

A Track Record of Monetary Integration in the Southern Cone: Possible Lessons and Future Prospects

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The currency crisis of 1999 in Brazil and the current debt crisis in Argentina has put economic integration in MERCOSUR under stress. Fears of disintegration seem to be more prevalent than optimism on a further deepening of economic and eventually monetary integration in MERCOSUR. The development of the European Economic and Monetary Union (EMU) clearly shows that economic and monetary integration has to be seen from a long term view. Therefore it seems worthwhile to discuss even in times of distress as to the integration process of MERCOSUR what has been learnt from integration efforts in the past and to speculate on what the future path, in particular, of monetary integration could be in MERCOSUR.

This is the first article offering a chronological overview of more or less successful attempts of monetary integration of today's MERCOSUR countries from the sixties onwards. Monetary treaties preceding the Treaty of Asuncion are analyzed. If any existent tendencies of monetary integration within MERCOSUR are identifiable at all. Finally lessons from past monetary integration attempts are drawn and some conditions for a possible future monetary integration within MERCOSUR are highlighted.

1. History of Monetary Integration in the Souther Cone¹

1.1 The Payments System of the Latin American Integration Association

Similar to many European countries after the Second World War many Latin American countries suffered scarcity of foreign exchange and financing facilities. Bilateral payments agreements, which dated from the fifties did not manage the more complex multilateral payment flows (Kesman and Dadone, 1985, p. 39). Helping the same objectives as in the 1950 established European Payments Union (EPU), that "*intended to tackle the problem of reciprocal credits and facilitate multilateral trade*", (Urwin, 1991, p. 19) the 12 LAFTA countries² signed the Reciprocal Payments and Credits Agreement on 22 September 1965. The latter agreement is also referred to as the Treaty of Mexico. Primarily, the participating countries tried to reduce their usage of convertible foreign exchange. The intention of the triangular financial transactions with the participation of extra-bloc financial entities should become less frequent, and the strengthening of the Latin American commercial banks by concerted operations was intended.

Coinciding with the conversion of LAFTA by its successor association, the Latin American Integration Association (LAIA), the Treaty of Mexico was amended and prolonged on 25 August 1982 as the Reciprocal Payments and Credits Agreement. As in the preceding agreement, the member countries pursued the stimulation of intra-bloc financial cooperation

¹ This section is for the most part similar to the section „Provisional Agreements and Stipulations Before and in the Treaty of Asuncion aimed at Macroeconomic and Monetary Cooperation“ in Kronberger(2001).

² In the LAFTA countries also the MERCOSUR members and the MERCOSUR associates were included.

and the expansion of intra-regional trade, by providing additional financing facilities and the systematization of consultations in monetary, foreign exchange and payment questions. Then the Council for Financial and Monetary Matters, represented by the respective central bank authorities, was founded. This executive organ is supported by the Advisory Commission for Financial and Monetary Matters.

The agreement basically comprises the use of three instruments: (1) a multilateral payments clearing mechanism, (2) a mechanism for the transitory financing of balances derived from the multilateral clearing, and (3) a system of guarantees (convertibility into US dollar and reimbursement). Every central bank has a reciprocal credit line that is denominated in US dollars. The Peruvian central bank acts as the agent for the clearing system. The Federal Reserve Bank of New York fulfils the function of a common correspondent bank. The clearing of the bilateral balances between two central banks is done on a daily basis. Accumulated debits or credits are then settled every four months. If a central bank exceeds the conceded credit line, it has the possibility to recur to a mechanism for the transitory financing of balances upon consent of all other parties. Used and allowed instruments are giro transfer orders, letters of credit, documentary letters of credit, letters with bankers reference, named giro transfers and promissory notes on trade operations. In the respective member states the commercial banks have to be authorized by their central banks in order to use the described clearing mechanism. The participation in the system is voluntary (ALADI, 1998). Nevertheless, the majority of intra-bloc payments were channeled through this clearing mechanism until just recently.

