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“ITALIAN FOREIGN DIRECT INVESTMENTS IN MERCOSUR”

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Abstract

ABSTRACT

Il presente lavoro ha come obiettivo quello di declinare un'analisi chiara e coincisa degli Investimenti Esteri Diretti (IDE), analizzati secondo la teoria economica classica e riconosciuti come fondamentali per lo sviluppo di un'economia. La ricerca si estende poi al commercio internazionale ed all'accordo posto in essere dalla Comunità Europea con i paesi del Sud America, uniti a formare il Mercosur, analizzandone gli aspetti fondamentali. In un primo momento si focalizza l'attenzione sulla relazione Europa-Mercosur e successivamente sulla correlazione Italia-Mercosur. È in questo momento che si è voluta svolgere un'analisi dei dati approfondita, soffermandosi sugli effettivi IDE posti in essere dai due paesi. Si è fatto inoltre riferimento all'agenzia italiana per la promozione all'estero e l'internazionalizzazione delle imprese italiane facendo riferimento all'evoluzione nel tempo degli investimenti esteri diretti italiani nel Mercosur. Nell'ultima parte dell'elaborato si sono analizzati i probabili scenari che si prospetteranno negli anni a venire con particolare riferimento agli obiettivi da raggiungere con Europa 2030.

The aim of this paper is to present a clear and consistent analysis of Foreign Direct Investment (FDI), analysed according to classical economic theory and recognized as fundamental for the development of an economy. The research extends to international trade and to the agreement established by the European Community with the countries of Mercosur, analysing its fundamental aspects. Emphasis is placed on the Europe-Mercosur relationship first and then on the Italy-Mercosur correlation. There's an in-depth analysis of the data, focusing on the actual FDI put into place by the two countries. Reference was also made to the Italian agency for the promotion abroad and internationalization of Italian companies, referring to the evolution over time of Italian foreign direct investment in Mercosur. The last part of the paper analysed the scenarios that will be presented in the coming years with reference to the objectives to be achieved with Europe 2030.

1. Foreign Direct Investments

1.1. Definitions and Characteristics

International capital movements may be classified as indirect capital investments or direct capital investments. What distinguishes indirect capital investments, or portfolio investments, from direct capital investments (Foreign Capital Investments - FDI), is the aim to pursue with them. The motivation behind portfolio investment is to obtain the maximum return on a given investment, taking into account the risk associated with it. The study of such capital flows has found ample space within the theory of portfolio choices. What drives economic operators to make direct investments abroad, is the will to acquire control of a certain productive activity abroad. Of course, even in this case the aspect of performance is not lost, perhaps more correctly profit, but it is taken into account together with other aspects more closely related to the research, production and sale that the company carries out. Portfolio investments are capital flows whose horizon is generally shorter than that of FDI, although they may still be long-term. These investments are reflected in the purchase of bonds, preference shares, extraordinary shares, certificates of deposit, treasury bills.

The definition of FDI that the International Monetary Fund reports on the Balance of Payments Manual is as follows: direct investment is: « investment involving a long-term relationship reflecting a lasting interest of an entity (economic) resident in a given country (the investor), an entity (economic) resident in a country other than the investor's country of residence. The primary purpose of the investor is to exert a significant influence on the management of the company resident in the other country».

UNCTAD (United Nations Conference on Trade and Development) defines foreign direct investment as an international investment carried out by an entity resident in one country in an enterprise located in another country, in order to acquire control over that enterprise, in order to manage the activities of the latter in an integrated and functional way to those that the investing entity carries out in its home country or elsewhere.

This definition is given by the IMF (International Monetary Fund) and the OECD (Organisation for Economic Cooperation and Development) which define FDI such as investment in a foreign company in which the foreign investor owns at least 10% of ordinary shares, carried out with the aim of establishing a lasting interest in the country, a long-term relationship and a significant influence in management of the undertaking or to participate in it.

Various theories have developed over the years to explain the birth of multinational companies. However, these can be divided into two main groups: macroeconomic theories, which seek to explain the phenomenon at the level of the economic system as a whole; microeconomic theories that instead tend to find the explanation in the different conditions facing the individual undertaking. In the first group it is undoubtedly possible to place the contribution of Mundell (1957), which starting from the neoclassical theory of international trade, in particular from the model of Heckcsher - Ohlin-Samuelson (H-O-S) and eliminating one of the basic assumptions of the model, the international immobility of factors of production, explains the birth of multinational companies. For Mundell, the initial imbalance between two or more countries caused by the different endowment of productive factors can be eliminated either through international trade or through the internationalization of production. This means, not necessarily the country with the largest capital supply specializes in the production of goods capital - intensive, whereas capital can be exported and used there where there is greater scarcity. The multinational company is, according to Mundell, an alternative to the specialisation process.

Kojima's contribution (1978) can be traced within neoclassical theories of international trade: he also explains the phenomenon of multinational companies through a different factorial endowment of countries, in particular, the capital factor. The concept of capital to which the author refers is, however, different from capital in the financial sense. It refers to a concept of capital in both physical and immaterial sense, that is to say, all those structures, technological and organizational knowledge owned by a country. According to Kojima, considering two countries, the direct investment is made by the company of the country that has competitive advantages in the production of the asset compared to the other country, the benefits accruing to it from the possession of particular technological knowledge and/or organisational practices not available in the recipient country. At the same time, however, the country in which the investment is made has competitive advantages in the use of the product. It refers mainly to the production of intermediate goods. Consequently, if the concept of intangible capital recognizes the technology available to a country, this theory can also be considered a variation of the H-O-S model with which the hypothesis of identical production functions is abandoned.

The second group, the one of microeconomic theories, includes the contribution of Hymer (1960). In this case, the focus is on the individual company, in particular the choices made by the latter and the reasons that justify these choices. According to the author, the company that decides to start production abroad, inevitably has vantages which may concern the production of goods, or the sale or even the internal organization of the company. These allow it to face competition with local businesses despite all the disadvantages that arise from performing an economic activity in «foreign land». These advantages are not held by all companies in the sector but are closely linked to that enterprise. For this reason, they are defined as property advantages. In this case the existence of ownership advantages is not considered fundamental, it is sufficient to have a form of allocative inefficiency of the market. This inefficiency makes it cheaper, to carry out international transactions of intermediate goods within the company rather than on the market. This theory tends to explain both the phenomenon of vertical integration of production and the horizontal integration. In fact, the former can be explained by the company's need to secure the supply of raw materials without facing the risk of sudden bottlenecks in quantities or sudden variations in cost (in the case of integration downwards) or, to ensure control at the stage of sale of the product (integration upwards). The second phenomenon, the horizontal integration, can be explained from the convenience to interiorize of the external economies to the main activity, which may favour the activity of the enterprise as a whole (economies of variety). Again, always focusing on the choices of the individual enterprise, the product cycle theory (Vernon, 1966). Subdividing the vital cycle of the product in three successive phases, it can be asserted that initially the productive activity is where the market you want to serve is located and where at the same time you find the technology necessary for the production process. In a second phase, once the internal market is firmly established, foreign markets with a certain similarity in the structure of demand begin to be produced. The product begins to be exported or obtained directly on foreign markets if they use similar production techniques. Finally, in the third stage, there is a degree of maturity on the demand side, which is more sensitive than prices. Moreover, on the supply side, a certain degree of standardisation is achieved in the production of the asset, which also allows other companies to enter the market. In this situation, the focus is on the production costs for which, given the standardization of the production process, the cost of labour is very important. It is therefore appropriate to move production there where the labour factor makes it possible to achieve considerable cost savings, therefore in the developing countries or, in some cases, in the countries of Eastern Europe. None of the theories examined can be considered a general theory of direct investment. Each of them, in fact, starts from different assumptions and explains different aspects of the phenomenon, these are partial theories. An attempt to create a reference model to frame the phenomenon of multinational companies is carried out by Dunning (1980, 1988). This approach aims to create a schematization of the characteristics and aspects related to the development of FDI. Precisely for this reason we cannot consider it a general theory of multinationals, each of the theories mentioned above can find a starting point within the Dunning model. This contribution is known as the eclectic paradigm. Dunning starts from the observation that an enterprise can produce either for the foreign market and for the domestic market, or for both. The company can decide to produce within its own country, or in the foreign country where it wants to allocate the product or in a third country. All these decisions are based on the company’s possession of certain advantages or the possibility of accessing them.

First there are the advantages of Ownership (O-advantages) closely linked to the ownership of the enterprise even if they have a certain nationality. Therefore, from a system point of view, these can relate not only to the allocation of factors of production of a given country, but also to all aspects such as technological development, entrepreneurial skills, the organisation of the economic system in each country.

Then there are the advantages of Location (L-advantages) closely linked to the territory, the place where the productive activity is carried out and of which any enterprise can take advantage. These concern not only the availability of productive factors and infrastructures present on the territory also those cultural, organizational, financial, legal and institutional aspects that characterize a given area.

Finally, there are the advantages of Internalization (I-advantages) those advantages arise from the existence of imperfections or market failures. The enterprise obtains the benefits interiorizing some processes because of the inability of the market to carry out efficiently.

Considering these advantages, the company will only decide to invest abroad if the following four conditions occur at the same time:

- the company has significant ownership advantages over companies from other countries, which wish to compete on the same foreign market;
- the company’s interest is to use those advantages instead of selling them;
- the company’s interest is to exploit those advantages in a foreign country;
- the performance of productive activities abroad must be consistent with the long-term objectives of the company.

1.2. Effects of capital movements on the balance of payments

Before addressing the impact of foreign direct investment on the balance of payments of the investor country and the recipient country, two different aspects of the phenomenon should be considered: the complementarity or substitutability relationship between FDI and foreign trade and the transfer problem. Even if analysed separately, these two aspects are closely linked.

The first aspect to consider is that FDI involves a transfer of financial resources from one country to another. This movement of capital is recorded in the balance of payments of the investor country as an outflow, while it represents a positive financial stake for the receiving country. Starting from an initial equilibrium situation, this leads to an imbalance in the balance of capital movements in both countries. A real transfer (exports/imports of goods and services) of the same value should therefore take place against a financial transfer. An imbalance in the balance of payments could be ascertained. The analysis of these conditions is known as the study of the transfer problem, also known as the «Transfer gap», the term used to indicate the difference between net real transfers and net financial transfers from the same country. When an economic entity decides to make an investment abroad, a capital transfer occurs from the country of origin to the country of destination. At this point various situations may occur. The initial flow can be immediately counterbalanced with the purchase of material and machinery needed to start production. Alternatively, exports of raw materials or semi-finished products may occur from the country of origin of the multinational enterprise or exports of goods other than that produced by the subsidiary abroad which can be sold on the foreign market using its sales channels. These real transactions balance all or part of the initial cash flow. The transfer may be « Carried out », «Overdone» or «Underperformed» depending on whether the initial capital flow is fully offset by the value of the real flows. This way of looking at the transfer problem is not correct. As explained by Machlup (1969), the problem of transfer «consists in the ability or inability of an economy to produce an excess of exports sufficient to meet the transfer commitments even if the amounts to be transferred have been successfully removed from the flow of national income.». The transfer problem should therefore be analysed in a broader context, taking into account a country's total foreign investment, trade and other financial movements that may be related to FDI, income and services related thereto.

The second aspect to consider is the effect that the shift of production from one country to another has on the foreign trade of two countries considered. The question is whether direct investment is or is not a substitute for international trade. It is not easy to make a clear and definitive judgment on this subject. Several criteria have been adopted for the classification of real or productive capital movements for multinational companies. Depending on which is the main motivation that drives an enterprise to carry out a foreign investment, the relationship of FDI with foreign trade may be complementary or substitutable. A possible subdivision of the various types of foreign investments may be to group direct investments abroad taking into account the objective pursued by the investor.

Dunning subdivides the motivations that push an enterprise to realize an FDI in four types:

a) Resource seeking: These are investments aimed at gaining competitive advantages through access to more efficient inputs than those found in the local market, such as natural resources or low-cost labour typical of developing countries;

b) Market seeking : investments that have, as their main objective, the entry in the new markets or maintaining an already existing market share. There are also a number of other reasons why a company should make such an investment: lower production costs and transaction costs, proximity to local tastes, physical presence in the markets served by competition, trade restrictions, etc. Dunning (1993) argues that companies choose this type of investment as a defensive strategy for fear of losing a market rather than finding a new one.

c) Efficiency seeking: investments through which a company trusts in an increase in efficiency by exploiting economies of scale, scope and ownership advantages. These types of investments are made following those of resource or market seeking, with the expectation of a further increase in the profitability of the company.

d) Strategic asset seeking: investments aimed to protect or expand the specific advantages of multinationals or at reducing those of competitors. This type of investment has seen a great increase in emerging economies (Dunning, Lundan 2008).

Another aspect to consider is the shift of production from one country to another has on the foreign trade of the two countries considered. It is to analyse whether direct investment is or is not a substitute for international trade. However, it is not easy, or perhaps not even possible, to make a clear and definitive judgment on the subject.

