Goods to EU in 2022
Source: OEC (2022)

Since the trade between Mercosur and the EU was continuously increasing, Figure 26 shows the goods which the EU exported to Mercosur in 2022. Machinery and other mechanical and electrical parts are the biggest group and account for more than 20% of all the exported goods. Pharmaceutical products occupy the second position, representing a proportion of 9.9%.

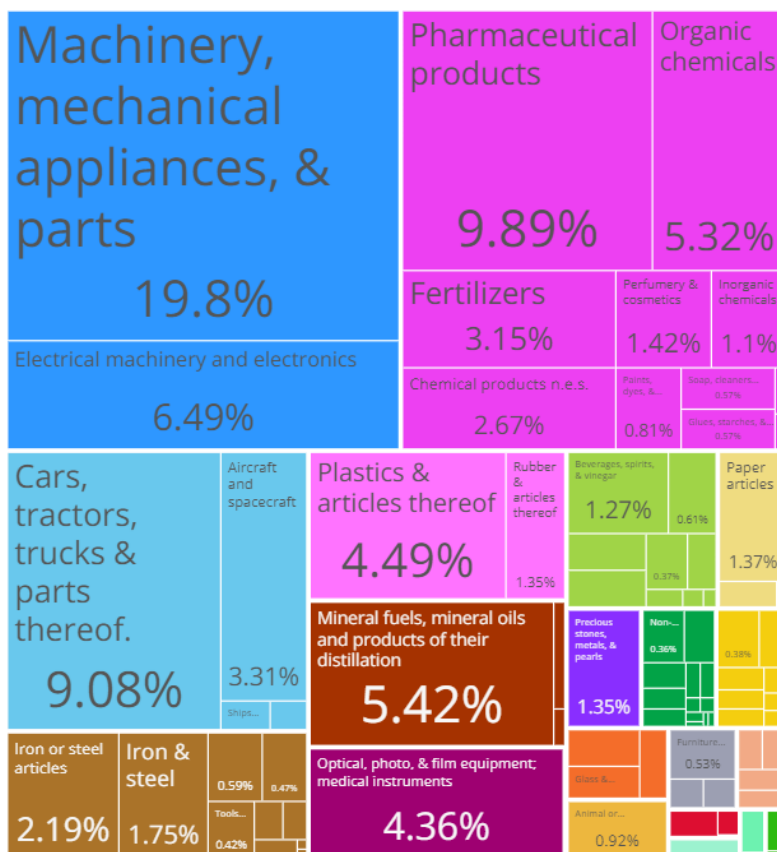


Figure 26 Exported Goods from EU to Mercosur
Source: OEC (2022)

In the case of the study, the European Union is considered as a whole. Nevertheless, the biggest trade partners in terms of Mercosur exports are Netherlands, Spain, and Germany. Other countries may be seen in Figure 27 below.

