

# Benefits and drawbacks of venezuala joining mercosur



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## **Abstract**

Venezuela is a country located in north South America and is one of the largest producers of oil and natural gas in the world. Exports of petroleum make over 50% of government revenue. Along with petroleum, Venezuela has other natural resources, such as coal, nickel, diamonds, and gold and exports of these natural resources are currently growing and developing. Mercosur is a largest trade bloc of South America and Venezuela recently signed the agreement as a fifth member. Since Venezuela and Mercosur have major exports in different industry, it will create comparative advantages within the member nations. However, it may create trade diversion and Venezuela might lose some of its tariff revenue. From the company's point of view, they would be able to make other foreign company relationship that already established with member nation of Mercosur. Free movement of employment within the member nations of Mercosur would increase mobility for the employees. Thus, company would hire better skilled and qualified employees. However, at the same time, it means that more competitors would enter into the market and they might have better products with lower price.

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Venezuela is a country located in north South America and is one of the largest producers of oil and natural gas in the world. It mainly produces petroleum oil, which is a key of Venezuelan economy. According to National Statistical Coordination Board, it takes to almost 28% GDP in 2009, 82% of exports, and over 50% of government revenue (Nation Statistical Coordination Board, 2010). Exports of petroleum make Venezuela mostly trade surplus. Along with petroleum, Venezuela has other natural resources, such as coal, nickel, diamonds, and gold and exports of these natural resources are currently growing and developing (Bureau of South America, 2009). Venezuela has mixed economy and its main economic sector is petroleum. As National Statistical Coordination Board stated, it has been made rapid growth: 16. 8% of economy growth reported in 2004. Its GDP growth rate was 4. 8%in 2009 and GDP was \$326 billion in 2009 (Nation Statistical Coordination Board, 2010).

Mercosur is a largest trade bloc of South America and is established by Argentina, Brazil, Paraguay, and Uruguay in 1991 and Venezuela recently signed a membership agreement (Bureau of South America, 2009). It is purposed to make economic integration, political agreement, and free trade between the member nations (Bureau of South America, 2009). They mainly eliminated barriers to regional trade, such as tariffs, custom duties, and taxed and involve free movement of goods and services of member nations.

### **Benefits and drawbacks as country**

As Venezuela has been accepted as a member nation of Mercosur, there are some benefits are drawbacks from country's point of view.

According to the report of exports of Venezuela and Mercosur by regions, Venezuela and Mercosur have major exports in different industry (Nation Statistical Coordination Board, 2010).

A report showed that Venezuela exported 75% of mineral fuels, 10% of manufactured goods and related products, and 5% of chemical products and Mercosur exported 25% of food and live animals, 19% of machine and equipment, and 18% manufactured goods and related products in 2009 (Nation Statistical Coordination Board, 2010).

While Venezuela exports mainly Petroleum and natural resources, such as coal, iron, and nickel and chemical products Mercosur exports food and machine and equipment more. Since they have different strong economic sectors, it will create comparative advantages within the member nations and competitive power to other non-member countries.

According to Bureau of South America, the free trade and easy movement of not only goods and services, but also employment by joining Mercosur would create more jobs with reasonable hours and decrease unemployment rate (Bureau of South America, 2009). It gives the chance individuals to work in better environment and eventually boost economy of each member nations. However, it may create trade diversion. By joining Mercosur, chance of dealing right supplier would lose and get less efficient suppliers within Mercosur. Since tariffs and other custom duties from international trade are eliminated, Venezuela might lose some of its tariff revenue. In addition, while free movement creates mobility of employment along with more jobs,

business looks for lower employment within Mercosur and it might result less jobs or working opportunities in their own nations.

## **Benefits and drawbacks as company**

Beside all the benefit and drawbacks from country's point of view, there are also benefits and drawbacks for the company itself. By joining Mercosur, company would be able to make other foreign company relationship that already established with member nation of Mercosur. Although less tariff and custom duties would result in decreasing government revenue, it would allow company trade goods and services with less cost and more profit. The company might lower their price and create competitive power and make more revenue. In addition, free movement of employment within the member nations of Mercosur would increase mobility for the employees. Thus, company would hire better skilled and qualified employees and employees hired from other countries would give the benefits of foreign market to the company. Company also expands or changes its work field to lower employment wage so they can create more revenue with less employment costs. If company makes money and expands its business, economy also grows accordingly.

Benefits of something always can be the drawbacks in other side. Company would acquire foreign relationship and eliminations of barriers within the member nations of Mercosur would make company less cost. However, at the same time, it means that more competitors would enter into the market and they might have better products with lower price. If a company don't have any specific competitive power, it might be hard to survive without more investment in R&D and its products. Also, due to free employment

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movement, company might lose valuable employees unless they invest and provide better work conditions to the employee.

The benefits and drawbacks of joining Mercosur as the country of Venezuela and as the company have been addressed. As Venezuela has been accepted by fifth member nation of Mercosur, there are some supplements to eliminate the drawbacks and to maximize the benefits. First, Venezuela needs to develop mutual relationship with other member nations of Mercosur and tries to learn about the other nation's culture and custom. In addition, precise understandings of other member nations are needed in economy, political issues, and foreign relationship with non-member nations.

From the company's point of view, company need to hire someone who has the knowledge and experience in other member nation in order to get familiar to its local situation and to prevent the mistakes from lack of experiences. Also, company needs to develop its competitive strategies, since lots of competitors from other country might take company's customer. Besides developing the skills and hiring professionals, company needs to provide better working environment. Otherwise, its skilled and valuable employees might move to other company or even other country.

## **Conclusions**

Joining Mercosur would include lots of benefits and drawbacks as the country and as a company. ). Mercosur is purposed to make economic integration, political agreement, and free trade between the member nations. They mainly eliminated barriers to regional trade, such as tariffs, custom duties, and taxed and involve free movement of goods and services of member

nations. Different economic sectors between Venezuela and other Mercosur member nations, it will create comparative advantage. And free movement of employment within the member nations of Mercosur would increase mobility for the employees. Although less tariff and custom duties would result in decreasing government revenue, it would allow company trade goods and services with less cost and more profit. In addition, free movement creates mobility of employment along with more jobs, business looks for lower employment within Mercosur but, company might lose valuable employees unless they invest and provide better work conditions to the employee. Venezuela needs to develop mutual relationship with other member nations of Mercosur and company needs to develop its competitive strategies.