In the economic literature on multinationals, various criteria have been adopted for classifying real or productive capital movements. Depending on which is the main motivation that drives an enterprise to carry out a foreign investment, the relationship of FDI with foreign trade may be complementary or substitutable. Therefore, the effect on the trade balance is different. A possible breakdown of the various types of foreign investment can be found below. Group direct investment abroad taking into account the investor’s objective. Following Dunning (1993) it is possible to identify four types of productive investments, depending on what you want to ensure:

• sources of «raw materials»;

• outlet markets;

• efficiency;

• implementation of medium- or long-term strategies;

The first group includes all those FDIs that find their reason for being in the investor's need to procure the raw materials necessary for the production process typical of his business. These may be raw materials that are not available in the company's home country or that can only be exploited on the spot, or even those materials that are available in the company's home country at too high cost. The term «raw materials» is used in the broad sense: within this category it includes not only natural raw materials such as gold, petroleum, zinc, cellulose, silk, etc. but also the workforce and technological and management knowledge. Depending on the type of raw materials they are looking for, the companies have different characteristics and, generally, the countries of origin and destination of the investments are also different. For example, FDI aimed at finding natural raw materials originates mainly from industrialized countries and takes place in countries not yet developed. In the case of the labour force and the subject sought, investment is once again made in industrialised countries where labour costs are significantly higher, and generally reaches developing countries. The enterprises interested in this type of FDI are usually the manufacturing and service enterprises. Investment in technological and management skills starts from developed or industrialized countries and moves towards other industrialized countries and high-tech sectors.

In this case, the relationship between direct investment and trade can generally be considered complementary. The investor country increases its imports of semi-finished or finished products at the same time, however, its exports of tools and material necessary for the extraction or use of raw materials also increase. Furthermore, the recipient country may see its exports of finished or semi-finished products to third countries increase. In the second group there are all those investments undertaken to maintain or increase the markets for the goods produced by the company. There may be several reasons for entrepreneurs to pursue this goal by starting a new production line directly on the spot, rather than through exports.

The first and certainly most important reason can be found in the presence of import barriers in the recipient country. These barriers can, as is well known, be of different types from tariff quotas, from total bans on imports of a given product to bureaucratic delays in obtaining authorisation and so on. A second reason may be the desire to adapt its products better to «tastes» and to the needs of consumers. This will be done all the satisfactorily as knowledge of the customs and rules in force in the country for which the products are intended becomes more direct.

Another reason is to eliminate or halve transport costs which, depending on the type of goods considered, can be very burdensome. Sometimes, in fact, it may be decided to move production activity to a country which does not necessarily correspond to the target market of the product, but which makes transport to the latter market easier and cheaper than the company's country of origin.

Furthermore, you can decide to move your production activity, in whole or in part, because of the need to follow a similar decision made by the main supplier or customer of the company. This situation will occur more easily the more specific the input needed for the production or the final output is.

The relationship between FDI in this second group and trade is predominantly substitutability. In the third group we can include all those foreign investments made in order to rationalize the productive activities already in place. This process of rationalization can concern the will of the foreign enterprise to exploit those that can be economies of scale or scope and the various availability of the raw materials in the various localities in which it is present the own productive activity. The enterprises that realize this type of investments use, generally, standardized productive processes which renders therefore possible to move the production from a place to the other realizing a vertical or horizontal productive integration. Those foreign investments that are undertaken to exploit economies of scale and scope (scale-economy or rationalized product FDI terminology of Stopford and Dunning, 1983), usually see as places of origin and destination, countries with an equal or similar level of development; on the other hand, foreign investments aimed at rationalizing production by exploiting the different availability of inputs (carried out by Runaways or rationalized process FDI , also according to Stopford and Dunning 1983), generally see economies with different degrees of development as the place of origin and destination of investment. Again, as in the previous case, the relationship between foreign investment and trade can be substitutability, in particular, the rationalized product FDI case. The last group includes all foreign investments made to follow medium-long term strategies. These may consist of investments made not because there is a direct and immediate interest in the activity in question, but because it is believed that this can encourage the success of other investments already undertaken or to be undertaken in the future. This explains why in some cases the activities resulting from such investments can also operate at a loss, or at least not with significant earnings, without these being divested.

Again, strategic investments can be undertaken to strengthen their competitive strength in the market or to weaken that of their opponents. Finally, another reason can be found in what is called the «follow my leader» policy. It is a strategic choice made necessary by a previous choice of location of its competitors. In this case, the risk is to lose a part of your market share if you do not ensure your presence directly at the place. The relationship between foreign investment and trade may, at first, appear to be substitutability. But this is only the direct effect. If, on the other hand, account is taken of the possible increase in export flows stimulated by the investment itself, (e.g. exports of goods complementary to goods now produced abroad, exports of domestic goods made more popular through investment, exports of goods which can now take advantage of the sales channels created as a result of the investment, etc.) and therefore of the indirect effects of the investment itself on trade, the relationship can become of complementarity. At first glance, the relationship between strategic investments and foreign trade can probably be considered as substitutability although, in this case more than in the others, before being able to express an opinion it is necessary to have more information about the investment itself.

Finally, there are two types of investment which do not fall within any of the four groups listed above, but which nevertheless have their relevance: those carried out to escape export barriers in the country of origin and those carried out for reasons of portfolio diversification. The latter appear to coincide with portfolio investments, in fact they differ from them in that they concern capital shares of a certain importance and, furthermore, Often, there is the introduction of management procedures specific to the foreign investor even without the latter being involved in the day-to-day management of the company. Considering the distinction made between the various types of foreign investment, it is possible to summarise the possible balance of payments results of both the investor and the recipient countries, as follows:

- in the case of investments made to secure raw materials, an overall balance of payments result of the investor country can be expected to be almost nil. The effect on the balance of payments of the recipient country may be as much or very likely to be positive;

- in the case of foreign investments made to secure an outlet market, the effect may be negative but also nil on the balance of payments of the investor country, while it is very likely positive for the recipient country;
- in the case of foreign investment carried out to rationalise its productive activity, it can be expected that there will be no impact on the balance of payments of the investor and positive for the recipient country;
- in the case of strategic investments, finally, a positive, negative or nil result can be expected with the same conviction, both for the balance of payments of the investor country and of the receiving country. In fact, before any judgment can be made, it is also necessary to bear in mind the different realities, both at the level of the individual enterprise and of the economy as a whole, which could arise if FDI were not realised. It is therefore necessary to consider the possibility that if that investment abroad was not made, the same capital could be used for an alternative investment inside. Again, it could happen that that same investment abroad, even if not made by a foreign company could be made by a local company.

1.3. Effects of movements of capital on Growth

Foreign direct investment plays a key role in the growth process of the economies affected by their presence, for the investor countries or recipient countries. Growth in an economy means growth in the well-being of the population. Generally, the measure adopted is the rate of growth of per capita GDP, but other aspects such as, for example, income distribution, the unemployment rate, the level of technological progress and its potential development should also be considered. All these aspects are directly and indirectly influenced by FDI. Multinational companies, which are the world's largest investors in R&D, are more committed to improving the efficiency and competitiveness of their production activities, directly and indirectly involve other undertakings in the economic system in which they operate. The various national companies, in fact, if they want to survive on the market in the medium and long term must take into account (and possibly adopt) those technological innovations, managerial and organizational developments developed by multinational competitors and allowing them to increase productivity and efficiency, with generally positive repercussions for the whole community.

Obviously, the effects produced are different depending on whether the issue from the point of view of the country of origin of the FDI or from the point of view of the receiving country. The existence of multinational companies and their geographical expansion provide, directly and indirectly, a series of opportunities for growth and development. These opportunities arise directly from the operation of multinationals and their subsidiaries on the national territory and abroad, and indirectly through the contacts and links that national and foreign affiliates have with the companies of the host country. The literature on multinationals does not agree on the positive effects of FDI in the country of origin. The outcome depends not only on the type of FDI realised but also on the particular time analysed, the macroeconomic context in which they originate and the economic policies implemented in the country in question. It is all these elements that facilitate or make more difficult to a given economic-productive system, the exploitation of favourable conditions for development and growth. The opportunities relate to various aspects of the business of an enterprise, a first aspect concerns its greater or lesser ease of access to the resources necessary for the production process. A second aspect relates to the possible expansion of the markets for its products and those of other national companies.

In view of the first aspect, because of its size and geographical extent, the multinational company often plays the role of redistributing financial resources. All undistributed profits of the parent undertaking and its subsidiaries, whether domestic or abroad, may be regarded as funds which can be used by the undertakings of the group need. In addition, thanks to its subsidiaries in several countries, the multinational company is able to raise funds in those markets where the cost of money is lower. The methods by which group companies can use these funds are different: from intra-group loans to capital increases. These methods of financing are certainly cheaper and more flexible than traditional forms of financing by companies. For example, there may be investment projects of a certain importance for the company, but they may find it difficult to finance them through the normal banking or financial channels, because they may be considered too risky or not sufficiently attractive. In this case, they can be implemented using the funds within the group. National companies outside the group can also benefit from the increased liquidity of multinational companies. Often, for various reasons, multinational companies take part in joint ventures, thus enabling small and medium-sized national enterprises to carry out projects which would otherwise be unattainable.

One problem arises, however, when multinational companies use funds to finance new investments abroad. In this case, the investment can be considered as a substitute for an investment on the national territory. The crowding-out effect on domestic investments can occur if the multinational company decides to finance the investment abroad through funds raised on the domestic market. In this case, it takes resources away from domestic enterprises by limiting their ability to make new investments. The crowding effect can also occur due to the increase in the cost of money for the company due to a debt necessary to finance an investment abroad. The cost of money for a company grows as its level of indebtedness increases. If, therefore, an undertaking which has two investment projects in front of it, one on its own territory and one abroad, decides to finance the latter by means of any form of indebtedness, may subsequently decide not to make the internal investment because the cost of capital required has become too expensive at this point. Multinational companies are among the largest producers of new technologies in the form of new products and new production processes. As is well known (Dunning, 1993; Cantwell, 1994; UNCTAD, 1995; Blomstrom and Kokko, 1997), the vast majority of world spending on R&D is carried out by multinational companies. This is mainly due to the large amounts of capital needed for this activity, capital of which, as we have said, the multinational company has greater availability. Research and development is carried out mainly on the national territory or in the country of origin of the company. This means that access to new processes or products is made easier and cheaper not only for national companies affiliated or controlled by multinationals but also for other companies on the national territory.

The ways in which technological innovations can spread to the rest of the national production system are varied. In the case of companies belonging to the group, they generally have privileged access to technological breakthroughs and innovations resulting from the research activity of the parent undertaking or other subsidiaries or subsidiaries. For national enterprises outside the group, the dissemination can take place through externalities. One example may be the shift of staff from multinational companies to national companies. This staff brings with it a set of technological knowledge acquired within the multinational enterprise and which can be exploited by the national enterprise. Another way could be to set up joint ventures between national and multinational companies to carry out research programmes that require the specific skills of national companies and financial resources owned by multinationals. At the end the search results are shared. In this way, small and medium-sized enterprises can also take part in studies and research which they would not have been able to carry out due to a lack of structures and/or funding. Furthermore, the R&D phase can lead to the discovery of new technologies for the production of intermediate products that are not in the direct interest of the multinational company but that may affect other national companies.

The dissemination of technology also takes place through the relationships that multinational companies have with their suppliers (backward-linkages), or with their customers (forward-linkages). As far as suppliers are concerned, they often have to adapt their products so that they are compatible with the new technological processes used by multinationals. This often requires restructuring also for suppliers. In this process, however, they are generally assisted by the same multinational that offers technological and often also financial support and participates in the retraining and preparation of specialized personnel. Similar is the effect in the case of forward-linkages. Finally, the technological innovation contained in the good produced by the multinational company, whether this is an intermediate good or a final good, may make the restructuring of the purchasing company necessary. Another aspect favoured by FDI is the process of restructuring the investor country’s production system.The restructuring process of an economy can be of three levels depending on the state of development in which it is found:

- sectoral restructuring: the transfer of the use of available resources from one productive sector to another, for example, from the primary sector to the secondary sector or from the latter to the tertiary sector;
- restructuring within a sector: the transfer, within the industrial sector, of productive resources from labour-intensive to capital-intensive industries;
- restructuring within the same industry: the transfer of resources within the same industry from productions that require simple technologies to productions that require high technology.

The way in which the multinational enterprise can support this process depends on the degree of development of the investor country and recipient country and the type of investment considered (e.g. search for new markets or supply of raw materials). Foreign investment is generally undertaken by countries whose economy is based at least on the industrial sector. However, these countries are also half of FDI carried out by other countries with the same or higher level of development. Instead, the countries whose economy is essentially based on agriculture are usually countries that do not make foreign investments but host them. If one considers the FDI produced by a developing or newly industrialized country whose motivation is mainly to search for markets for its own goods, these may have the effect of import substituting means the transfer of production from the country of origin to the country of destination of the FDI. Another aspect linked to FDI is the contribution that they can make to the enlargement of the markets for domestic products. It has a positive effect in all cases where the foreign market could not be served because of barriers to trade that prevent or otherwise make difficult exports to another country. Therefore the only way to serve that market is to open a branch on the spot. A typical example is the products of the tertiary sector, namely services. These, generally, cannot be exported and are valid only if offered at the place of use. Another case where the presence of branches abroad makes increasing exports is the one in which particular production sectors are considered (such as the telecommunications sector or the construction of vehicles) where to produce efficiently, in order to maximise the economies of scale and/or scope, it is necessary to have markets larger than the national market.