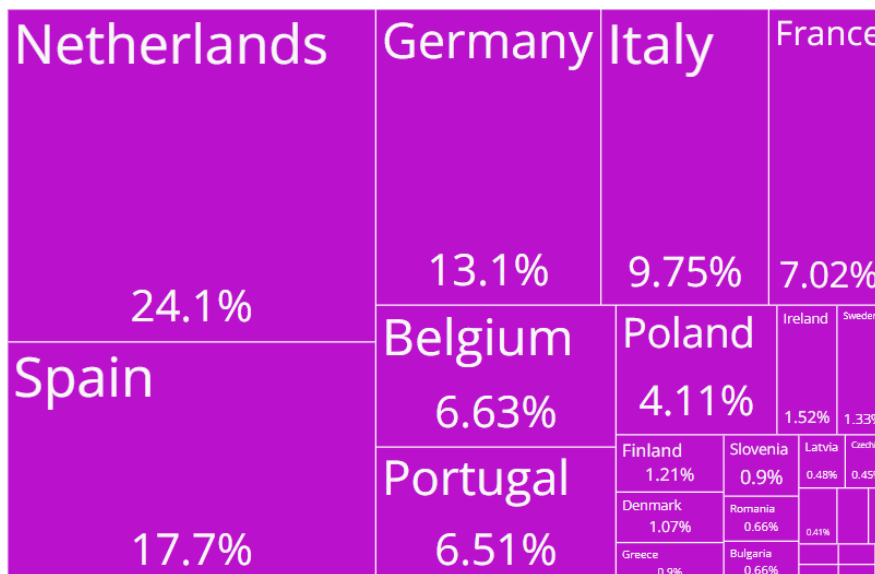


Figure 27 External Trade Destination of Mercosur in 2022
Source: OEC (2022)

The main countries from the European Union that export to the Merocosur are Germany, Italy and Spain. The percentage share can be seen in Figure 28 below.

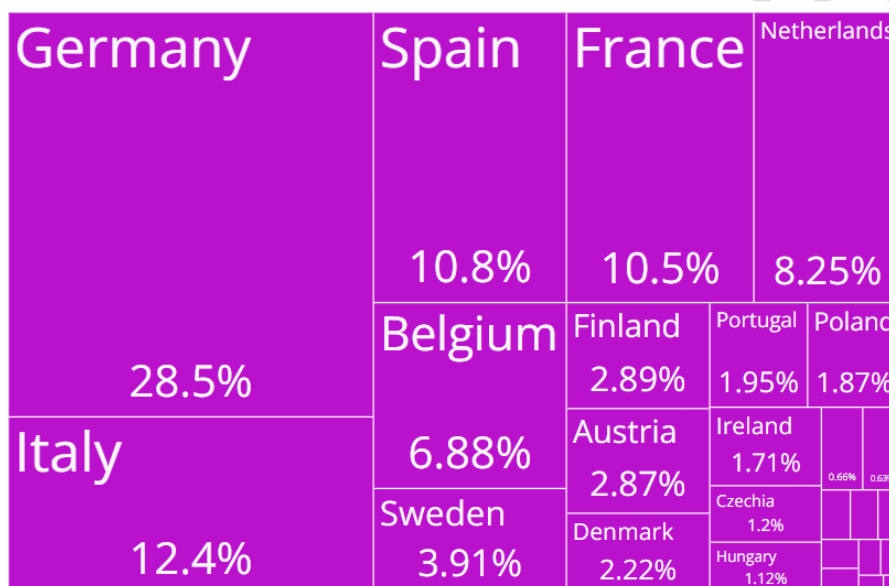


Figure 28 Internal Trade Destination of Mercosur in 2022
Source: OEC (2022)

The European Union (EU) and Mercosur engaged in negotiations for an association agreement in June 2019. The ratification and subsequent implementation of the agreement would yield several advantages, namely the removal of tariffs on 91% of goods exported from the European Union (EU) and the elimination of up to 95% of duties on goods originating from Mercosur

countries. Upon ratification, the Mercosur treaty will emerge as the most extensive trade deal in the history of the European Union, as well as one of the most substantial trade accords globally. The Mercosur bloc is the 42nd largest trading partner of the Czech Republic, accounting for 0.23% of goods exports and 0.31% of services exports. If the deal is implemented, Czech exporters have the potential to achieve yearly savings of up to CZK 2.188 billion in import tariffs. The pact will specifically provide assistance to industries that have demonstrated success in recent years within Mercosur countries. The sectors encompassed in this list are mechanical engineering, electrical engineering, textiles, automotive, chemicals, and energy (Kocourek et al., 2022).

When we analyse the exports to Mercosur and the European Union, it becomes evident that these are distinct commodities. The majority of exports to the EU consist of agricultural and industrial products, whereas exports to other Mercosur nations are restricted due to the countries' comparable economic profiles, which frequently prioritise the same type of production. Consequently, there is a decrease in the level of commerce between Mercosur member countries because of the significant similarities in their economies.

In the subsequent section of this thesis, our attention will be directed towards the importation of medical devices from a Czech exporter to Brazil. This aspect is expected to be facilitated by the implementation of this agreement, primarily through the reduction of tariff obligations.