In the following years the debt crisis in the eighties and marked political and economic instability were responsible for the fact that more ambitious projects, than the afore described payments mechanism did not go beyond the draft stage. The lack of financial resources (due to the debt crisis) for the provision of cooperation or stabilization funds hindered the realization of deeper financial integration especially.

One year after the Reciprocal Payments and Credits Agreement had been signed the Monetary Agreement of LAIA (Documento ALADI/CAFMI/IV/dt 1) was drafted. The following elements had been added: (1) A multilateral clearing house: as the continuation of the afore mentioned payments mechanism adapted for the use of new instruments. The participation in the mechanism would then be obligatory. (2) The creation of a Latin American Monetary Unit (LAMU): It should fulfill all three basic functions of money: store of value, means of payment and unit of account.³ In the draft the use of the US dollar as the LAMU is proposed, since the central banks had already gained experience in dealing with the US currency in the past. The LAMU should also be used as an international numerator for extra-regional transactions. (3) Financial cooperation fund: Debtor countries would be facilitated with credits in order to finance a temporary disequilibrium. Revolving credits should only be provided under a certain conditionality tied to the stabilization of trade flows.

The Functioning of the Payments System

From the beginning intensive use was made of the payments system. It financed a major share of the intra-ALADI trade (BID-INTAL, 1991, p. 54). Even in the eighties, during the '*lost decade*', when intra-trade showed a decreasing tendency, most of the transactions continued to be channeled through the mechanism. In the second half of the eighties, after the debt crisis

³ Kesman and Dadone(1985, p. 43) stress above all two money functions of the LAMU: (1) Since the LAMU would provide the basis for reserve assets, its capacity of a store of value would be important. (2) It would be a common denominator for the respective transactions.

had become more manageable, a steady increase in the volume of transactions restored the initial level and raised it even further.⁴ In the nineties the relative importance of the payments system was on a continuous downward trend. In 1995 the payments system covered 66.3% of financial transactions in relation to LAFTA-intra-trade. Thereafter the use of the payments system diminished considerably.

Use of the LAIA Payments system by Brazil						
<i>Years</i>	<i>Credits (mill US \$)</i>	<i>Exports (mill US \$)</i>	<i>Share of Credits (%)</i>	<i>Debits (mill US \$)</i>	<i>Imports (mill US \$)</i>	<i>Share of imports (%)</i>
1994	3,329	9,528	34.9	4,584	5,780	79.3
1995	2,870	9,560	30.0	5,570	9,145	60.9
1996	2,289	10,547	21.7	3,962	10,606	37.4
1997/1 (Q1)	616	3,511	17.5	1,249	3,865	32.4
Total	9,104	33,146	27.5	15,364	29,387	52.3

Table 1: The use of LAIA Payments System by Brazil
Source: Brazilian central bank, Brasilia

Year	Share of debits- /intra regional imports (%)
1970	41.4
1975	59.8
1980	90.0
1981 (estimated)	77.5
1982 (estimated)	65.3

Table 2: Total use of LAIA Payments System
Source: LAIA, Montevideo

In contrast to many other agreements some of the set aims could be achieved. The participating economies were able to save 25% in convertible exchange reserves by channeling their financial transactions through the payments system (BID-INTAL, 1993, p. 62).⁵

1.2 The Treaty of Santo Domingo

The Treaty of Santo Domingo provided an unprecedented financial facility. A similar financial facility was yet to come, in the revised Treaty of Mexico 1982, the so called '*Multilateral Treaty of Reciprocal Aid against Transitory Deficits in Liquidity*'. This agreement involved central banks (from LAFTA and the Dominican Republic) who committed themselves to providing temporary financing to members suffering temporary trade imbalances which resulted from the multilateral clearing agreed on in the Treaty of Mexico (Banco Central del Ecuador, 1986, p. 122). The Treaty of Santo Domingo was revised in 1981 including two important amendments: (1) Financing was extended to all kinds of temporary current account deficits and (2) liquidity shortages resulting from natural disasters. This agreement, however, was only of limited practicability due to economic crises affecting the entire region. The majority of the members suffered severe current account balances at the same time which prevented them from providing their agreed on quotas to the fund.⁶

⁴ In the period from 1981 to 1990 between 76% and 91% of the LAIA intra-trade was channeled through the system.