It will continue by analysing the effects of the presence of multinational companies in the host country. Such influence can be exercised either directly, through the operation of subsidiaries and subsidiaries, indirectly through the relationships that the multinational company creates with other local companies and through the externalities deriving from the activity of the multinational company. The effects of FDI in the recipient country's economy are generally more pronounced than in the home country and are even more relevant in the host country's growth process when it is a developing country. The presence of multinational companies in the host country makes it easier to access the various resources needed for the production process and contributes to the enlargement of the market for the products of local companies. As regards capital, foreign incoming investment constitutes an increase in productive capital in the recipient country. This statement, which is undoubtedly true in the case of greenfield investments, which represent the predominant part of investments made in developing countries, may remain valid even if the foreign investment takes the form of an acquisition of an existing enterprise (a process through which the majority of FDI is realised in developed countries). In the latter case, if there were no takeover by the multinational, the destruction of capital could occur if the company in question went bankrupt or otherwise ceased operations. Considering the availability of funds, the multinational company, thanks to its size and geographical extent, is able to raise the necessary funds for new investments on more favourable terms. This is in fact, able to raise funds both internally to the group and on the international financial market. All the companies in the group, including foreign subsidiaries, have access to these funds. In addition, multinational companies often take part in joint ventures with local companies because they are particularly interested in the projects in question or to limit the risks associated with a certain investment. Furthermore, the presence of multinational companies can increase interest and confidence in that country, thus encouraging the implementation of new investments by other multinational companies in the same country of origin and/or other countries, leading to the increase in productive capital in the host country.

If what has been said so far shows that the presence of foreign companies contributes in some cases to increasing the availability of capital in the host country, it must be said that in other cases these same companies may reduce this availability. For example, if the multinational company decides to finance its investment abroad using the local financial market, it reduces the availability of funds to finance any new investments by local entrepreneurs. Another resource whose availability generally increases as a result of incoming foreign investment is technological progress. Access to new technologies is very important especially for those countries where the technological gap with respect to the countries of origin of FDI is considerable and which would therefore not be able to develop new technological processes on their own. Multinational companies are the largest investors in research and development worldwide, and such investments are generally made in the country where the parent company is located. In recent years, however, there has been a phenomenon of decentralisation of R&D activity, in that it seeks to exploit the knowledge and resources available in other countries. This allows more immediate access to innovations by all local businesses. The new technological knowledge is then made available on terms favourable to all the companies in the group. In the event that the subsidiaries are directly involved in the research activity, the latter will transfer the new knowledge to the parent company and to the other subsidiaries, while in the case where the subsidiaries abroad are engaged in production and not research, the transfer of technological progress can be achieved through the use of new or semi-finished machinery provided by the parent undertaking. The links and contracts between subsidiaries and other local companies, both as customers and as suppliers, are another way of disseminating new technologies. Through concessions and licences, the same technologies may also be used by other local enterprises in the host country. Another way in which local companies can get hold of the new technologies is what we can define as «reverse process», that is, by dismantling the good produced by the affiliated company. One element which limits the ability to acquire and use new technologies is, as mentioned above, the cultural and technological gap between the host country and the country of origin of the multinational. Whereas research, when not carried out in the country of origin, is carried out in countries which, in any case, have a level of development and knowledge very similar to that of the country of origin, in the case of production activities, on the contrary, often takes place in the least developed countries. For the latter, then, the most important moment, that of the transfer of knowledge, is the preparatory and training courses which are given to local workers and technicians by the parent company, to enable them to operate using new procedures and new machinery. Making new technologies more easily accessible, whether in the form of new products or new production processes, and new management practices, highlights the fundamental role played by multinational companies in the process of restructuring the entire production system of the host country. The host country of FDI often leads to an increase in exports by domestic companies. With regard to subsidiaries, a first opportunity is represented by the «internal» market, that is the one constituted by the companies of the group. The same applies if subsidiaries abroad are involved in the production of final goods, which can be produced not only for the local market but also for export to the country of origin or other countries. As a result of the flourishing of area trade agreements, this type of FDI has increased significantly, in fact, multinationals often open subsidiaries in one of the member countries of the trade agreement, which allows the multinational to sell its products not only on the local market but also in the other countries of the agreement; using the subsidiary as the basis for exports. These could be penalised by area trade agreements if carried out by the country of origin. The presence of multinationals also favours the exports of other local companies that are not part of the group. This can be done by two means. A first route is the supply contracts which multinational companies enter into with local companies. This allows the latter to get in touch and to sign new supply contracts with other companies in the country of origin of the multinational or in any case located abroad. The second way is the better knowledge that local companies can acquire of the characteristics that a product must have in order to be sold on foreign markets. These characteristics can be strictly related to the product or aspects related to marketing, such as packaging or advertising, or packaging, transport practices.

1.4. Effects of movements of capital on the Market

The role of FDI in the labour market is undoubtedly one of the most interesting topics in recent years. The intensification of the process of globalization and productive internationalization that has affected the world economy in the last twenty years, has often been accused of being the major culprit of phenomena such as:

- the increase in unemployment, especially for the less skilled and those employed in the productive sectors with the greatest labour intensity (particularly in continental Europe);
- the growing disparity in the remuneration of workers with different technological skills to the detriment of less skilled workers (particularly in the Anglo-Saxon world, namely the United Kingdom and the United States).

These claims are based on the fact that multinational companies in industrialised countries have been accused of implementing the process of relocation to exploit the abundance of unskilled labour available in the least developed countries, thus making a profit on lower wage costs. This would have led to a fall in the demand for unskilled workers in the countries of origin of the multinationals, with different effects on remuneration and employment depending on the greater or lesser rigidities on the labour market in question. It is not an easy task to determine precisely the effect that foreign outgoing investment has on employment in the country of origin. The effects relate not only to the level of employment, namely the number of jobs that may be created or destroyed, but also to the type of jobs created, their quality, their stability and their remuneration. Furthermore, it should be borne in mind that multinationals influence the labour market of the country from which they originate not only directly, but also indirectly through the relations of various kinds entertained with the other national enterprises present in the territory. Analyzing the creative or destructive effect of jobs, it can be said that you have different results depending on the type of foreign investment you consider. Referring to the classification made in the previous paragraph of the various types of investment, it can be said that in the case of investments made to ensure the supply of raw materials, the employment effect on the national market can only be positive. In this case, in fact, the Directorate-General or headquarters in which the various offices are located (administrative, legal, finance, R&D) is located in the country of origin. In addition, additional jobs are created if the process of processing the raw material into semi-finished or finished product takes place in the country of origin. Turning to the investments made to ensure an outlet market for its products, these may have a direct negative effect on the number of jobs in the country of origin of the multinational. This type of investment is often considered as a substitute for exports. In order to assess the internal employment impact of this type of investment, it should be borne in mind what the situation would be if the investment were not made. Often this type of investment is made to ensure that the product remains competitive and in any case is present in other markets besides the domestic one. Switching to investments of the rationalized product or rationalized process type results in a negative effect on the employment of the investor country, In fact, a part of the production process that was previously carried out on the national territory using the domestic workforce, is now carried out abroad using local workers, resulting in the destruction of some jobs. Often, however, especially in the case of rationalized investment process, which sees as subjects two countries with a different degree of development, the multinational enterprise brings with it from the country of origin (which is usually the most advanced) personnel qualified to carry out managerial and managerial tasks.

If this investment leads to savings in production costs, the product will become more competitive on both the domestic and foreign markets. Finally, as far as strategic investments are concerned, it is not easy to establish whether they lead to destruction or job creation in the country of origin. For this type of investment very important is the assumption regarding the national productive reality in case of absence of the investment. So far, we have seen the ability of FDI to directly create (or destroy) new jobs, but multinationals also have an indirect impact on the labour market. Although indirect effects are considered to be of major importance especially in the recipient countries, they are also relevant in the countries of origin. A first indirect effect they have because of the commercial relationships with their suppliers or customers on the national territory (backward and foreward linkages). Often companies that move certain stages of production abroad maintain supply relations with companies in the country of origin. This can help to make those same companies also suppliers of local or other foreign companies present on the site. If we bear in mind that, through their activities, multinationals encourage the knowledge of other domestic products abroad, there may be an increase in domestic production for export and thus an increase in employment. Another indirect effect is the increase in national income that generally accompanies investment abroad. This increase, resulting in an expansion of consumption within the country, favors a general growth of economic activity, with obvious beneficial effects on employment. Foreign investment has been held responsible for increasing the wage differential between less skilled workers in favour of more skilled workers. In the case of foreign investments made by industrialised countries to the least developed countries, the investments that are generally made to exploit the abundance of cheap labour. This type of investment therefore has the effect of reducing the demand for these workers in the country of origin. The result will then be either a reduction in their wages or an increase in the unemployment of these same workers. Analyzing the problem graphically using the classic diagram of the curves of demand and supply of job. The effect that foreign investment has is to shift the demand curve of unskilled labour downwards and to make it flatter, that is, to increase its elasticity. Entrepreneurs, in fact, having as their aim the reduction of production costs, and having the possibility to move their capital where there is a wide availability of workers with the same characteristics but at a lower wage, They become much more sensitive to any change in cost. This leads to a tendency within the investor country to contain wage growth along with increased job instability. This effect due to foreign investment, however, may also affect the most skilled workers. It can be said, analysing the effects of FDI on the labour market of the recipient country, that the effects are most significant when the recipient country is a developing country. It can be said, by analysing the effects of FDI on the labour market of the recipient country, that the effects are most significant when the recipient country is a developing country. The quantitative effect of FDI in the case of greenfield investment and in the case of acquisition is also influenced by the production technique used. The more capital-intensive the technique adopted, the less the employment effect. In order to distinguish between the type of recipient country considered, it can be said that, in general, direct investment in developing countries is greenfield, In the industrialized countries, it is achieved through the acquisition of an existing company. In the recipient countries, indirect effects are often far more important than direct effects, although their precise determination is much more difficult. Indirect effects can be considered at several levels: at a first level indirect effects can be considered as those caused by relationships with their suppliers or customers; a second level those caused by the relationships that the latter in turn have with their suppliers and customers. Another indirect effect is that caused by the growth of national income which, by allowing greater spending capacity to the local population, leads to an increase in consumption and therefore, at least in part, an increase in employment.

In summary, indirect effects can be grouped as follows:

- Macroeconomic Effects: employment effects indirectly generated in the local economy due to increased consumption by the local shareholders of the multinational and the workers employed by it.
- Horizontal effects: employment effects indirectly generated by competition with other local enterprises.

a) Narrow horizontal effects: employment effects indirectly generated by competition with other local companies operating in the same sector as the multinational.

b) Wide horizontal effects: indirect employment effects generated in undertakings operating in sectors other than that where the multinational operates.

- Vertical effects: employment effects indirectly generated by supply and sales relationships between the multinational undertaking and local undertakings;

a) Vertical effects "backwards": employment effects indirectly generated by the supply relationships that the multinational company maintains with local companies.

b) Vertical effects "forward": employment effects indirectly generated by sales relationships that the multinational company maintains with local companies.

2. Connection between European Union and Mercosur

2.1 International trade

In 1944, Bretton Woods hosted a conference that established the International Monetary Fund and the World Bank needed to be complemented: there was the urge of an international institution for monetary policy and for trade. The International Trade Organization (ITO) was the proposed name for an international institution aimed to regulate trade, but it failed due to lack of approval by the US Congress. Until the creation of the World Trade Organization in 1994, international trade was managed through the General Agreement on Tariffs and Trade (GATT). The General Agreement on Tariffs and Trade (GATT) is a set of multilateral trade agreements aimed at the abolition of quotas and the reduction of tariff duties among the contracting nations. When GATT was concluded by 23 countries at Geneva, in 1947, it was considered an interim arrangement pending the formation of a United Nations agency to supersede it. In 1995, when it was replaced by the World Trade Organization (WTO), 125 nations were signatories to its agreements, which had become a code of conduct governing 90% of world trade.

GATT’s most important principle was the possibility of trading without discriminations, so each member nation opened its markets equally to every other: this meant that once a country and its largest trading partners had agreed to reduce a tariff, that tariff cut was automatically extended to every other GATT member.