3.5 Case Study Mercosur-EU

This section will illustrate the process of importing medical devices from the Czech manufacturer to Brazil, as well as the tariff and non-tariff obstacles that need to be addressed. Due to the unavailability of a company operating within the Brazilian market that engages in trade with Mercosur, an alternative method was taken, which was to identify a company that engages in trade with Brazil.

The company is a Czech company that has been operating in the market for more than three decades. Originating in a garage, this company has gradually evolved and emerged as a global leader in the field of medical devices. Recognising the substantial scope and huge possibilities presented by the Brazilian market, the company opted to establish a subsidiary in 2013 situated in São Paulo. The company has a significant volume of trade with Brazil, which is among the top 10 trading countries. The Brazilian office has more than 50 employees. The

subsidiary engages in the procurement and acquisition of medical devices from the parent firm, with pricing determined by the demand within the Brazilian market. Nevertheless, these devices have to overcome both tariff and non-tariff barriers.

One of the tariff barriers is to have a local representative, referred to as the Brazilian Registration Holder. Law number. 4886 of 1965 and its revisions, Law number. 8420 of 1965, govern the requirements for sales agents to behave in the Brazilian market. From 1992 to 1992, The legal framework governs the association between the manufacturer and the sale, with regulations tailored to the particular context of the locality. In Brazil, it is mandatory for foreign manufacturers to choose a local representative, referred to as the Brazilian Registration Holder, who assumes the role of representing the company in negotiations with ANVISA. The presence of a person who is knowledgeable about the local conditions is crucial for providing additional information regarding the required technical equipment, modifying items to comply with Brazilian regulations, and facilitating the type-approval procedure (Kanda, 2012).

Understanding of the contract's legal, commercial, and technical prerequisites. Due to the intricate and uncertain nature of the legislation, the presence of a local agent becomes imperative in certain instances to ensure the smooth execution of the customs process and the accurate determination of import-related tariffs, hence influencing the final selling price (Kanda, 2012).

The Brazilian National Health Surveillance Agency (ANVISA) and the National Institute of Metrology Standardisation and Industrial Quality (INMETRO) are responsible for regulating medical devices in Brazil. ANVISA and INMETRO issue standards and recommendations that medical device firms must adhere to. The pharmaceutical industry encounters an intricate and challenging patent system, an abundance of bureaucracy, and stringent price regulations (International Trade Administration, 2024).

As stated by ANVISA, the term medical device encompasses all equipment utilised in the healthcare sector for medical, dental, laboratory, or physiotherapy applications. These devices are employed either directly or indirectly for the goals of diagnosis, therapy, rehabilitation, or human monitoring. Additionally, medical devices are also utilised for the enhancement of beauty and aesthetics (Ministério da Saúde, 2024).

To facilitate the importation of our chosen goods, we must undertake the following procedural steps. Manufacturers must first register their medical devices with ANVISA as the initial step.

This entails providing comprehensive technical documentation that proves the device's safety and effectiveness. The documentation's complexity and the level of inspection imposed by ANVISA are contingent upon the device's risk categorisation, which spans from Class I (little risk) to Class IV (maximum danger)(ANVISA, 2024).

The classification of medical devices into four risk classes is based on the level of danger associated with their usage:

- Class I - low risk
- Class II - medium risk
- Class III - high risk
- Class IV - maximum risk.

In the context of applying classification rules, it is important to consider that the determination of a product's rule and risk class is contingent upon the manufacturer's specified purpose (Intended Use) rather than the risk class assigned to other comparable products. The sanitary condition of a thing is determined by its intended use rather than accidental use. If a device carries out functions that can be categorised into various risk classes, the risk class that is considered most critical will be chosen (Ministério da Saúde, 2024).