⁵ Also on the microeconomic side commissions to international commercial banks could be reduced by this mechanism.

⁶ The agreed on quotas represented approximately 1% of the exports to the rest of the world (500 to 600 million US dollars) (Da Rocha e Silva, 1988, p. 9).

1.3 Treaty about Uniform Availability and Transferability of Guarantees

The Treaty about Uniform Availability and Transferability of Guarantees (ABLAS) signed on September 1973 by the LAFTA central banks was thought as a supplement to the Treaty of Mexico (Halperin, 1984, p. 55). The exporter issues a bill of exchange on a documentary letter of credit, denominated in US dollars and granted by the respective central bank or another authorized bank. The maturity of the bill cannot exceed 180 days and has to be channeled through the payments system. These bills of exchange were aimed at augmenting the liquidity within the payments system as they also could be further discounted in the US-American securities market (Banco Central del Ecuador, 1998). The ABLAS found little acceptance due to the saturation of the international financial market and insufficient promotion of this instrument (Banco Central del Ecuador, 1986).⁷

1.4 Protocol Nr. 20 of the ICPAB

Within the LAIA payments system, Argentina and Brazil agreed on the protocol Nr. 6, establishing a bilateral financing mechanism. The initial fund was set at 200 million US dollars. The clearing had to occur on a regular basis every four months. Subsequently the fund was extended to 400 million US dollars.

This bilateral agreement then provided the base for protocol Nr. 20 of the ICPAB which was signed by Argentina and Brazil in 1987. Its objective was the provision of external financing and the stimulation of intra-trade. Moreover, both signing countries had their eye on further extension of the mechanism to other LAIA countries (Da Rocha e Silva, 1988, p. 10). Some ideas were taken from the draft of the Monetary Agreement of LAIA. A common monetary unit called '*gaucho*' would be issued by a reserve fund administered by the two central banks. An initial amount of 200 million gauchos for the reserve fund was planned. The creditor bank would receive gauchos according to its credits in US dollars resulting from the bilateral clearing. This amount would be credited and debited respectively in the accounts of the Reserve Fund. The bilateral clearing would still occur every four months. The gaucho would basically fulfil the function of a unit of account. It should be used for the settlement with other international institutions, adding further liquidity to the system. Protocol Nr. 20 contained a mere rudimentary framework without further specifications, as for instance the parity of the gaucho, etc. (compare Annexe). It was agreed that an interbank agreement which would hold the details of the implementation had to follow before the end of October 1987.

The reasons why the gaucho project came to a standstill in its initial stage most probably have to do with the carried out stop-and-go policies of both governments during this period. At the moment of signing the agreement it looked as, if the economic stabilization programs (the Austral Plan (6/85) and the Primavera Plan (8/86) in Argentina and the Crucado Plan (2/86) in Brazil) would guarantee a more stable economic environment. The Argentinean stabilization programs had pressed the monthly inflation rate to levels significantly below 10%, as did the Brazilian one. However, only a short time thereafter the inflation rates notched up to a multiple. Naturally the monetary authorities had to concentrate on stabilizing the economies rather than on scrutinizing possible fields of monetary cooperation. Table 3 provides an overview of the stop-and-go policies which coincided with the signing of ICPAB and one year later with the respective protocol of the agreement.

⁷ In 1998 the Argentinean government raised concerns about the misuse of these guarantees by local banks of other members. The authorities alleged that local banks faked credits and made them appear as commercial credits in order to obtain the guarantee of the respective central bank and then defaulted on purpose (Pagni, 1998).