Other general rules included uniform customs regulations and the obligation of each contracting nation to negotiate for tariff cuts upon the request of another. GATT's normal business involved negotiations on specific trade problems affecting particular commodities or trading nations, but major multilateral trade conferences were held periodically to work out tariff reductions and other issues. Seven rounds were held from 1947 to 1993, starting with those held at Geneva in 1947, then at Annecy (France) in 1949, etc. The most important ones were the so-called Kennedy Round (1964–67), the Tokyo Round (1973– 79), and the Uruguay Round (1986–94), all held at Geneva. These agreements succeeded in reducing average tariffs on the world's industrial goods from 40% of their market value in 1947 to less than 5% in 1993. The Uruguay Round negotiated the most ambitious set of trade-liberalization agreements in GATT's history: among all the features, it also created a new and stronger global organization to monitor and regulate international trade: the WTO. As a matter of fact, GATT went out of existence with the formal conclusion of the Uruguay Round, in 1994. Its principles and the many trade agreements reached under its auspices were adopted by the WTO. The World Trade Organisation entered into force in 1995, one year after the Uruguay Round. It has six key objectives: to set and enforce rules for international trade, to provide a forum for negotiating and monitoring further trade liberalization, to resolve trade disputes, to increase the transparency of decision-making processes, to cooperate with other major international economic institutions involved in global economic management, and to help developing countries benefit fully from the global trading system. The GATT focused almost exclusively on goods—though much of agriculture and textiles were excluded—the WTO encompasses all goods, services, and intellectual property, as well as some investment policies. Because many more products are covered under the WTO than under the GATT and because the number of member countries and the extent of their participation has grown steadily, open access to markets has increased substantially. The rules embodied in both the GATT and the WTO have three purposes: first, they attempt to protect the interests of small and weak countries against discriminatory trade practices of large and powerful countries. The WTO's most-favoured-nation and national-treatment articles stipulate that each WTO member must grant equal market access to all other members and that both domestic and foreign suppliers must be treated equally. Second, the rules require members to limit trade only through tariffs and to provide market access not less favourable than that specified in their schedules. Third, the rules are designed to help governments resist lobbying efforts by domestic interest groups seeking special favours. Although some exceptions to the rules have been made, their presence and replication in the core WTO agreements were intended to ensure that the worst excesses would be avoided. By thus bringing greater certainty and predictability to international markets, it was thought, the WTO would enhance economic welfare and reduce political tensions.

Continuing to examine the issue it is necessary to focus on the international trade seen as economic transactions made between countries. There are consumer goods, capital goods, raw materials and food and other transactions involve services, such as travel services and payments for foreign patents. International trade transactions are facilitated by international financial payments, in which the private banking system and the central banks of the trading nations play important roles. International trade is generally conducted for the purpose of providing a nation with commodities it lacks in exchange for those that it produces in abundance; such transactions, functioning with other economic policies, tend to improve a nation's standard of living. Much of the modern history of international relations concerns efforts to promote free trade between nations and we are focusing on the agreements between European Union and the rest of the World. The term trade agreement or commercial agreement can be used to describe any contractual arrangement between states concerning their trade relationships. Trade agreements may be bilateral or multilateral, between two states or between more than two states. In a trade agreement, the principle of reciprocity is found, implicitly at least, in all trade agreements and implies only that the gains arising out of foreign trade are distributed fairly.

International Trade agreements can be distinguished by their content:

- Economic Partnership Agreements (EPAs) - support development of trade partners from African, Caribbean and Pacific countries

- Free Trade Agreements (FTAs) - treaties that regulate the tariffs, taxes, and duties that countries impose on their imports and exports.
- Association Agreements (AAs) - bolster broader political agreements

Negotiations of trade agreements are conducted in accordance with the rules set out in Article 218 of the Treaty of the Functioning of the European Union. Trade agreements are generally very complex because they are legal texts covering a wide range of activities, from agriculture to intellectual property. But they share several fundamental principles:

- Anti-discrimination
- Predictability
- Fair competition

It should be noted that there are both benefits and barriers through trade, in fact the opening to new markets for EU goods and services, the increased investment opportunities and protection of investments are opposed to the tariffs (customs duties on imports which give a price advantage to locally-produced goods over similar imported goods) and the different regulations applicable to products and services. Making trade cheaper with eliminating of customs duties and trade faster from one side and with non- tariffs barriers costly restrictions that result from prohibitions, conditions, or specific market requirements.

In order to better understand the economic impacts of FDI on different countries, it is important to examine the relationships between FDI and trade. Investment provisions are contained in free trade agreements and association agreements with a significant trade component, concluded by the EU and its Member States as early as 2006, the year in which the European Commission prepared a new trade policy agenda to meet strategic priorities. However, some agreements contain a "rendez-vous" clause, as the negotiations on these treaties began before the entry into force of the Treaty of Lisbon (1 December 2009). This provision allows for the revision of the legal framework for investment in relations between the Parties, for example, the Contracting Parties undertake to «review the investment legal framework, the investment environment, and the flow of investment between them consistent with their Commitments in international agreements no later than three years after the entry into force of this Agreement and at regular intervals thereafter»

* WTO Working Paper, Market Access Provisions on Trade in Goods in Regional Trade Agreements, 2012

http://www.wto.org/english/res_e/reser_e/ersd201220_e.

The relationships between investment and trade are typically viewed from the perspective of the investing or home country, the recipient or host country and third-party countries which may be affected by this relationship. The impacts of FDI on trade are, however, likely to partly depend on the organisation of international business activities, economies of scale and transportation costs are key elements in the decision process.

2.2 History of Mercosur

The first hypothesis of integration of the South Cone of Latin America dates back to 1909, with the beginning of a customs union project between the countries now members of Mercosur. However, only since the mid-1980s, when Argentina and Brazil, after having dismantled their respective military regimes, back to democratic governments, the idea of a common economic market is once again on the way. Both economies had essentially ignored each other until now, and after more than 120 years of proximity, the first exhibition of Argentinian products is held in Brazil. The newfound democracy in fact brings with it the need to modernize closed or even autarkic economic systems, obsolete both in terms of technology and production capacity. The enormous weight of foreign debts contracted in previous years, the lack of new

credit, the need to make large investments to modernise and to make their companies competitive on international markets leads to understand that this process of conversion and expansion would be more beneficial if it were addressed through a common agreement. On this basis, at the end of 1985 the President of Argentina, Alfonsìn and the President of Brazil, Sarney, ratify the will to pursue common future goals. Argentina develops its idea of a "asociaciòn preferente" with Brazil and invites at the beginning of 1986 the representatives of the latter at a private meeting to discuss its proposal; shortly thereafter it is Brazil that proposes a new meeting with the Argentine representatives, in which a favourable response is given to this idea, thus outlining the characteristics of the understanding. This agreement was not intended to create a new form of protectionism, but to give greater opportunities for development to the economies of the two countries and to facilitate their integration into the world market (open regionalism).

The prospect of an economic and political agreement of this nature, however, creates scepticism and doubts. The main obstacle, besides the old rivalry, is the fact that the two countries come, like all those in Latin America, from an experience of unsuccessful agreements or very limited results as was the ALALC (Asociacion Latino-Americana de Libre Comercio), created in 1960 by eleven countries, and the ALADI (Asociacion Latino-Americana de Integracion) born in 1980 as a continuation of the previous experience.

Moreover, in 1986, without prejudice to the positive experience of the EEC, there were no other cases of integration of countries with relatively developed economies or of intermediate development; in that period, there was still no agreement between the United States and Canada and neither was NAFTA, which links these two countries with Mexico. With the Foz de Iguazù declaration of December 1985, containing the fundamental principles for

the development of the cooperation relationship, and in July of that year signed an agreement (Acta para la Integracion Argentino-Brasilena) composed of twelve protocols which outline some general principles. A modern and competitive reality needs specializations to exploit the better economies of scale in production, natural benefits, and human resources that each country has; all this, however, not intended as an intersectoral specialization in which one country became a supplier of raw materials to the other, but as a relationship of collaboration and mutual industrial development. The objective is to develop in both countries, the livestock and industry sectors, so that each of them can then specialize in the production of some particular goods, thus creating an intra-sectoral development. The agreement is based on flexible, gradual and progressive mechanisms to provide equal benefits to both countries. A number of sectoral protocols covering three large fields:

- increased trade, achieved by reducing taxes and facilitating supplies;
- the conversion of existing industries, in particular the machinery, vehicle or steel sectors, chosen as the core of this integration;
- development of new areas such as information technology, biotechnology, communications and cooperation on the peaceful use of nuclear energy.

In 1988, follows a real treaty between the two countries which undertake to apply the same treatment to Uruguay, which has been added.

In 1991 Paraguay was also included in the agreement and with the signing of the Treaty of Asuncion, a free trade area and a customs union was established between the four member states for a period of four years, until December 1994, the period in which the member countries signed the Ouro Preto Protocol supplementing the Treaty of Asuncion and establishing the final institutional structure of Mercosur and voting procedures.

The birth of the real Mercosur (Mercado Comun del Sur), consisting of Argentina, Brazil, Uruguay and Paraguay finally took place on 1 January 1995. They may be members of Mercosur from five years after the entry into force of the Treaty of

Asuncion, the member countries of the LAIA (Association for the Integration of Countries Latin Americans), except for those who do not implement any integration plan. Other countries such as Chile and Bolivia, as associated countries, have strong links with Mercosur, although the former is not interested in joining because it considers that for the time being this market does not offer significant advantages to an open and relatively modern economy. Mercosur aims to establish a free trade area and a customs union, pursuing the following objectives. The free movement of goods, services and inputs between Member States. The terms of internal integration are shortened through the zeroing, in a four-year period, of a large part of the customs duties imposed on goods traded within the area. This is done by means of an automatic and gradual reduction mechanism through fixed timeframes. The reduction in taxes on trade is thus more important than the combination of sectoral policies and duty rebates.

The adoption of a common commercial policy and the establishment of a common external tariff, the adoption of which takes place in three stages: for 85% of products a rate of 20% is applied immediately, while for the remaining 15%, consisting of capital goods, the tariff should be reduced to 14% by 2001 and 16% by 2006 for telecommunications and other information technologies.

The coordination of macroeconomic and sectoral policies relating to: external trade, agriculture, industry, monetary system, currency and fiscal policies, services, customs, transport and communications. The aim is to ensure free and regular competition between the economic systems of the member countries.

The commitment to change internal legislation in conflict with the process

to harmonize rights and obligations between the contracting parties, although transitional protective measures in favour of Paraguay and Uruguay.

The main functional organs of Mercosur are several.

The Common Market Council, the most important decision-making composed by the Foreign and Economy Ministers of the Member States. The presidency is six-monthly and is the responsibility of each country with an alphabetical rotation criterion. The meetings, which are also attended by the Heads of State of the Member States, do not have a fixed deadline and in any case take place at least once a year. Decisions shall be taken unanimously.

The Common Market Group, the executive body, transforms the Council’s decisions into operational resolutions. It also ensures the implementation of the Asuncion Treaty and its protocols, proposes concrete actions to coordinate macroeconomic policies and to start negotiations with countries wishing to become members, and approves the budgets proposed by the administrative secretariat. It is composed of four permanent members and four alternates from each member state representing the Foreign and Economic Ministers and the central banks. Meetings shall be held at least quarterly and resolutions shall be adopted unanimously.

The working groups, under the direct control of the Group, draw up draft decisions which will then have to be submitted to the Council and draw up studies and opinions on trade and customs issues, technical standards, monetary and fiscal policies relating to trade, land transport, industrial and technological policies, agriculture, energy, labour, employment and social security.

The Trade Commission shall be a technical body composed of four permanent members and four alternates and shall provide the operational instruments for the adoption of a common commercial policy, in particular: adoption of lists of products by way of derogation from the common external tariff, unification of customs systems, free zones and special zones, harmonisation of tariff systems and export incentives, elimination of unfair competition. It shall meet at least once a month and shall act in accordance with the directives laid down by the Council, which shall be binding on all Member States, and with its opinions. This institution is provided for by the Protocol of Ouro Preto as well as the Joint Parliamentary Committee representing the Parliaments of the Member States; it is both consultative and deliberative in nature and essentially has the task of organizing harmonisation and the power to impose recommendations on the Common Market Council. It shall meet at least twice a year and shall act by the majority of its members.

The Economic and Social Consultative Forum represents the social and economic sectors and can impose recommendations on the Mercosur Group.

There is also an Administrative Secretariat, based in Montevideo, deliberately composed of a few dozen people to avoid creating heavy bureaucratic apparatus. In the absence of a Court of Justice at Community level, matters relating to the settlement of disputes are entrusted to the Brasilia Protocol of 17 December 1991, which proposes an arbitrage methodology in the event of conflicts between Member States as to the interpretation, application or non-compliance with the provisions of the Treaty of Asuncion, Council decisions or Group resolutions. In the first instance, disputes are settled by direct negotiation. If no agreement is reached between the parties within 15 days, the matter shall be referred to the Common Market Group, which, after having examined it with the possible support of an expert, shall make recommendations with a view to resolve the conflict. If the proposal is unsatisfactory, individual states have the right to inform the Administrative Secretariat that proceeds by arbitration. An ad hoc tribunal is then set up with three arbitrators chosen from the official list published by the administrative secretariat: one for each state involved in the dispute, plus one with a different nationality with a neutral position. The Brasilia Protocol also provides for a series of procedures for complaints from individuals, whether natural or legal persons, in case of discriminatory attitudes, unfair competition means restrictive legal or administrative measures applied by any Member State in breach of the Treaty of Asuncion. Complaints are submitted to the national section of the Common Market Group of the country of residence; verified the existence of the fact, the national section may negotiate an agreement with the national section of the country to which the infringement is attributed or submit the case directly to the Common Market Group. The latter may refuse the complaint or convene a group of experts who must issue a verdict within thirty days of the convocation. The country to which corrective action is requested may use arbitration procedures in accordance with the procedures for the settlement of disputes between States.