The complete and structured technical documentation necessary for the registration of medical devices in Brazil, as specified by ANVISA's RDC 751/2022, must comply with particular requirements. The technical dossier ought to encompass an in-depth description of the device, its intended use, the process of production, safety and performance data, along with substantiation of adherence to relevant standards. The technical dossier has several essential components:

- A comprehensive depiction and details of the device.
- The manufacturer's intended purpose.
- Details regarding the manufacturing process, encompassing a flowchart illustrating the sequential stages of production.
- In accordance with both Brazilian and international standards, safety and performance data are provided.
- Instructions for use (IFU) and labelling.
- The provided documentation serves to substantiate the device's adherence to the specified specifications.

Furthermore, manufacturers have the option to provide the documentation in Portuguese, English, or Spanish, providing them with flexibility based on their preferred language for documentation. The labels and IFUs should be presented in the Portuguese language (ANVISA's RDC 751/2022 provided by the company).

Another step to achieve the Brazilian market is certification, according to INMETRO Ordinance 54/2016. Certification by the National Institute of Metrology, Standardisation, and Industrial Quality (INMETRO) is a mandatory requirement for several categories of electrical medical devices. The primary objective of INMETRO certification is to assess the electrical safety and electromagnetic compatibility of various devices. Upon ANVISA's evaluation and approval of the application, the device is granted a market licence, enabling its sale in Brazil. The validity of this authorisation typically extends a duration of five years, following which it necessitates renewal. The entire process of overcoming non-tariff barriers costs the company more than three months (International Trade Administration, 2024). The registration process for ANVISA and INMETRO often requires around 3 months, which poses a significant obstacle to trade (Information provided by the company).

Those requirements for special conditions regarding medical devices can be classified by the International Classification on Non-Tariff measures according to UNCTAD as a technical measure of Sanitary and Phytosanitary Measures and Technical barriers to trade.

To facilitate the importation of the device into Brazil, it is necessary to overcome both tariff and non-tariff barriers. These tariffs include import taxes. Imports are subject to a customs procedure established by the customs tariff by MERCOSUL – Tarifa Externa Comum (TEC) (Kanda, 2012).

The subsequent categories can be regarded as the primary import tariffs and fees:

- Revenue Industrial Product Tax (II) - Imposto de Importação
- The imposition of a tax on the movement of industrial products (IPI) - Imposto sobre Produtos Industrializados
- Tax on the circulation of industrial goods (ICMS) - Imposto sobre Circulação de Mercadorias e Serviços

Revenue Tax Industrial Product Tax is an import duty (federal tax), which usually ranges from 0 to 20%. Classification of goods and customs tariffs are listed in the Common Tariff of the Mercosul as a TEC (Tarifa Externa Comum) (Kanda, 2012).

The imposition of a tax on the movement of industrial products is a federal excise tax levied on the value of domestic products and industrial products imported or exported or originating from a free trade area. Its rates are not fixed; differentiation is different according to the importance and need of the product in the Brazilian market. The normal tax rate ranges from 0 to 20%. Tax on the circulation of industrial goods is a federal excise tax levied on the value of domestic products and industrial products imported or exported or originating from a free trade area. Its rates are not fixed; differentiation is different according to the importance and need of the product in the Brazilian market. The normal tax rate ranges from 0 to 20% (Kanda, 2012).

In addition, the determination of sales prices must consider the following social contributions (taxes):

- Programme for Social Integration (PIS/PASE) - Programa de Integração Social
- The concept of social financial contribution (COFINS) - Contribuição Financeira Social

The Programme for Social Integration is equivalent to 1.65% of the sum of CIF, II, IPI, and ICMS. The concept of social financial contribution is equivalent to 7.6% of the sum of CIF, II, IPI, and ICMS. Both items are deducted from income tax. The selection of contributions is directed from the law to the field of healthcare, social care and services, etc (Kanda, 2012).