Economic stabilization programs				
<i>Argentina</i>	<i>Plan Austral (6/85)</i>	<i>Plan Primavera (8/86)</i>	<i>Plan Febrero (2/87)</i>	<i>Plan Austral II (2/87)</i>
Reduction of inflation from (%)	30.5 (6/85)	8.8 (8/86)	6.5 (2/87)	19.5 (10/87)
to (%)	3.1 (8/85)	6.1 (10/86)	3.4 (4/87)	3.4 (12/87)
duration of low inflation <5% (months)	11	2	1	1
<i>Brazil</i>	<i>Plan Cruzado</i>	<i>Plan Bresser</i>		
Reduction of inflation from (%)	22 (2/86)	25.8 (6/87)		
to (%)	-0.5 (4/86)	4.5 (8/87)		
duration of low inflation <5% (months)	9	1		

Table 3: Economic stabilization programs in Argentina and Brazil from 1985 to 1987

Source: Kiguel and Liviatan (1992, pp. 214)

Villanueva and Fuentes(1989, p. 198) provide a classification of the aforementioned agreements. The Treaty of Santo Domingo is purely a financing facility trying to correct either current account or trade balance disequilibriums by means of regional funds. All other agreements should help the stabilization of trade flows in the wider sense using various types of instruments comprising the use of guarantees for bills of exchange, a payments system and two rough drafts for a common monetary unit (compare table 4).

Financing current account disequilibriums	Financing of temporary negative trade balances	Helping trade flow stabilization
Treaty of Santo Domingo (2nd mechanism)	Treaty of Santo Domingo (1st mechanism)	Treaty of Mexico (payments system)
		ABLAS (system of guarantees)
		Protocol Nr. 20 of ICPAB (common monetary unit)

Table 4: Classification of monetary and financial agreements previous to MERCOSUR

Source: Villanueva and Fuentes (1989, p. 198)

1.4 The (Non-)Regulation of Financial and Monetary Matters in MERCOSUR

Though several integration agreements preceding MERCOSUR contain definite regulations concerning monetary or financial coordination, the same cannot be claimed for MERCOSUR. The Treaty of Asuncion makes reference to an intended coordination of macroeconomic policies without going into further detail.

As far as the institutional structure is concerned, the ministries of economy and the central banks are members of the Common Market Group (CMG) and Sub-working Groups (SWG). SWG 4 is in charge of financial matters and SWG 10 of coordination of macroeconomic policy. The activities of these bodies concentrated mainly on topics concerning the customs union. The most important protocols do not tangle with any macroeconomic questions besides regulations concerning the customs union.⁸ The CCM passed the Decision 9/95 containing a schedule for the consolidation of MERCOSUR until the year 2000. SWG 4 has to achieve a

⁸ With respect to financial matters the following resolutions were passed by the Common Market Group:

8/91 Agreement about real estate

7/92 Establishment of the Insurance Commission within SWG 4

20/92 Establishment of the Commission for the reciprocal promotion and protection of investments

37/92 Third party insurance for owners and/or driver of vehicles not registered in the country of entry

43/92 Elimination of the purchase limit for foreign exchange and cheques in relation with tourism

1/96 Debtor and credit risk rating

For the SWG macroeconomic policies only one relevant resolution was passed:

67/92 Establishment of a Commission within SWG 10 formed by the directors of the respective statistical institutes

more profound understanding of the areas "financial system, insurances, stock exchange, promotion and protection of investments, macroeconomic indicators and the pursuit of the exchange rate regimes. A permanent exchange of information and experiences in the financial field is also included." Furthermore, intensified efforts for the liberalization of the financial markets shall be undertaken.

The agenda for SWG 10 was even less concrete but shows some similarities to SWG 4. The MERCOSUR governments should carefully examine their economic cycles in order to acquire the "appropriate knowledge of the economic situation of the members which should allow for a better design of adequate internal policies." Contrary to the financial market policy which has a definite policy goal which is the harmonization of the financial markets regulations, macroeconomic policy lacks such concrete objectives. The most concrete objective is the avoidance of beggar-thy-neighbor policies within MERCOSUR. By the end of 1996 resolution Nr. 115/96 laid down a guideline for negotiating common working standards, minimum wage, employment policies, etc. foreseeing average terms of two years for the elaboration of definite policies, institutions, etc.