Mercosur's commercial system revolves around the Common External Tariff (TEC) which is applied to goods from third countries, free zones and special customs zones. Rates currently range between 0% and 20%, with an average of 12%. In November 1997, Argentina, Brazil and Uruguay adopted a temporary 3% increase in the so-called "Extra-Zone Import Right" as a customs defence during the threats of enlargement to the region of the Far East economic crisis.

Goods to which the TEC applies may move freely within them Mercosur, and the adoption of a common external trade policy for establishing a Customs Union to third countries. Other instruments ensuring the integrity of the common commercial policy of the customs union should be added to the Common External Tariff and to the list of exceptions. Measures aimed to achieve the unitary treatment for imports from third countries in accordance with WTO rules include:

- the approval of a Mercosur Customs Code, already drawn up but subject to the introduction of certain amendments necessary for its entry into force;

- gradual harmonisation of distorting national public policies competition;
- the improvement of the implementation of integrated border controls and the adoption of measures to speed up relations;
- the development of interconnection of administrations' IT systems of the Member States;
- harmonization of subsidy policies and anti-dumping legislation;
- the development of effective coordination in preventing and combating customs fraud and irregularities;
- the improvement and uniform application of customs valuation rules and criteria. Address tax and tax asymmetries.

Within the customs union area, free zones have been created, goods produced by the Member States are normally subject to the TEC, but the Member States have the right to apply safeguard measures if they consider that they create disturbances to the internal market. The only exceptions are the special customs areas of Manaus (Brazil) and Tierra del Fuego (Argentina), for particular geographical reasons, move freely their goods in their country of origin.

The meetings of the Mercosur Council held in Buenos Aires and Ouro Preto in 1994 highlighted the need to adopt common commercial policy instruments and to ensure greater solidity for commercial policy, promoting productive complementarity, sectoral specialisation and the dissemination and development of new technologies. Special conditions are applied to certain production sectors to facilitate their adaptation to the Customs Union. In the agricultural sector, policies are being implemented to increase productivity throughout the Mercosur area, to encourage the free movement of products and to ensure that domestic requirements are met. In the industrial sector, efforts are being made to encourage the restructuring of the industry in order to remain competitive on the international market.

Special attention was paid to Mercosur's external growth. The establishment of the Customs Union and its legal personality under international law gives Mercosur the capacity to negotiate agreements with third countries, economic blocs and international bodies.

The main international institutions with which agreements are in place are the World Trade Organization, the European Union, the North Atlantic Free Trade Agreement (NAFTA).

Mercosur is now composed of five States Parties member states: Argentina; Brazil; Paraguay; Uruguay and Venezuela (suspended in all the rights and obligations inherent to its status as a State Party of MERCOSUR, in accordance with the provisions of the second paragraph of the Article 5 of the Protocol of Ushuaia). In addition there are seven Associated States: Suriname, Guyana, Colombia, Ecuador, Peru, Chile and Bolivia (the Protocol of Accession of Bolivia to MERCOSUR was signed by all of the States Parties in 2015 and is currently in the process of being incorporated by the congresses of the States Parties).

2.3 Linkages between Europe and Mercosur

On 28 June 2019, the European Union and Mercosur member countries Argentina, Brazil, Paraguay and Uruguay concluded longstanding negotiations on a landmark trade agreement. The agreement will, over time, remove duties on 91% of goods that EU companies export to Mercosur. Current trade relations between the EU and Mercosur are based on an inter-regional Framework Cooperation Agreement which entered into force from 1999.The EU and individual Mercosur countries also have bilateral framework cooperation agreements, which also deal with trade-related matters. The EU- Mercosur negotiations started in 2000 and over the last years experienced different phases; in fact, in May 2016, the EU and Mercosur re-launched the negotiation process, exchanged new market access offers and intensified the pace of negotiations by holding negotiation rounds and meeting at regular intervals. The goal of the new EU-Mercosur trade deal is to:

- remove barriers and help EU firms – especially smaller ones – to export more;

- strengthen worker’s rights and ensure environmental protection, encourage companies to act responsibly, and uphold high food safety standards;
- protect quality EU food and drink products labelled as Geographical Indications from imitations. The agreement creates opportunities for growth and jobs for both the Eu and Mercosur.

Mercosur would remove import duties on 91% of imports from the EU over a period of up to 10 years for most products. More sensitive products would have a longer liberalisation phase-in period of 15 years. This would be particularly beneficial for EU industrial exports such as cars (current tariff: 35 %), car parts (14-18 %), machinery (14- 20 %), chemicals (up to 18 %), clothing (up to 35 %), pharmaceuticals (up to 14 %), leather shoes and textiles (up to 35 %). High import duties for EU agricultural exports of food and drink to Mercosur, such as wines (27 %), chocolate (20 %), whisky and other spirits (20 to 35 %), biscuits (16-18 %), canned peaches (55 %) and soft drinks (20-35 %), would progressively be eliminated. The trade pillar of the EU-Mercosur Association Agreement 9 For some EU dairy products, zero-duty quotas would be opened over 10 equal annual phases: for cheese (current tariff: 28 %) 30 000 tonnes, for milk powder (28 %) 10 000 tonnes and for infant formula (18 %) 5 000 tonnes. This would increase the competitiveness of these EU products in Mercosur countries and, given current low export levels, open new export opportunities.

Beef: Mercosur countries would be allowed to export 99 000 tonnes of beef to the EU (55 % of which is for 'fresh' beef and 45 % for 'frozen' beef) with a 7.5 % duty and to be phased-in in six equal stages. Although this is the biggest TRQ to be offered in any EU trade agreement, to put this quantity into context, after five years of phasing-in it would represent 1.2 % of the overall EU beef consumption of 8 million tonnes per year. This import quota would be in addition to the 200 000 tonnes of high value beef cuts that are currently imported every year from Mercosur. About a quarter of this high value beef – about 45 000 tonnes of 'fresh' and 10 000 tonnes of 'frozen' – is currently subject to import duties of 40-45 %. In addition, the EU's high-quality beef 'Hilton' quota (of 67 000 tonnes) currently allows Mercosur beef imports at an in-quota tariff of 20 %. The in-quota tariff would be eliminated for Mercosur, whereas imports from other countries that have access to this TRQ (Australia, the US, and New Zealand) would continue to be subject to the 20 % tariff. However, the recent EU-US hormone-free beef meat deal, which grants the US exclusive access to 18 500 tonnes of a zero-tariff EU 481 grained beef quota for 45 000 tonnes and raises its access to 35 000 tonnes phased over seven years, reduces the quota shared among Argentina, Australia, Canada, New Zealand, Uruguay and the US.

Poultry: The FTA would grant Mercosur countries a duty-free import quota of 180 000 tonnes to be phased-in over five years. The volume at stake represents 1.2 % of current consumption, with the EU average consumption growth currently standing at more than 230 000 tonnes per year. Sugar: Brazil would benefit from changes to the tariff quota used so far under the EU's WTO schedule. A quantity of 180 000 tonnes of sugar for refining would be allowed into the EU duty-free under this existing quota, rather than under the in-quota duty of €98 per tonne. Only Paraguay would be granted a new duty- free quota of 10 000 tonnes. The sugar volume subject to the FTA would correspond to 1 % of the EU's sugar consumption.

Ethanol: Mercosur countries would be granted two different TRQs of a total of 650 000 tonnes of ethanol to be phased-in over five years. The first is a duty-free quota of 450 000 tonnes of ethanol for use by the chemical industry, including the bioplastics and biochemical industries. The second is a more sensitive quota of 200 000 tonnes of ethanol for all other uses, such as for the fuel segment of the market, with a two-thirds cut in the current in-quota tariff rate.

Honey: The FTA would open a quota of 45 000 tonnes which would be imported duty- free after a gradual duty reduction over a five-year period. The Commission expects this quota to include the current imports of honey from Mercosur of about 35 000 tonnes.

Rice: Mercosur countries would be allocated a duty-free import quota of 60 000 tonnes for rice, which would be achieved after a gradual tariff reduction over five years. The Commission expects this quota to include the current imports of rice from Mercosur of around 100 000 tonnes a year on average. The quota amounts to 2.2 % of EU consumption of 2.7 million tonnes.

Export duties on raw materials: The FTA would reduce or eliminate export taxes for raw materials such as soybean products (feed for EU livestock) and prohibit import and export price requirements as well as import and export monopolies.

Intellectual Property Rights: The FTA would protect from imitation in Mercosur countries some 350 GIs, i.e. distinctive high-quality EU regional wines, spirits, beers and food products, such as Prosciutto di Parma (Italy), Münchener Bier (Germany), and Tyrolese Speck (Austria). This is the largest number of EU GIs ever covered by a trade agreement. Mercosur would continue to be able to use the name 'Cognac' and 'Prosecco' for a transitional period, with 'grandfathering' rules applying to Mercosur 'parmesan' and 'gorgonzola' cheese producers that have used these names prior to 2017. The EU would protect some 220 GIs from Mercosur countries in the EU, including Argentinian wine names such as Mendoza and La Rioja Argentina. The FTA would not require additional patent protection for drugs beyond the provisions enshrined in the Agreement on Trade- Related Aspects of Intellectual Property Rights (TRIPS).

Government procurement: The FTA provides for the reciprocal opening of public procurement markets at central level, while opening the door to future liberalisation at the sub-federal level.

Small and medium-sized enterprises (SMEs): The SME chapter provides for the position of an SME coordinator. In addition, both sides would set up an online platform providing easy access to information on import requirements and preferential trading arrangements benefiting SMEs.

Sanitary and phytosanitary measures (SPS): The SPS chapter contains provisions to ensure food safety, animal and plant health, including a procedure for the recognition of pest and disease-free zones or compartments which allows for safe trade from these zones and the implementation of the 'regionalisation principle'. It spells out, among other things:

- a procedure for the approval of establishments in the exporting country for the import of animal products lists of approved establishments to be made public and the verification of the official control system of the exporting country by the importing country;
- SPS import checks and the notifications resulting from cases of non-compliance;
- future-oriented steps to simplify import and approval procedures, including efforts to harmonise import requirements, certificates and import checks on the Mercosur side.

It can be obtained from European Commission audits performed in Argentina (animal health), Brazil (beef, poultry), Paraguay (beef), and Uruguay (food of animal origin). As for animal welfare, biotechnology, food safety and the fight against antimicrobial resistance (AMR), bilateral and international cooperation is envisaged in the framework of dialogues.

Trade and sustainable development (TSD): The TSD chapter contains the parties' commitments to their climate change goals, multilateral labour standards and environmental agreements.

EU-Mercosur: Trade in goods

Trade in goods 2016-2018, € billions

Year	EU imports	EU exports	Balance
2016	40.6	41.7	1.0
2017	42.0	44.3	2.3
2018	42.6	45.0	2.4

According to Eurostat data, in 2018 total EU-Mercosur trade in goods amounted to €87.6 billion. EU exports to Mercosur stood at €45,0 billion and EU imports from Mercosur at €42.6 billion. As for the geographical breakdown, Brazil accounted for €65 billion, Argentina for €18 billion, Paraguay for €1.4 billion, and Uruguay for €3.1 billion. Total EU-Mercosur trade in goods in 2018 was up from €81.7 billion in 2008, but down from a 2012 peak of €100.5 billion. Mercosur is a large exporter of commodities. Its biggest exports to the EU in 2018 were agricultural products (AR), (BR), (PY), (UY), such as foodstuffs, beverages and tobacco (20.5 %), vegetable products including soya and coffee (16.3 %) and meats and other animal products (6.1%), and minerals (17.6 %). EU exports to Mercosur consisted of machinery (28.6 %), chemicals and pharmaceuticals (23.6 %), and transport equipment (13.3 %). According to Eurostat data, in 2017, EU service exports to Mercosur amounted to €23 billion, while EU service imports from Mercosur totalled €11 billion. Adding high EU import duties for sensitive agricultural products to Mercosur's high import tariffs constitutes great potential for trade liberalisation. According to the Commission's Sustainability Impact Assessment 2018 inception report, the potential for EU companies to expand exports to Mercosur through cuts of high tariffs on EU industrial exports is most evident for cars and car parts, chemicals, machinery and pharmaceuticals. As far as the top 20 EU imports are concerned, it appears that Mercosur's export potential to the EU could be unlocked by eliminating or reducing high EU tariffs on agricultural imports such as orange juice, fresh chilled and frozen bovine meat, frozen shrimps, meat and edible offal. This means that the elimination of high tariffs on EU agricultural exports to Mercosur and on EU exports of industrial goods to Mercosur could contribute significantly to the gains from the FTA for EU firms, estimated by the European Commission at €4 billion. The removal of significant non-tariff barriers to trade would create further trade dynamics.