To understand the counting of the Programme for Social Integration and The concept of social financial contribution, it is important to explain the term CIF. Cost, Insurance and Freight (CIF) is an often employed Incoterm in global commerce. An international shipping agreement refers to a contractual arrangement in which the seller either sends items on a ship or acquires the products that have already been delivered. The transfer of risk for loss or damage to the goods occurs once they are loaded onto the ship, and the seller is responsible for arranging and covering the expenses and transportation required to deliver the items to the specified port of arrival. In addition, the seller provides insurance coverage to protect the buyer from any potential loss or damage to the items while they are being transported. This phrase exclusively pertains to the transportation of goods via coastal and inland waterways (INCOTERMS, 2020).

It is important to categorise the device to determine the tax amount that would be levied on the imported device. As an example, a therapeutic, non-invasive electrical medical device of risk class II was selected in order to stimulate the local biological response of the treated tissue.

Table 4 Tax Burden for Chosen Medical Device

Type of tax	value (%)
Revenue Industrial Product Tax - Imposto de Importação	11.20
The imposition of a tax on the movement of industrial products - PIS	5.78
Programme for Social Integration - PIS Importação	2.10
The concept of Social financial contribution – COFINS Importação	9.65
Total	28.73

Own processing according to (SISCOMEX, 2024)

The revenue Tax on Industrial Products for this imported device is 11.2%, The imposition of a tax on the movement of industrial products is 5,78%, the Programme for Social Integration tax is 2.1%, and The concept of social financial contribution tax is 9.65%. The total tax burden is 28.73%.

Table 5 Example of Customs Calculation

	USD
Price	6 500
Insurance (1%)	65
Freight	1 300
Others	500
CIF	8 365
Import tax (Imposto de Importação)	936,9
Taxes over industrialised products (Imposto sobre Produtos Industrializados)	483,5
Programme for Social Integration (Programa de Integração Social)	175,7
The concept of social financial contribution (Contribuição Financeira Social)	90,4
Total	10 052

Source: Own processing

Table 5 presents an Example of Customs Calculation. To enhance comprehension, an estimation of the approximate costs of imported medical devices is included in the table. As a result of the highly confidential information, the values have been altered. The anticipated cost of exporting the medical product to Brazil is 6,500 USD, excluding VAT. The anticipated duration for the shipment to be transported from the company's warehouse to Sao Paulo is roughly 21 days. In the computation, the "others" refer to expenditures associated with various types of provisioning and handling expenses at the Brazilian port. The entire cost of the product, including tariffs and any applicable taxes, is 10,052 USD. This represents a growth of 54.6%.

Table 6 Import Process of Medical Devices in Brazil

Step	Process Step	Responsible Entity	Description	Requirements/Documents
1	Choose Local Representative	Manufacturer	Select a BRH in Brazil to facilitate registration and compliance.	Contract agreement with BRH
2	Submit Documentation to ANVISA	Manufacturer/BRH	Register the medical device with ANVISA, providing the necessary technical documentation.	Technical dossier (device description, intended use, manufacturing process, safety data, etc.), Proof of safety and effectiveness
3	Obtain INMETRO Certification	Manufacturer/BRH	Certify electrical safety and compatibility of the device.	INMETRO application, Test reports showing compliance with safety standards
4	ANVISA Approval	BRH	Obtain a market license from ANVISA after meeting all regulatory requirements.	Final application post-INMETRO certification
5	Address Tariff Barriers	Manufacturer/BRH	Calculate applicable import duties and prepare for customs clearance.	Classification under TEC, Application for import duty exemptions if applicable
6	Comply with Non-Tariff Barriers	Manufacturer/BRH	Ensure compliance with technical and safety standards.	Compliance documentation, Safety and performance certificates
7	Financial Contributions	Manufacturer/BRH	Calculate and account for social contributions on import.	Documentation for CIF, Calculation of PIS/PASE and COFINS
8	Customs Clearance	Customs Agent/BRH	Final clearance of the device at Brazilian customs.	All import documents, Certificates of compliance, Proof of payment of duties and taxes