On a less formal level in MERCOSUR macroeconomic and specifically monetary coordination was already discussed by the respective experts in MERCOSUR meetings. In July 1993 during the fourth summit meeting of the presidents of the MERCOSUR countries Brazil made a proposition regarding the fixing of exchange rates (Arnaud, 1996, p .121).

1.5 The Brazilian Proposal of Exchange Rate Bands for MERCOSUR

Two years after the Treaty of Asuncion had been signed the Brazilian officials presented a proposal of exchange rate coordination for MERCOSUR on 30 June 1993. Many of its instruments had been copied from the European Monetary System. The national currencies should float within a band determined by a central parity called 'reference unit' similar to the ECU. This reference unit is calculated by weighing the national currencies by their relative trade share $[(X+M)_{ROW}/(X+M)_{MERCOSUR}]$.⁹

The targeted exchange rate was the real exchange rate. Equal to the European Exchange Rate Mechanism intervention rules and divergence indicators should be specified. When considering the motives for this proposal they differ somewhat from conventional arguments like saving on exchange reserves, risk pooling, credibility gain, etc. The main reasoning of the Brazilian proposal was purely defensive. The Brazilian officials had little confidence in the medium and long term in the viability of the Convertibility Plan. They feared either a straightforward nominal devaluation or devaluation as a consequence of a fiscal shock. Either way, a devaluation of the Argentinean peso against the US dollar, seemed at this time, to be inevitable for them. Thus, they perceived an exchange rate agreement as a reassurance against competitive devaluation (Aller and Lucangeli, 1993, p. 9).

The fact that the Brazilian officials presented an exchange rate agreement which was based on the real exchange rate and that the Argentinean Convertibility Plan was based on an nominal exchange rate peg clearly shows that a consensus on the underlying economic models had not yet been reached. Not to mention the joint formulation of intermediate targets in monetary policy; for instance a specific interest rate or fiscal equilibrium, etc. (Garriga et al., 1993, p. 15).

⁹ X denotes exports; M denotes imports; ROW denotes rest of the world.

1.6 The Declared Intention of Creating a Common Currency for MERCOSUR

Politically the idea of monetary coordination within the MERCOSUR was first presented at a summit meeting on 27 April 1997. The Argentinean Minister for Economy Roque Fernandez made an official statement that the MERCOSUR countries intended to consolidate the bloc to a common market, comprising the coordination of macroeconomic policies and the free movement of goods and services starting in the year 2001. Fernandez also included the creation of a common currency in his plans (Sucesos, 1997a, p. 9). Subsequently this idea was resumed by Argentinean President Menem and presented at various occasions inside and outside of Argentina.¹⁰ In July at the 13th CCM Summit Meeting in Ushuaia President Menem declared one important objective for the Argentinean Presidency of MERCOSUR, which he assumed as a *"further deepening of the integration process, the creation of a common convertible currency similar to the one of the European Union"* (Sucesos, 1997b). Contrary to preceding agreements and proposals, political integration – actually gave MERCOSUR new momentum for deepening integration – rather than purely economic reasoning represented by the principal motive for the Argentinean thrust. Interestingly expectations regarding the devaluation of the real were already perceivable. In this context it is astonishing that sectors sensitive to competitive devaluations were not more present in the political discussion at that time.¹¹

1.7 Dollarization

As a reaction to the Brazilian maxi-devaluation in January 1999, the Argentinean President Menem raised the idea of complete dollarization of the Argentinean economy (Pagni, 1999). A month later first talks between Argentinean and US officials were held in order to discuss various scenarios for a monetary union between Argentina and the United States (Ambito Financiero, 1999j). Following this rapprochement the so called Mack Dollarization Plan - named after a US senator - was proposed.