Source: European Commission, from Eurostat

2.4 Italy and Mercosur

Italy and Mercosur have a close commercial and investment relationship and Mercosur represents the seventh market for extra-Italian exports EU with the creation of more than 98,000 jobs in Italy dependent on exports to Mercosur. *source. The value of exports Italian goods to Mercosur amounts to 7,7 billion, that of Italian imports of goods to Mercosur amounts to 6 billion while the Italian companies that export to Mercosur are 13,200. The value of Italian exports of goods to Mercosur amounted to 5.35 billion. * source.

The Mercosur market represents 2.65% of total Italian exports outside the European Union. This is set to rise as a result of the agreement. The trade agreement with Mercosur will allow considerable savings on customs duties by phasing out 91% duties on all products that will become more competitive. This will enable Italy to benefit from this tariff reduction on all its exports.

Source: European Commission, from Eurostat

The value of Italian exports of machinery to Mercosur is 2 billion and Italy is the second largest exporter of machinery and electrical products to the EU. This category represents 40% of all Italian exports to Mercosur. Till now, the level of Mercosur's customs tariffs varies between 14 and 20% and as a result of the agreement, this value will be gradually reduced to 0% on most products. Italian export of transport equipment to Mercosur is €753 million and Italy is the third largest exporter to the EU for this category.

The main Italian exports in this sector consist of:

- cars, engines, parts and accessories for vehicles (€530million);
- aircraft, spacecraft and parts thereof (€95million);
- locomotives or trams (€5 million).

The high tariffs that this sector faces will be gradually removed in most products of this category.

Mercosur is an important market for Italian exports of chemicals and pharmaceuticals and represents a market share of 4.3% of exports in the same sector.

Italy is a major exporter of iron, steel and metal products and the total value of exports is 339 million. Among them are:

- iron and steel exports reach 215 million
- aluminium exports reach 38 million

The Italian export to Mercosur of optical, medical and measuring or precision instruments is 203 million, representing the third exporter among EU countries for this category of products. Mercosur tariffs in this sector reach 20% and will be phased out as a result of the agreement.

With the creation of new market opportunities for farmers and producers in the agri-food sector. Food and drink currently account for only 5% of the EU’s total exports to Mercosur and are mainly high value-added products. Exports in this sector are low due to tariff barriers of up to 27%, with peaks of 35% and 55% and other restrictions. The EU-Mercosur trade agreement will allow the gradual elimination of tariffs for most products, making them more competitive: all the Italian flagship products will be free of duties. Some examples of flagship products:

- Wine: Italy exports €39mln
- Fruit and citrus fruits: Italy exports €33mln
- Olive oil: Italy exports €22mln
- Canned tomatoes: Italy exports €19mln
- Cheese: Italy exports €4mln
- Chocolate: Italy exports €13mln

Italy is the EU’s fifth largest exporter of agri-food products to Mercosur, totalling 266 million.

The agreement provides the possibility of importing a limited quantity of beef from the Mercosur countries at reduced tariffs: up to 99,000 tonnes, which is just over 1% of total EU beef consumption and accounts for half of current imports from Mercosur countries. In addition, this quota will not be fully applied until 2027 and will be gradually divided into six annual instalments. Several relevant measures will be introduced to protect Italian producers and consumers. The allocation of a package of economic support up to 1 billion to assist farmers in the event of significant market disturbances. The agreement includes a safeguard clause which may be used to protect the agri-food industry if there is actual damage caused by the increase in imports or if there is a serious and well-founded danger of such an increase. The European Union, as part of its institutional role as a global economic and political operator, is responsible for setting standards of quality and safety. In this sense, beef imports, as well as all other food products imported from the Mercosur countries, will have to comply with the strict rules and standards set to protect food safety. A number of environmental/climate commitments in the agreement will ensure that Mercosur countries fulfil their obligations under the Paris Climate Agreement.

The EU-Mercosur trade agreement provides a high level of protection for the 57 Italian food and drink specialities which have been awarded a geographical indication (GI). These products have a specific geographical origin and are of a quality by virtue of that indication. 57 Italian products were included following a request from Italy, both because they were already exported to Mercosur and because of their export potential. This means that the names of these 57 products will enjoy a level of protection against imitations within the four Mercosur Member States, similar to that guaranteed in the EU.

Producers will not be allowed to sell local or foreign products using the name of European geographical indications within Mercosur if they do not meet the specific production requirements for these geographical indications (GIs).

Italy exports services to Mercosur 2.2 billion and imports services worth 1.1 billion. About 75% of these services are provided by Italian companies established in Mercosur or vice versa. The main Italian exports of services to Mercosur include:

- Tourist services €1,2mln
- Transport services : €435mln
- Commercial services : €262mln

The agreement will improve market access for Mercosur services in several areas such as financial services, postal services, telecommunications, transport, digital trade and the environment.

The agreement also aims to enable Italian companies to participate in more public procurement in Mercosur. Italian companies will have the opportunity to submit tenders for the supply of goods and services and works for tenders issued by central and federal government administrations in the Mercosur countries under the same conditions as local companies.

Each Mercosur country undertakes to make its tender procedure more transparent, for example by publishing the invitations to tender which are the subject of the agreement on a single public procurement website and publishing their public procurement legislation, to make it easier for Italian companies the participation in these tenders. Each Mercosur country also undertakes to ensure high standards of impartiality in tendering procedures ensuring, for example, decisions taken by national contracting authorities may be subject to review by European undertakings affected by a procurement procedure.

Additionally, assistance provided to small and medium-sized Italian companies that intend to export more to Mercosur, being particularly oriented towards exports. The agreement contains certain rules aimed at facilitating and making exports more competitive through the removal of tariffs, the simplification of customs procedures and the certification of conformity of products with technical requirements. These provisions will make it easier for small Italian companies to compete with large companies by exploiting the full potential of supply chains and e-commerce. The agreement provides for the creation of

coordinators for Small and Medium-sized Enterprises (Smes); which will take into account the needs of small businesses throughout the implementation process of the agreement and an online database to facilitate the identification of information and updates on how to do business in Mercosur member states.

3. *Statistical analysis*

3.1. Italian Trade Agency (ITA)

ITA - Italian Trade Agency is the governmental agency that supports the business development of Italian companies abroad and promotes the attraction of foreign investment in Italy. With a motivated and modern organization and a widespread network of overseas offices, ITA provides information, assistance, consulting, promotion and training to Italian small and medium-sized businesses. Using the most modern multi-channel promotion and communication tools, it acts to assert the excellence of Made in Italy in the world. ITA operates through a worldwide network of 79 offices in 65 countries. ITA offices are the ideal gateway for enterprises willing to establish business relationship with Italian partners, from sourcing Italian products, to investment opportunities in Italy. The Foreign Investments Attraction Department is a dedicated unit of ITA for facilitating the establishment and the development of foreign companies in Italy. The department's main activities focus on:

- promoting business opportunities
- helping foreign investors to establish or expand their operations
- supporting investors throughout the investment life cycle
- offering high-level tutoring services for existing strategic investments

The Report "Italy in the International Economy" is the main tool of information and analysis on the competitive positioning of the Italian production system in the context of the global economy. The seven chapters provide interpretative cues on the structure and dynamics of foreign trade and internationalization of Italy in relation to other countries. A special chapter examines the foreign projection of the various types of companies, while another chapter gives an account of the action of the public support system through both real and financial services. The Yearbook of Foreign Trade and International Business Activities is the result of the collaboration between the National Statistical Institute and the ITA, established with the aim of providing economic operators with a broad information base on trade in goods and services and on foreign direct investment in Italy. In 2018, global economic activity recorded a lower growth rate than the previous year. According to the International Monetary Fund (IMF), world GDP in purchasing power parity is expected to increase by 3.6% in 2019. The overall picture presents elements of great uncertainty and risk to the world economy. In addition to the structural factors, strong geopolitical tensions persist, as well as situations of economic crisis and in some cases political situations that do not show signs of improving in some Latin American countries.

Italy’s position in the international indices of attractiveness is not always consistent with the macroeconomic reality of the country, its performance, its state of development and its placement in the international geopolitical and economic chessboard. While in some cases such positioning shows real gaps, for others it has been identified the need for a more objective approach and methodologies in assessing the attractiveness and competitiveness of countries. The lack of matching positioning contributes to a negative impact on the perception of the country by foreign investors. In this framework, the final document of the sixth meeting of the "Cabin of Direction for International Italy" held on October 17, 2017, established the activation of a strategy aimed at systematically improving the positioning of Italy in the various international rankings drawn up by organizations and bodies, both public and private. The same document provided for the establishment of an ad hoc Working Group (WG), composed of representatives of the Ministries of Economic Development, Foreign Affairs and International Cooperation, Economy and Finance, as well as the Bank of Italy, ICE Agency and Istat. In particular, the construction methodologies of these indices have been deepened in order to ascertain the factors that contribute to determine the positioning of Italy and to propose eventual normative interventions, improving the overall representation of the country that emerges from the international rankings. The indicators, selected on the basis both of their degree of dissemination to the international business community based on certain common characteristics, namely: the broad resonance, the possibility of impact, the unsatisfactory positioning of Italy and the role of reference source for other international indices. On these, operational plans are in place to focus, in the short and medium term, activities, resources and interlocutors necessary to achieve the objectives at the working group.

3.2. Evolution of Italian investments in Mercosur

Investment flows to and from the regions are expected to remain steady as commodity prices and economic conditions in major economies stabilize. Natural resources, infrastructure and consumer goods (especially ICT-related goods and services) should continue to attract investors. In general, positive expectations are supported by an increase in the value of announced greenfield projects, led by mining, tourism, finance, IT, chemicals, pharmaceuticals and electronics.

Some vulnerability to external factors, put a downward risk on their economies and prospective FDI inflows.

- **Argentina**

  Argentina has a considerable area of land with abundant and diverse natural resources. In particular, the agricultural sector is competitive worldwide and continues to grow not only due to the expansion of the cultivated area but also thanks to technological development. Two other sectors of enormous potential that will continue to grow in the coming years are mining (gold, silver, lithium, boron, silicon, graphite, etc.) and that of "shale gas" (Argentina is in third place in the world for total quantities of reserves).

The internal market has potential for consumer products. It is also available with an adequate level of cultural and vocational training.

The country’s growth has not been accompanied by adequate infrastructure investments aimed at ensuring the provision of essential public services and meeting the increased demand for goods and services. The previous government put in place an infrastructure investment plan and a public-private partnership law (PPP) was approved. The large urban concentrations, in particular, the "Gran Buenos Aires" and the cities of Rosario and Cordoba, have a very diverse industrial structure formed by small and medium-sized enterprises. Argentina is the largest Spanish-speaking market in South America. It could also become a platform for exports to other Mercosur countries and, more generally, to all Latin America.

The direct Italian presence of Italian companies in Argentina has different histories, some dating back to the migratory waves that reached the country in the second half of the 19th century and in the second post-war period, others in more recent years. Over 200 Italian companies operate in the country, including many in the manufacturing sector. According to Eurostat data, Italian direct investment in Argentina amounted to 228.9 million Euros in 2019. This figure corresponds only to the capital invested in Argentina directly by Italy. Among the main companies operating in the country are some of the most important Italian industrial groups (FIAT, IVECO-CNH, PIRELLI, ENEL, TECHINT, GHELLA, IMPREGILO, FERRERO, TELESPAZIO, FRATELLI BRANCA, TREVI, GENERALI, MAPEI, ARNEG). Alongside the large groups, there are numerous Italian Smes present in the country, operating in the most diverse sectors (from mechanics to vehicles, from energy to infrastructure, from telecommunications to the health industry, from transport to agri-food, from software to cosmetics). Many Italian companies have also recently made important investments, such as FAMI, in the industrial furniture sector, TECNAM in the aeronautical sector and FAAM. The joint-venture formula is particularly used by Smes that want to operate in Argentina and is very welcome to the local authorities, who see it as an official channel of growth of local production and employment. Argentina can represent for Italian companies a privileged platform towards Mercosur, boasting levels of university and professional preparation comparable with those in Europe, as well as a better skilled workforce compared to other countries in the area. To this is added a strong tradition in the scientific and technological field thanks also to the huge investments made by the State in the last decade. Argentina is one of the world’s leading producers of agricultural commodities and agri-food products, with a consequent importance for the agricultural machinery sector. In addition to the world’s first freshwater reserves, the country holds the world’s second largest reserves of shale gas and quarts of shale oil, making the mining and exploration sector of primary interest to foreign investors. Argentina is in sixth place worldwide for possession of mineral resources (after China, Peru, Philippines, Brazil and Chile) and it is expected that in the coming years its position will advance thanks to its huge reserves of gold, potassium, silver, boron, lithium and copper. Very important is also the production of cars and heavy vehicles, not only for the domestic market but in particular for Brazil, to which the entire Argentine industrial sector is closely bound.

