

The Impact of Milei's Election: Perspectives on Mercosur and the Automotive Sector

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Abstract. In the 1980s, the rise of neoliberalism alongside the establishment of a new economic scenario, compounded by the Debt Crisis (1982), created challenges not only for Latin American countries but also for much of the globe. The Treaty of Asunción was signed in March 1991, initiating the Mercosur economic bloc, representing a milestone in Latin American integration history. This is because it made the insertion of its members, Brazil, Argentina, Uruguay, and Paraguay, more competitive in the international system and served to alleviate historical tensions between Brazil and Argentina. Through historical research, I found that the first significant rapprochement between the two countries occurred through the resolution of disputes over the use of water resources in the La Plata Basin. Currently, Brazil and Argentina are the two largest powers in Latin America and form the main bilateral axis of economic and political forces within Mercosur, with their relationship being decisive for the progress of regional integration. In this article, I investigate how the emergence of Javier Milei in the Argentine presidency could impact the future of Mercosur and commercial relations with Brazil. The current Argentine president represents the crisis of liberal democracies, promoting attacks on democratic institutions and conflicting with Lula's politics. Upon observing the commercial relations between the two countries, it became evident that economic complementarity is most pronounced in the automotive sector. This explains the methodological choice to focus on the economic impacts within this sector. The hypothesis was that with Milei in power, Mercosur may weaken as it opens internationally, which could also be detrimental to the automotive industry given the economic complementarity between Argentina and Brazil, amidst Argentina's deep economic crisis and the predominance of commercial relations with China.

Keywords. Argentina, Brazil, Mercosur, Milei, Automotive Sector.

1. Introduction

The relationship between Brazil and Argentina holds significant historical, political, and economic implications, shaping the trajectory of South American integration. This investigation focuses on analyzing the impact of Javier Milei's presidency in Argentina on the commercial ties between these two nations within the context of Mercosur.

Throughout the 20th century, Brazil and Argentina experienced a dynamic relationship characterized by periods of both alignment and discord. From the resolution of disputes over the La Plata Basin's water resources to the signing of the Treaty of Asunción in 1991, which established Mercosur, these countries have navigated a complex web of economic and political interactions. Their partnership within

Mercosur has not only enhanced their international competitiveness but also served as a mechanism to alleviate historical tensions and foster regional integration.

The recent electoral victory of Javier Milei, an extreme-right candidate, in Argentina has introduced new challenges to Mercosur's stability. Milei's proposed economic policies, including potential ruptures in diplomatic relations with key partners like Brazil and China, underscore the significance of understanding the implications of his presidency on regional dynamics.

As Brazil and Argentina grapple with economic uncertainties and shifting political landscapes, it is crucial to assess how Milei's presidency may affect the future of Mercosur and bilateral commercial

relations. This investigation aims to delve into the intricacies of these relationships, exploring potential scenarios and implications for South American integration. By examining historical trends, recent developments, and expert analyses, this study seeks to provide insights into the evolving dynamics between Brazil, Argentina, and Mercosur in the context of Milei's presidency.

2. Research Methods

This investigation involved historical researching and analyzing the relations between Brazil and Argentina, aiming to understand the impact of Milei's election on the trade relations between these countries. This work was conducted through reading and critically analyzing articles on the topic from Brazilian academic journals' websites and News websites such as BBC, UOL and Terra. Finally, statistical data on the trade relations were consulted from the Mercosur website.

3. Brazil and Argentina Relations

The relationship between these two countries dates to the time of Portuguese-Spanish domination over the American continent. However, in this work, the chosen historical period is the 20th century, with both countries consolidating as nation-states after their independence processes, Argentina (1810) and Brazil (1822). This relationship has been characterized by moments of closer alignment and others of greater mutual distrust. During World War II, Brazil and Argentina were on opposite sides. In the 1970s, there was tension, and 9 years later the impasse was resolved through the signing of the Tripartite Agreement on Itaipu between Brazil, Argentina, and Paraguay [1]. This was only possible due to changes in the foreign policy of Argentina and Brazil, which enabled a series of cooperation initiatives, directly preceding the integration process [2]. Evidence of this is that in 1980, they entered into an Agreement for Cooperation in the Development and Application of Peaceful Uses of Nuclear Energy, and in 1982, Brazil sided with Argentina in the Falklands War.

According to Neto (2013), in addition to the internal conditions of the countries, the international scenario also played a relevant role in bringing the two countries closer. International challenges such as the Oil Shock (1979), the Debt Crisis (1982), and later, with the dissolution of the USSR and the consolidation of the US as the dominant power in the International System in the 1990s influenced Argentine-Brazilian relations to assume a more economic than purely political character [3], given the difficulty both faced in developing economically autonomously.