Source: Own processing

Table 6 presents a systematic framework for the importation of medical products from a company based in the Czech Republic to Brazil. The document provides a comprehensive overview of the sequential procedures involved in the import process, delineates the respective responsibilities of the manufacturer or Brazilian Registration Holder at each step, and enumerates the essential documents and actions to be undertaken at each level. Each component of the table, ranging from the appointment of a local agent to the acquisition of requisite certifications and the facilitation of customs clearance, has been meticulously crafted to guarantee adherence to Brazilian legislation and the seamless execution of the importation procedure. By adopting this systematic method, one can efficiently negotiate the intricate regulatory landscape, guaranteeing compliance with all legal and safety regulations to achieve a successful market entry. After successfully overcoming the

obstacles of acquiring certifications, the duration of importation into Brazil is shortened to a period ranging from 2 to 3 weeks.

Signing and implementing the Mercosur-EU agreement would result in a steady decrease in the customs burden, as previously stated. Importing medical products to Brazil would result in a reduction in costs. Despite the strict regulations imposed on medical devices in the European Union under the European Directive Medical Device Regulatory - Regulation (EU) 2017/745 of the European Parliament, non-tariff obstacles such as INMETRO and ANVISA certification will remain necessary.

Discussion

The thesis offers an exploration of regionalism as a crucial factor in influencing economic, political, and social dynamics within distinct geographic regions, with a particular emphasis on the Mercosur region. Regionalism in Latin America, as demonstrated by Mercosur, is primarily characterised by the concept of "open regionalism," which refers to the process by which geographical regions participate in more interconnected exchanges. This model exhibits a liberal stance towards both intra-regional and extra-regional trade, arguing for the facilitation of trade openness and the enhancement of competitiveness through the elimination of trade obstacles.

The transition of Mercosur from a free trade zone to a customs union is influenced by Balassa's 1962 conceptual framework of economic integration. The primary objective of this transition is to build a unified external tariff system that can be applied uniformly throughout member nations. The objective was to improve the effectiveness and cost-effectiveness of international trade and establish a common market that enables the free movement of goods, services, capital, and workforce.

Nevertheless, despite notable progress in reducing tariff barriers and enhancing intra-regional trade flows, Mercosur encounters substantial obstacles that impede its progression towards becoming a comprehensive customs union or a common market. There are significant non-tariff barriers that persist, encompassing legislative and technical barriers such as sanitary and phytosanitary requirements, technological standards, and complex customs procedures. The presence of these problems, coupled with disparities in external tariffs among the member states, suggests that Mercosur continues to be a free trade zone.

The previously mentioned case highlights the intricate characteristics of regional integration, where theoretical aspirations frequently conflict with practical circumstances. The persistent challenges underscore the complexities associated with aligning national policies and regulations within the Mercosur framework, so highlighting the complicated interplay between economic theory and practical execution. This scenario not only demonstrates the achievements and aspirations of the bloc but also emphasises the intricacies and difficulties of harmonising national interests with regional goals, therefore impacting the future trajectory of regionalism in Latin America.

Although there have been attempts to achieve higher economic integration, the amount of commerce between Mercosur member states is still very low, accounting for approximately

10% of their overall trade. Mercosur's most trading relationships extend beyond the group to include nations such as China, the United States, and the European Union. The potential growth of intra-Mercosur trade lies in the industrialisation of the member states. Although the export of raw materials and agricultural products remains important, the development of industry and the production of high-value goods can bring substantial benefits in terms of trade and economic development.

Upon analysing exports to Mercosur and the EU, notable disparities become apparent. The majority of exports from the European Union (EU) comprise agricultural and industrial items. In contrast, commerce within the Mercosur region is restricted since member nations have comparable economic profiles that prioritise the same sort of output. This asymmetry reduces trade levels among Mercosur members.

Furthermore, the consolidation of tariff barriers towards nations that are not members of the block could be beneficial. Implementing a common customs policy for all nations, with no exemptions, could simplify the elimination of trade barriers and foster unity in trade policies across Mercosur. By combining the unification of tariff barriers with industrialization, the region might achieve a higher stage of integration, enabling it to fully use its potential.