- **Bazil**

  With its more than 210 million inhabitants, Brazil is in fact the size of a sub-continent. Half of the Brazilian population is in the so-called middle class and has access to good levels of well-being and consumption, despite the crisis. In addition, the existence of considerable domestic demand encourages productive investment. Brazil has a significant technological need, which Italian companies can effectively meet through technology transfer, specialized know-how, human capital training and technical assistance in areas in which Italy has expertise of excellence. It represents a "hub" for entry throughout Latin America and is a reference pole for the level of development of its economy and further growth potential. Brazil has 12% of the world's fresh water resources and is ranked as the world's leading producer of coffee, soya, ethanol, beef and orange juice; second for cellulose, iron ore, chicken meat and sugar; third for bauxite, fruit and corn; seventh for chemistry and oil production; ninth for steel and automobiles; fourth country receiving FDI in the world and first in Latin America. The rise in the price of raw materials has helped to improve the terms of trade of Brazil, strengthening the growth prospects. There is also a great demand for specialized workforce technicians, engineers, professors. In terms of flows, according to data published in April 2019 by the Brazilian Ministry of Economy, Italy has become the main investor among the countries that have signed a memorandum of understanding on investment facilitation (United States, China, Japan, France). According to this study, the flow of investments announced by Italy for 2018 amounted to approximately USD 3,5 billion. Those for the first quarter of 2019 were nearly US$5 billion. These figures do not take into account the investments of approximately USD 4 billion recently announced by FCA for the coming years. As for the direct investment stock, the latest available statistics of the Central Bank of Brazil for 2015 (Census 2016) see Italy in tenth place among investor countries with nearly 11 billion dollars (according to the final counterparty calculation method, which takes into account the actual ownership of capital). Data on flows between January 2016 and November 2017 see Italy in eighth place, with 4.3 billion dollars. As regards the composition of stocks, Italian investments in Brazil (according to the concept of the final investor) would be concentrated mainly in the processing industry (33.6%), in the information and telecommunications sectors (28%) electricity and gas (14.9%) and financial (9.2%). On the other hand, investments in Italy by Brazilian companies are still very limited, and they are still reluctant to internationalise, especially outside the traditional areas of interest represented by the Southern Cone, Africa and the United States. For the Italian entrepreneurial presence in Brazil, in June 2020 the Embassy surveyed 968 branches of Italian companies. On the qualitative level, Italian companies have now acquired a leading role in this market in strategic sectors for the Brazilian economy, such as energy, telecommunications, steel, motorways and automotive. As for the geographical location of Italian investments, as well as in the Southern States, more economically developed and preferred destination of our entrepreneurship (over half of our companies are concentrated in the State of São Paulo), Italian companies are facing the north east (Pernambuco, Maranhão, Bahia) but also in the center (Goiás, Mato Grosso do Sul).

- **Paraguay**

  Companies interested in investing in Paraguay and exporting to other countries, especially within Mercosur, can find favourable conditions thanks to the "regimen de maquila"which allows the production/processing of goods and services by foreign companies that settle in the country, or by local companies on behalf of foreign companies, for subsequent export to any part of the world, benefiting from special tax and customs exemptions. Another important law is Law 60/90 which establishes very favorable conditions for the settlement of foreign capital. In Paraguay, low-cost young workers are available, but there is still considerable room for improvement in training. Paraguay is the world's leading exporter of hydroelectric energy thanks to the two large binational hydroelectric power plants: Itaipù (Paraguay and Brazil) and Yacyretà (Paraguay-Argentina), whose agreements are being renegotiated. In 2023 Paraguay will pay off its debt to the Itaipu Binational and this will increase the availability of currency. In addition to the Binational Power Plants, Paraguay has further smaller facilities of entirely national size. The infrastructure in the country is still inadequate, but numerous works are planned in the coming years, to be realized with public and private financing through the application of the law of Public-Private Association (APP), as well as with funds of international institutions (BM, BID, CAF), such as roads, electricity and water networks, sewerage, waste treatment. The economic and commercial relations between Italy and Paraguay are growing and there are certainly always better opportunities for Italian entrepreneurs. Among the most interesting sectors for our companies, in addition to that of infrastructure, of which this country is still lacking, there are those of construction and manufacturing of manufactured goods intended primarily for the Latin American market.

The commercial penetration of Italian products on the local market is increasing, but it must be considered that many Italian goods, such as FIAT cars, Iveco trucks, Pirelli tires, come from Brazil and Argentina and do not enter the statistics of trade. As far as consumer goods are concerned, there is ample room for growth, however, given certain disadvantages such as the impact of transport costs and competition from products with an equivocal Italian denomination from neighbouring countries, Argentina and Brazil, which, also in view of the geographical proximity of their respective markets, enjoy ease of supply to the Paraguayan market.

- **Uruguay**

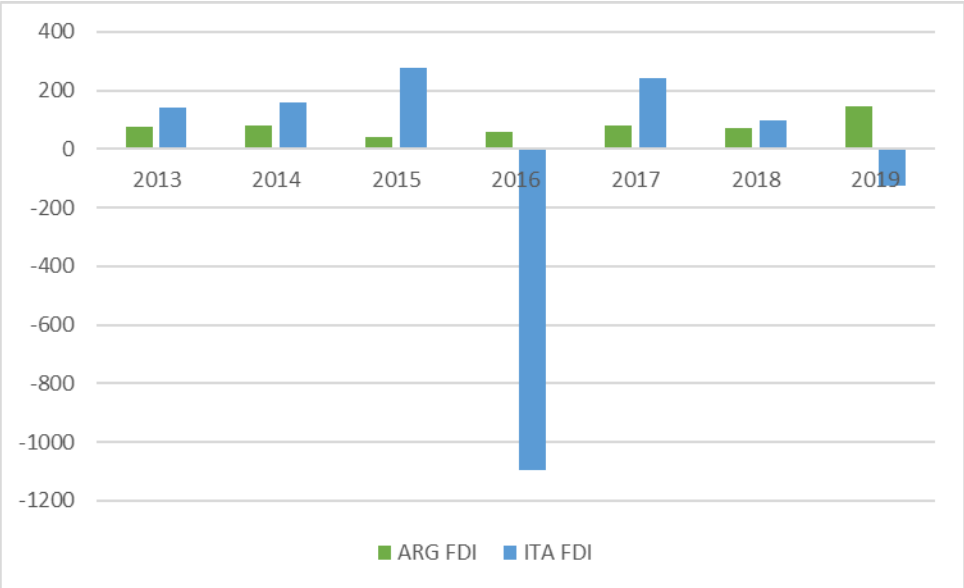
The geographical position of Uruguay, the natural characteristics and a rapid and extensive infrastructure system allow the country to be an easy and natural point of access to the main economic and industrial centers of the Region: about 70% of the GDP of Brazil, 60% of that of Argentina and 56% of that of Chile are generated in an area adjacent to the Uruguayan territory. The ports are strategically located along the coasts of the Atlantic Ocean and the river basin of Paraguay-Parana, allowing the country access both overseas and within the continent. 'Uruguay is characterised by good political stability, an established rule of law, a highly developed institutional system and a long democratic tradition. The Uruguayan economy has experienced an uninterrupted trend of GDP growth over the past fifteen years, of 1.6% in 2018 and of +0.9% in the period January-September 2019, supported by stable macroeconomic policies and the favourable environment of the commodity market, which form the basis of the productive structure of Uruguay (meat, cellulose, soya, wool). Uruguay offers a number of favourable factors in terms of attracting foreign investment: legal certainty, availability of agricultural raw materials, skilled labour and a modern and effective investment incentive programme. The Government has significantly improved and increased the tax benefits and exemptions for foreign investments, in particular through the creation of Free Zones and industrial areas, with particular attention to the international market. the new investment incentive scheme in Uruguay provides for significant tax and customs exemptions for investment projects involving job creation, investment promotion within the country, and export growth, the increase in high value-added products, the use of sustainable technologies, the increase in research and development. The presence of Italian investors and operators is growing in recent years, thanks to the complementarity of the Uruguayan and Italian economies. Uruguay is in fact an exporter of raw materials, to our country mainly cellulose, meat, soya and wool, while Italy exports mainly machinery for agro-industrial production. The Italian products in Uruguay are positioned in the mid-high-end of the Uruguayan market enjoying an excellent quality/ price ratio. As far as Italian exports are concerned, the chemical-pharmaceutical sector was confirmed in 2019 as the main outlet for our goods, for a value of 104 million euros in the period January-September 2019 (last available values), followed by machinery (28 million), food including beverages (6 million), electrical equipment (5,5 million) and metal products (5 million). More specifically, most of the pharmaceutical products and preparations exported here are drugs containing hormones and steroids, mainly used in industrial poultry and cattle farms. Similarly, about 30% of chemical products from Italy are composed of fertilizers, agri-pharmaceuticals, components for leather processing, or in any case traceable to the agricultural sector, livestock or products derived from their processing.

Considering Italian exports as a whole, therefore, it can be estimated that between 40% and 45% of our products are destined for the agricultural-industry market - both livestock farming and agriculture and woodworking - which remains the main engine of the Uruguayan economy. The Italian imports from Uruguay in the reference period of 2019 were constituted by the vast majority of paper and its products (mainly cellulose) with a value of 192 million and an increase of 9.4% compared to the same period of the previous year. Then the main imported products were food products (25 million) suffering a decrease of almost 20%, from agricultural, fisheries and forestry products (16 million and 50% growth) and textile products (6 million). In recent years, the presence of Italian companies in Uruguay has consolidated, especially in the energy sector. These include ENEL which, after the sale of the 50 MW "Melowind" wind farm in the Cerro Largo Department to the Atlantic company Yeld, will maintain a commercial presence in Uruguay dedicated to the sale of energy to Brazil, and TERNA, which has recently started work on the construction of the 500kw electric transmission line between Melo, Tacuarembo' and Salto (so-called "Ring North"). In addition to energy, the infrastructure sector is considered with great interest by Italian companies, some of which are already present in Uruguay, as Ferrovie dello Stato, which in 2017 signed a cooperation agreement with AFE, the Uruguayan public body that manages the country’s railways, and ANAS that, also in 2017, signed a Memorandum of Understanding with the Corporación Nacional para el Desarrollo. Noteworthy is the important operation of a consortium of international investors led by the Cipriani Group that in December 2018 announced an investment of about 450 million dollars for the construction of a luxury resort in Punta del Este. To confirm the dynamism of bilateral economic-commercial relations, at the end of November 2018 a new bilateral Chamber of Commerce was established in Montevideo: the "Camára Mercantil Uruguay-Italy", a new expressive reality of the Italian business community.

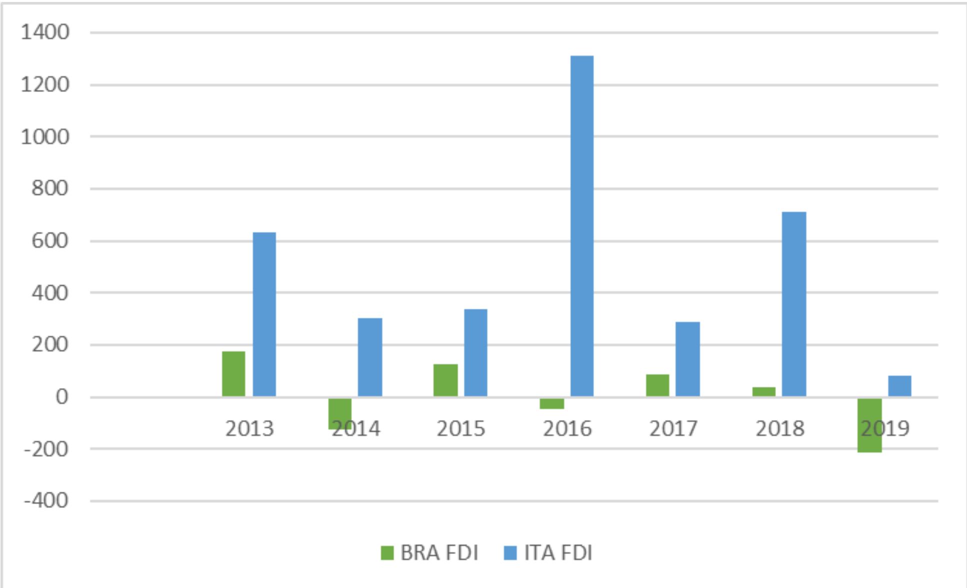
3.3. Data and analysis

FDI: comparison between Argentina and Italy							
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
ARG FDI	76	79	40	59	79	73	147
ITA FDI	141	161	278	-1.097	241	98	-123