3.1 The creation of Mercosur

Also, the second wave of Regionalism, that emerges after the end of the Cold War, impacted directly on the creation of Mercosur. A Regional integration, as defined by Herz and Hoffmann (2004), is a dynamic

process of intensification in depth and scope of relations between actors leading to the creation of new forms of regional political institutional governance. This phenomenon happened with the acceleration of the globalization process, leading to the creation of new organizations and integration agreements and the reform of others in the latter half of the 1980's.

In 1985, during the democratization period, the Iguazu Declaration accelerated the bilateral integration process and was considered an important step towards the creation of Mercosur, as Uruguay and Paraguay decided to join this alliance after its signing [3]. Still in the late 1990s, Brazil and Argentina signed Economic Complementation Agreement No. 14 (ACE 14), which aimed, among other objectives, to "facilitate the creation of the necessary conditions for the establishment of a common market between the two countries.

In this way, the constitution of economic blocs and the adoption of flexible accumulation in Western countries contributed to the intense complementarity that was created between the two economies, especially in industrial sectors such as automotive. In recent years, Brazilian sales to Argentina have been made up of over 80% of industrial manufactured goods, making the neighbouring country the main destination for these goods. Therefore, Brazil imports parts manufactured by Argentina, and they need Brazil to continue manufacturing automobiles to consume their products [4].

4. The emergence of Javier Milei

Firstly, Latin American integration has always been a priority for left-wing governments. Specifically, during the "pink tide" era, during Lula's first term, most of Mercosur members were left leaning and shared a common project of market integration [5]. Moreover, they managed to advance social policies aimed at reducing poverty and inequality. Since his election in 2022, the Lula administration has sought to restore Brazil's international image and reclaim its leadership in Latin America and various multilateral forums. Conversely, Milei's election in 2023 indicates a significant shift in the political landscape. Milei is perceived by his supporters as a political outsider, with electoral promises including the closure of the Central Bank, dollarization of the economy, and reduction of the ministerial cabinet to just eight departments.

In terms of foreign policy, the Argentine president declared intentions to sever ties with countries deemed "communist", including Brazil and China, Argentina's two largest trading partners. Additionally, Milei stated that Argentina would not join the BRICS. Consequently, the victory of the far-right candidate in Argentina, Javier Milei, poses challenges for Mercosur. However, in 2024, Argentina's new chancellor, Diana Mondino, signalled continuity in relations with Brazil.

Regarding Mercosur, Mondino advocates for Argentina's ideas to enhance its operation and introduce modernization proposals for internal discussion [6]. Among these ideas is the elimination of the Common External Tariff (TEC), a tax imposed by members on imports from outside Mercosur [7]. Thus, this study hypothesizes that a potential commercial opening of Mercosur would represent a setback in Latin American integration as it exposes Brazil and Argentina's economic vulnerability to international competition, particularly in the automotive sector.

5. Automotive sector: economic complementarity

Regarding the automotive industry specifically, due to the economic crisis facing Argentina, vehicle production has decreased, consequently reducing sales to Brazil. As Brazil ceased to buy and sell vehicles to Buenos Aires, it began importing more from China. Consequently, Mercosur, which had already been weakened due to the aggressive commercial tactics and high competitiveness of the Chinese automotive industry, now sees this phenomenon manifesting more recently in the automotive sector.

According to a study conducted by Anfavea, the National Association of Automotive Vehicle Manufacturers, which represents vehicle manufacturers in Brazil, there has been an increase in Brazilian imports of electric cars from China, the second-largest exporter of cars to Brazil after Argentina. To illustrate the growing prominence of the Chinese automotive industry, Chinese vehicle imports, which accounted for 3%, more than quadrupled in 2023 (a 347% increase), reaching 32.2 thousand units in Brazil [8]. Additionally, Argentina, historically the primary destination for Brazilian automotive exports, was surpassed by Mexico in 2023.

6. Conclusion

As previously seen, in the 1990s, Brazilian and Argentine automakers reorganized vehicle production, considering greater complementarity in vehicle production through incentives and tariffs. Therefore, the reduction in trade in this sector impacts both economies. The conclusion is that, given the difficulty of abruptly severing ties with Brazil and China due to the importance of trade relations with these two countries, the Argentinian president may create integration problems that hinder the cohesion and solidity of Mercosur. To understand the intensity of Brazil and Argentina's relations within Mercosur in 2022, the country to which Argentina exported the most was Brazil, totaling a participation of 81% of the total exported to the bloc [8]. Although a revitalization project for South American regionalism may be necessary, opening trade relations could harm the bloc instead of strengthening it. A consolidated Mercosur not only

contributes to the modernization of its members but also serves as a tool that aggregates strength and coordinates positions in international negotiations.

Even if Milei intervenes in this sector, it is likely that sectors of the Argentine bourgeoisie will advocate for the continuation of this regime of economic complementarity. Additionally, it is uncertain which part of Milei's electoral promises he will be able to fulfill. In this sense, one of the gaps that this research leaves is the uncertainty regarding whether there will be a full opening to free trade in the automotive sector.

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