The Mack Dollarization Plan

The Mack Dollarization Plan foresaw some sharing of seignorage income between the United States and officially dollarized economies. A consequence of talks between Argentinean and US officials is the so called '*Mack Dollarization Plan*': The *"International Monetary Stability Act(S. 1879) proposes to share with officially dollarized countries the seignorage the United states earns from issuing the dollar. ...the United States will not share seignorage from dollars already circulating abroad; the offer applies only to seignorage arising from increases in dollar circulation resulting from official dollarization."* (Schuler and Stein, 2000, p. 2). Besides that the proposal never left the drafting stage it was highly disadvantageous for the possible candidates. Countries which are already '*unofficially*' dollarized, as for instance Argentina, would only have earned interest on the currency base of the domestic currency.

¹⁰ For instance, at an annual meeting of the banker's association ADEBA President Menem repeated his intention of creating a common currency in May 1997 (El Cronista, 1997).

¹¹ Eichengreen(1996, pp. 2) and repeatedly in Eichengreen(1998, pp. 6) with application to the MERCOSUR present the argument that economic sectors highly dependent on exports fear competitive devaluations. As a consequence they will press for as little exchange rate volatility as possible. He judges this argument as sufficiently strong for being one of the driving forces of the creation of a monetary union. As argued above, this motive had only just come to light for the proposal of exchange rate bands within MERCOSUR. Thus Brazil who had been in fear of competitive devaluations of its customs union partners, then, proceeded to devalue itself in 1999.

Already circulating dollar notes, which in Argentina account for roughly three times as much as the peso currency base, would not earn any seignorage income.¹²

2. Possible Lessons and Future Prospects

Stipulated treaties on monetary integration, in fact, dealt with current and trade account disequilibria and with the stabilization of trade flows. The motivation for these agreements were the possible advantages of the used instruments rather than a broad political vision as would be necessary for the establishment of a monetary union. Monetary integration in the sense of a common monetary unit or even a singly currency were thought of even before MERCOSUR but never materialized. Then economic and political conditions, like protectionist economic policies and prevailing dictatorships in some member countries, contradicted the logics of successful monetary integration.

Interestingly all the treaties concerning some kind of monetary integration were stipulated before the Treaty of Asuncion came into being. MERCOSUR itself clearly has the focus on a not yet completed customs union. Little evidence of monetary cooperation exists within this integration scheme. Nonetheless, the political vision of a single currency à la EMU emerged. In particular in the second half of the nineties when both Argentina and Brazil disposed of rather similar exchange rate regimes, the idea of a future single currency seemed to make sense from the point of view of many policy makers. The similarity of the exchange rate was the result of individual needs of economic stabilization of the two countries rather than the result of exchange rate coordination.

The following currency crisis in Brazil made policy makers of the MERCOSUR countries forget quickly about monetary integration in MERCOSUR. Moreover, the Brazilian maxi-devaluation, can be interpreted as a step of monetary disintegration that had negative repercussions on the integration scheme of MERCOSUR. In fact, the Brazilian maxi-devaluation represents the classical argument in favor of monetary integration. A common currency would serve as instrument for avoiding a beggar-thy-neighbor policy in the form of competitive devaluations.

Obviously this argument on its own seemed not to be enough for pushing forward the establishment of a monetary union in MERCOSUR. In the case of Brazil fiscal disequilibria, exogenous disturbances and the loss of competitiveness led to the forced abandonment of its quasi-fixed exchange rate regime. Yet MERCOSUR was a relatively weak economic integration scheme. It was not even a completed customs union. Policy coordination in other economic policy fields than external trade was simply non-existent. Common rules of fiscal policies which would be necessary preconditions for a functioning monetary union were not agreed on. Thus an essential ingredient for a successful establishment of a monetary union is yet absent in MERCOSUR. It is political union: *“Therefore, it is utopian to separate the problem of monetary union from political unification ... Monetary union is an essential part of political union.”* (De Grauwe, 1984). This means for MERCOSUR that a further deepening toward economic and also political union would have to be agreed on, if further monetary integration is intended by its member countries.

