

International business: mercosur

Business



Mercosur is the largest trading block in South America. According to Jorge Guira (2003), it is the common market of the South which was set up with an aim of eliminating obstacles to international trade like high tariffs, technical requirements, and fragmented levels of income. It was started in the early 90s with an aim of unifying the Southern Cone with ultimate goal of creating the South America trading block. Catherine Wheeler, as associate researcher with the council on Hemispheric Affairs says that “ it gives them more trading security.

” Full membership includes Argentina, Venezuela, Brazil, Paraguay and Uruguay. The entrance of Venezuela to the trading block has caused a lot of tension within. Riordan Roett, who is the director of Western Hemispheric studies at Johns Hopkins University says that Brazil “ appear to be pandering to Venezuela,” through their leniency for the Chavez government with regard to many of the requirements for Mercosur membership and supporting Bolivia’s bid for full membership to the block. However, there are many benefits for Venezuela belonging to the trading block.

There is a large market created by the trading block. It is to be understood that, the Mercosur countries has a population totaling 250 million people with members having a collective output of \$ 1. 1 trillion. This accounts for 75% of South America’s GDP making Mercosur the world’s fourth-largest trading block after EU, NAFTA, and ASEAN. This large market base increases production of Venezuela industries with consequent increase in their revenue and expansion programs. Venezuela will also benefit from increased investment from the Mercosur countries.

Argentina has already accepted to invest in Venezuelan powdered milk plant in exchange for financial aid to a faltering Argentine milk-producing cooperative. There has also been negotiation with European Union of possible trade agreements. Venezuela has also found a large oil market for its energy resources. It is to be understood that it makes a significant contribution to Mercosur overall gross domestic product by contributing about \$157.9 billion to the GDP. The disadvantage with the block is that there is too much political heat being generated by Venezuela's entry.

President Chavez has been championing for creation of Mercosur that prioritizes social concerns and distances the block from the old elitist corporate model of integration looking for financial profits but forgetting about workers, children's life and human dignity. This seems to contradict other states whose drive has been for economic development of the block. The block seems to send sentiment against free trade with the United States which is not wholly driven by Venezuela due to its anti-Bush stand.

This coupled with internal wrangles has made the block lose credibility outside and is almost collapsing talks with the European Union. There are also talks about exploitation of Venezuela's energy reserves by Brazil and Argentina. It is said that the two countries are attracted by access to cheap energy supplies and they like the idea that they would have a Caribbean coast. Due to free trade and lowered tariffs, Venezuela is going to lose a lot from oil export in the region. Mercosur members are also not allowed to make any free trade agreement with any other country outside the block.

This saw Venezuela resign from Andean Community of Nations (CAN) and Bolivia has been denied full admission to Mercosur because it has refused to resign from CAN. This has made Venezuela lose trade agreement with CAN countries. Venezuela has also failed benefit from other trade agreements like free trade agreements of Americas (FTAA) to its which it argued that it would lead to increased inequality in the region. City petroleum plans to gain a lot and at the same time lose as a result of Venezuela joining the Mercosur.

We are set to gain in that we will have a large market base of about 250 million consumers for our products and we have moved from relying heavily on the national market to international markets. We intend to increase our export to other Mercosur countries especially Brazil and Argentina by 10 folds. This will enable us to create more job opportunities and at the same time it has raise our company profit. We are set to gain due to the lowered tariffs on trade across the Mercosur countries.

Mercosur countries accounts for more than 80% of our export market and with lowered levies attracted by export in these countries, we will have a large profit margin. Initially we have paying large sums in tariffs for trading in Mercosur countries which will be lowered now. However, there is a probability that we are going to lose some of our markets to other entry in the trade. With free trade policy, we expect some new players in the industry that will increase competition to what has been like a monopoly trade to us.

With little regulation in cross border, trade and with possible entry of European Union traders to the region, we are poised for tough competition with new entries. We have to device ways of overcoming this imminent

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competition, not by seeking help from the government, but by efficient planning and execution of strategies that will position us as leading oil dealer in the region. We are however going to lose our trade privileges with the countries in the CAN block which may decrease our export in these countries but we hope it will be compensated by the expanded market to Brazil and Argentina.

We will be enticed by talks with EU which we look further as an avenue on increasing our exports. References Delener, N. (1995) Strategic Planning and Multinational Trading Blocks Klonsky, J. and Stephanie, H. (2007): Mercosour: South Amercas Fractiour Trade Block. Guira, J. (2003). Mercosur: Trade and Investment Amid Financial Crisis. Seffer, M. C. and Reyanal, M. L. (2005): Beyond the Barricades: The Americas Trade and Sustainable Development Agenda. Pp185.