The practical barriers caused by non-tariff barriers within Mercosur are exemplified by the importation of medical products into Brazil, as observed by the Czech company. The presence of regulatory and procedural challenges has a substantial impact on the facilitation of corporate operations and has the potential to hinder prospective trade prospects inside the bloc. The case study revealed multiple levels of complexity, encompassing rigorous regulatory authorisations, divergent criteria among member nations, and protracted administrative procedures that directly impact the duration and expenses associated with market entry.

The non-tariff barriers have a significant economic impact. For example, delay in acquiring essential authorisations can result in increased expenses for storage and warehousing, diminish the worth of time-critical products, and lead to missed sales opportunities. Furthermore, the supplementary expenses related to compliance can result in higher prices for customers, thereby diminishing their availability and perhaps affecting public health results in areas that rely on imported medical innovations. In terms of policy implications, it is evident that Mercosur should strengthen its regulatory structure to facilitate a more unified market, particularly in advanced industries like medical devices. Policies that prioritise the establishment of mutual recognition of standards streamlining customs procedures, and

improving openness in regulatory processes have the potential to substantially mitigate the existing obstacles encountered by enterprises operating inside the trade bloc. Implementing such measures would not only promote trade efficiency but also bolster Mercosur's competitiveness in global markets.

Conclusion

The primary objective of this thesis was to conduct a critical assessment of the effectiveness of Mercosur in improving the international trade dynamics of its member nations, namely Argentina, Brazil, Paraguay, and Uruguay. The present analysis was based on the wider framework of regionalism, a prominent phenomenon in global economic and political structures, notable for its prominence in Latin America, where Mercosur serves as a prominent illustration of regional integration.

The thesis was organised into three primary components: a theoretical analysis of regionalism, an investigation into Mercosur's trade policies and their economic consequences, and a concentrated case study on the trade relations between Mercosur and the European Union. Each subsequent phase has been constructed upon the preceding one, so constructing a full representation of the impact and formation of trade policies and economic progress within the South American bloc as a result of regional economic integration facilitated by Mercosur.

The thesis delved into different typologies of regionalism within the theoretical framework, establishing connections between these theoretical constructs and their practical implications within the context of Mercosur. Based on the theoretical basis, Mercosur can be classified as a sub-regional economic union. The comprehensive examination of Mercosur's trade policies unveiled notable changes towards diminishing tariff and non-tariff obstacles, cultivating a more liberal trade atmosphere that promotes economic collaboration and advancement among the member nations.

The analysis of economic indicators and trade data obtained from the member countries has demonstrated that Mercosur has had a substantial positive impact on intra-regional trade and has improved economic indicators. In the fiscal year 2000, the total value of imports reached an estimated \$19.285 billion USD, while exports exhibited a slightly lower figure of roughly \$19.034 billion USD. By the year 2023, there was a notable expansion in both imports and exports. Imports amounted to approximately \$49.672 billion USD, while exports had a similar gain, reaching \$48.458 billion USD. The data demonstrates a significant rise in both imports and exports during the 23-year timeframe, indicating a rising growth in commerce among Mercosur member nations. However, the achievement of complete economic integration and the optimisation of trade benefits continue to be hindered by challenges such as uneven economic development and the enduring presence of non-tariff barriers.

The Mercosur-EU analysis provided the most convincing statistics, showcasing the achievements and difficulties encountered in trans-regional trade agreements. The research demonstrated the potential of economic partnerships to play a pivotal role in driving economic growth, contingent upon a robust congruence in policy and economic goals among heterogeneous regions.

In the final section of the thesis, a case study illustrating the process of importing medical devices into Brazil was examined.

The full potential of enhanced collaboration within Mercosur resides in the elimination of tariff exclusions and the promotion of industry, ultimately enabling the bloc to attain a comprehensive Customs Union status. By taking into account these characteristics, Mercosur might exploit the benefits of regionalism, promoting economic integration and diminishing disparities among its members. This strategy would strengthen unity and financial stability in South America, guaranteeing that the region maintains its competitiveness in a rapidly changing global economy.

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