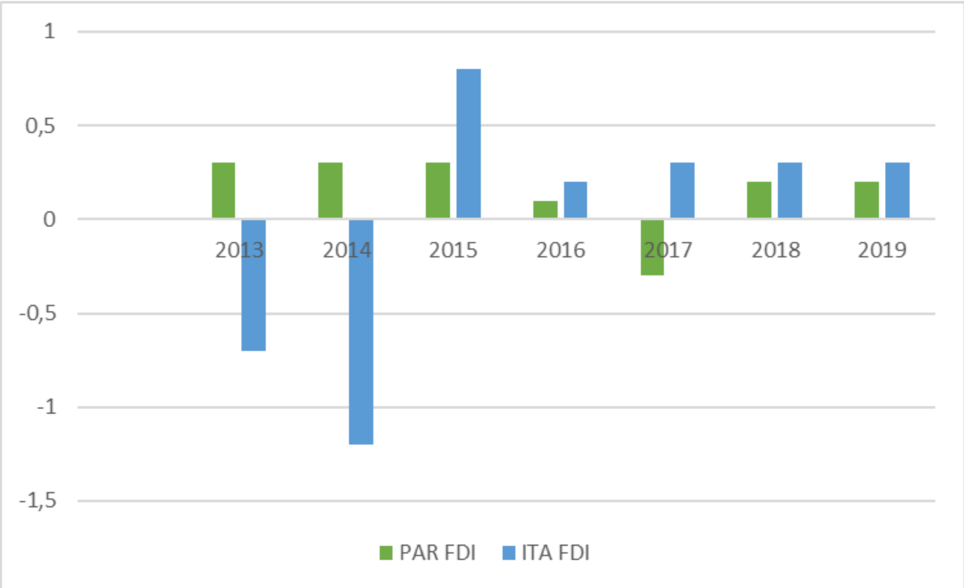
Data express in million Euro



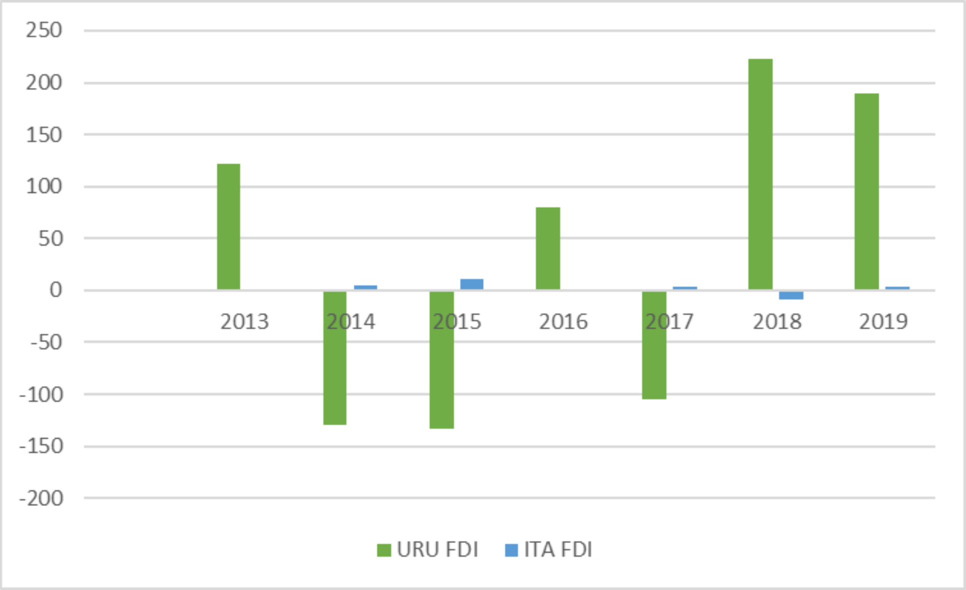
FDI: comparison between Brazil and Italy							
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
BRA FDI	176	-127	124	-44	84	38	-214
ITA FDI	631	303	336	1309	287	710	80



FDI: comparison between Paraguay and Italy							
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
PAR FDI	0,3	0,3	0,3	0,1	-0,3	0,2	0,2
ITA FDI	-0,7	-1,2	0,8	0,2	0,3	0,3	0,3



FDI: comparison between Uruguay and Italy							
	2013	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
URU FDI	121,8	-128,9	-133,2	80	-104,9	222,4	189,3
ITA FDI	0,3	5,1	10,6	-1,7	3,9	-8,4	3,2



MERCOSUR IN ITALY		
Argentina	HOLDINGS	32
Brazil	HOLDINGS	21
Paraguay	HOLDINGS	0
Uruguay	HOLDINGS	0

ITALY IN MERCOSUR		
Argentina	HOLDINGS	445
Brazil	HOLDINGS	1.427
Paraguay	HOLDINGS	7
Uruguay	HOLDINGS	33

4. Further situation

4.1 Ue-Mercosur and Europa 2030

When in 1999 the European Union set up trade negotiations with the South American countries of Mercosur, an attempt was made to create a market of 800 million people in which a quarter of the world's GDP is produced. This agreement is designed to reduce European export duties by EUR 4 billion each year. But the agreement does not stop at tariffs and is based on the assumption that trade should not affect the environment and working conditions, but should, on the contrary, promote sustainable development. The agreement takes care to ensure that trade in natural resources such as forest products, fisheries and wildlife is based on sustainable principles. It prevents trade in illegally obtained products and promotes trade in products that contribute to the conservation of biodiversity. The EU bans sales of illegally harvested timber. The EU and Mercosur are committed to combating illegal logging and to promoting the supply of timber from sustainably managed forests. The precautionary principle ensures that the EU and the Mercosur countries can continue to protect health and the environment, even if this affects trade and even in the absence of indisputable scientific data.

The precautionary principle is detailed in Article 191 of the Treaty on the Functioning of the European Union. It aims at ensuring a higher level of environmental protection through preventative decision-taking in the case of risk. However, in practice, the scope of this principle is far wider and also covers consumer policy, European Union (EU) legislation concerning food and human, animal and plant health. The definition of the principle shall also have a positive impact at international level, so as to ensure an appropriate level of environmental and health protection in international negotiations. It has been recognised by various international agreements, notably in the Sanitary and Phytosanitary Agreement (SPS) concluded in the framework of the World Trade Organisation. According to the European Commission the precautionary principle may be invoked when a phenomenon, product or process may have a dangerous effect, identified by a scientific and objective evaluation, if this evaluation does not allow the risk to be determined with sufficient certainty. Recourse to the principle belongs in the general framework of risk analysis (which, besides risk evaluation, includes risk management and risk communication), and more particularly in the context of risk management which corresponds to the decision-making phase. The Commission stresses that the precautionary principle may only be invoked in the event of a potential risk and that it can never justify arbitrary decisions. The precautionary principle may only be invoked when the three preliminary conditions are met:

- identification of potentially adverse effects;
- evaluation of the scientific data available;
- the extent of scientific uncertainty.

The authorities responsible for risk management may decide to act or not to act, depending on the level of risk. If the risk is high, several categories of measures can be adopted. This may involve proportionate legal acts, financing of research programmes, public information measures. The precautionary principle shall be informed by three specific principles:

- the fullest possible scientific evaluation, the determination, as far as possible, of the degree of scientific uncertainty;
- a risk evaluation and an evaluation of the potential consequences of inaction;
- the participation of all interested parties in the study of precautionary measures, once the results of the scientific evaluation and/or the risk evaluation are available.

In addition, the general principles of risk management remain applicable when the precautionary principle is invoked. These are the following five principles:

- proportionality between the measures taken and the chosen level of protection;
- non-discrimination in application of the measures;
- consistency of the measures with similar measures already taken in similar situations or using similar approaches;
- examination of the benefits and costs of action or lack of action;
- review of the measures in the light of scientific developments.

In most cases, European consumers and the associations which represent them must demonstrate the danger associated with a procedure or a product placed on the market, except for medicines, pesticides and food additives. However, in the case of an action being taken under the precautionary principle, the producer, manufacturer or importer may be required to prove the absence of danger. This possibility must be examined on a case-by-case basis. It cannot be extended generally to all products and processes placed on the market. However, the agreements should also pay particular attention to health aspects which are not negotiable in the agreements, therefore imports from non-EU countries must ensure the parameters set by the EU and respect for the role of indigenous communities in the supply chains of forest products and cooperation on social projects involving these communities. The two sides expressed their conviction that their cooperation to establish the right conditions for the entry into force of the Agreement will enhance its potential to contribute to the shared overarching objective of sustainable development, observing the principles and guidance of the 2030 Agenda for Sustainable Development.

4.2 Italia en 24

“Italia en 24” is the initiative launched by the Italian Embassy to strengthen relations between Italy and the different Argentine provinces, enhancing its vast territory. The project is a new tool to accompany the intensification of bilateral economic and commercial ties through the specific enhancement typical of each province and its territories. The Italian Embassy opens its doors for the organization of promotional events in which the provinces can show the main features of the Italian presence together with opportunities for commercial and

industrial collaboration while, On the Italian side, industrial excellences are presented with the hope of creating new economic-commercial companies and new investments. In December, Italy en 24 was declared initiative of national interest in a joint statement of the President of the Argentine Republic Macri and the President of the Council Conte, which also focused on collaboration between small and medium-sized enterprises.

"Italia en Misiones" was the first stage of "Italia en 24". Misiones and Italy share common values: sustainable use of natural resources, biodiversity, energy saving, respect for the environment. On this occasion, projects, sectors of interest for collaborations and procurement programmes were presented to an audience of large, medium-sized and small enterprises and institutions.

In "Italia en Santa Fe", with the presence of Chancellor Faurie, the Governor of Santa Fe, Miguel Lifschitz and 27 companies of Confindustria Italiana Giovani (Italian UIA), business opportunities for Italian companies in the region were presented, exposing projects, areas of interest for future bilateral cooperation and procurement programmes.

"Italia en Buenos Aires", with the presence of Vice Governor Daniel Salvador, was the third stage of "Italia en 24". Two-thirds of the country's 250 Italian companies are located in this province. On the other hand, more than half of the EUR 2,300 million in trade and 1,200 million in investment comes from the commercial relationship with Buenos Aires. The event has made it possible to bind dozens of companies, thus confirming that the program is an important tool to create new business associations and generate more investment.

"Italia en Mendoza", represented the fourth stage of "Italia en 24". Mendoza is the country's fourth provincial economy (with almost 3% of national GDP), the first producer and exporter of wine and the fourth area of production and extraction of oil and gas, as well as a place of great potential for renewables with particular regard to wind and solar energy. The event saw as protagonists 14 Smes and start-up innovators who aim to create with Mendoza associations and partnerships in sectors in which Italian know-how can be integrated into the local productive fabric (environmental management, biogas and photovoltaic).

"Italia en Entre Ríos", with the participation of Governor Gustavo Bordet and Secretary of Tourism and Culture Carolina Gaillard. It was an opportunity to promote collaboration in the audio-visual sector with the Director of Institutional Affairs of the Italian Association of the Film, Audio-visual and Multimedia Industry, ANICA, Roberto Stabile. The province is working intensively on the development of this sector and a provincial law to promote co-productions and innovation.

Finally, "Italia en Córdoba" also dedicated to the audio-visual sector. 27 Italian film companies visited the country and had the opportunity to meet the companies of Cordoba and the Governor of the Province. Córdoba is particularly important for Italy: Fiat Auto Argentina inaugurated its industrial complex in that province in 1996 and in 2016 announced an investment of 500 million dollars for that plant. In addition, the presence of the first "Albergo Etico" outside Italy, installed in Córdoba, has been enhanced. It is a social project that aims at the inclusion and integration of people with different skills in society and in the world of work.

During the next two years new events are planned to strengthen relations with local realities and continue to offer the opportunity to promote the existing opportunities for collaboration with each province.

5. Conclusions

The EU and Mercosur agreed to apply modern disciplines based on the principles of non-discrimination, transparency and fairness (and the detailed rules as set out in the revised version of the WTO's Government Procurement Agreement). The agreement will make it easier for EU companies to tender for contracts in three ways. It will prevent discrimination by Mercosur governments against EU suppliers, goods and services (principle of non-discrimination). It will make the tendering process more transparent. Each Mercosur country has agreed, for the procurement covered by the agreement, to publish notices online at a national single point of access and to publish information on procurement legislation. This will make information about opportunities in Mercosur countries more easily accessible to European companies, creating new opportunities for European business including SMEs. The agreement also sets standards of fairness throughout the whole procurement process. These include for example high standards for the remedies available to bidding companies that feel they have been treated unfairly. For its part, the EU has offered Mercosur suppliers attractive and reciprocal access to the EU procurement market at central level. This covers procurement by EU institutions and by central government contracting authorities in EU Member States. The EU will also open its procurement market at sub-central level to match the level of access granted by Mercosur. Transitional measures give Mercosur countries some time to comply with the rules of this chapter and to adapt to EU thresholds. The agreement is another step forward in the creation of a stringent set of international rules on competition. State-of-the-art provisions in this area will help ensure a level playing field for companies on both sides when they carry out activities in the territory of the other Party. Regarding antitrust and mergers, regulated anticompetitive practices include agreements between undertakings, concerted practices and abuse of dominant position. Both sides commit to maintaining comprehensive competition laws that follow similar principles. These include notably the existence of Competition Authorities. The agreement stipulates that Competition Authorities must treat companies from both sides equally, especially in terms of procedural fairness and rights of defence. The Parties commit to respecting International Labour Organization Conventions on forced and child labour, non-discrimination at work, child labour and freedom of association. In addition, there are commitments on health and safety at work and labour inspection. The agreement promotes the effective implementation of several multilateral environmental agreements signed by the EU and Mercosur countries, such as the Paris Agreement, the CITES Convention on Wildlife Trade. The EU and Mercosur commit to effectively implement the Paris Climate Agreement and agree to cooperate on the climate aspects to reach the goals set in "Europe 2030" related to sustainable development.

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