Another question is, whether further monetary integration is intended, how it should look like. MERCOSUR shows an asymmetrical dollarization. That is, Argentina and Uruguay are

¹² For a more detailed analysis see Kronberger(2001a, pp. 211).

highly dollarized and the other two MERCOSUR countries Brazil and Paraguay are not. By an official dollarization of MERCOSUR its member countries would lose their sovereignty over monetary policy.¹³ Further, dollarization on its own would not, as often argued, automatically lead to a sounder fiscal policy of the dollarized economies. Although Argentina is not a fully dollarized economy similar effects on fiscal policy could be expected by the construction of the currency. These expectations were clearly not fulfilled as indicated by the relatively recent crisis in the Argentinean debt market (The Economist, 2001). If on the contrary the decision is made for a single currency of MERCOSUR or - less stringent – some form of exchange rate coordination as for instance discussed in 1993. The dollarization issue has to be kept in mind. For example, dollarized debt, in some MERCOSUR countries more than in others, has importance and therefore does not allow for too large devaluations against the dollar without negative repercussion e.g. on the internal price level.

However, conceptional issues may deviate from the real world. As shown before individual economic disequilibria combined with the absence of consensus on monetary and economic policy may cause impulses rather for disintegration than integration. Already the Brazilian currency crisis put much distress on MERCOSUR. The integration process has virtually come to a halt. Another much feared currency crisis this time in Argentina would increase the probability of a dissolution of MERCOSUR. Monetary union would stay utopia, in the words of De Grauwe. Another scenario would be, everything stays as it is. Argentina muddles individually through its problems as do the other MERCOSUR countries and MERCOSUR stays in its current stage of economic integration. Further monetary integration may be an issue in the far future or not. Mid-term, however, monetary policy coordination could gradually be increased, maybe, ending at some degree of exchange rate coordination indicated before in order to avoid further disruptions as caused by the Brazilian crisis. The final stage, that would need a large portion of consensus in a broad range of political fields, could be monetary union. Nonetheless, a big deal internal in overcoming economic difficulties in the MERCOSUR countries is needed before one could seriously think about successfully deepening monetary integration in MERCOSUR.

3. Annexe

Wording of Protocol Nr. 20 of the ICPAB (English Translation)

PROTOCOL Nr. 20: CURRENCY
The Government of the Republic of Argentina
and
the Government of the Federal Republic of Brazil

CONSIDERING:

The importance of ensuring the strengthening of the financial and monetary relations between the Republic of Argentina and the Federal Republic of Brazil, contributing at the same time to

¹³ In 1991 Argentina fixed its exchange rate with the US dollar by the means of a currency board. On the one hand the credibility of this fix was enhanced by the constitutionalized currency board. On the other hand this fix has led to a significantly overvalued exchange rate that has rendered Argentinean exports highly uncompetitive. For a discussion see Kronberger(2001b).

the assurance of stability of the commercial links and the quantitative and qualitative expansion of trade, of a dynamic and equilibrated manner,
The influence of the currencies of third countries whose availability goes beyond the decision making capability of the two countries of the level of the bilateral exchange,
The Latin American objective of creating a (monetary) unit affecting interregional payments,
The necessity of initiating a process of the creation of this common monetary unit,
The convenience of advancing within the reciprocal financial system in force established by the Protocol Nr. 6 for the fulfilment of the objective of a complete and lasting monetary integration:

(THEY) DECIDE:

- 1.- Create a common monetary unit, called „Gaucho“, expressing its value in terms of common agreement by the two Central Banks of the two countries who issue and back (the unit) by a Reserve Fund.
- 2.- Create an Argentinian-Brazilian Reserve Fund, administered by the respective Central Banks.
- 3.- Determine that the results of the affected bilateral compensations which can be balanced by the means of the common monetary unit every four months until the agreed issue limit of 200 million monetary units.
- 4.- Determine that each Central Bank opens its graphical accounts in its books with the aim of movements within the Reserve Funds.
- 5.- Determine that the respective Central Banks establish before 30 October 1987, an „interbank agreement“ for the implementation of the Argentinian-Brazilian monetary unit („Gaucho“)

VIEDMA, 17 JULY 1987

FOR THE GOVERNMENT OF THE
REPUBLIC OF ARGENTINA

FOR THE GOVERNMENT OF THE
FEDERAL REPUBLIC OF BRAZIL

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