



IBI -The Institute of Brazilian Business & Public Management Issues

Theory and Operation of a Modern National Economy

Minerva Program

Spring 2001

MERCOSUL AGREEMENT
(Common Market of The South)

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INDEX

Economic Summary

1. History

1.1. The Relation Between Argentina and Brazil: from the Confrontation to Cooperation

1.2. Redemocratization: Impacts on Bilateral Relations

1.3. The Post-Cold War Period and the Lost Decade: Embarrassment and stimulus

1.4. MERCOSUL: Factual Report

2. Appearance of a New Stage

3. Actual Impact of the Crises of the 90s on MERCOSUL

4. Impact of the Brazilian Exchange Depreciation

4.1. Bilateral Trade Between Brazil and MERCOSUL

4.1.1. Main Products

4.2. Bilateral Trade between Brazil and Argentina

4.2.1. Exports

4.2.2. Imports

4.3. Bilateral Trade Between Brazil and Paraguay

4.4. Bilateral Trade Between Brazil and Uruguay

5. Barriers to Trade

6. Potential for the Future

7. Conclusion

8. Bibliography

ECONOMICAL SUMMARY

(Source: CIA-The World Factbook)

MERCOSUL

Population (million) - 2000	219
GDP (US\$ billion) - 2000 (e)	964
GDP Per Capita (US\$)- 2000 (e)	4,401
GDP Growth Rate (annual rate/1999)	0.7%
Composition of GDP-1999:	
Agriculture	10%
Industry	34%
Service	56%
External sector-1999:	
Exports (US\$ billion)	75.1
Imports (US\$ billion)	80.3
Trade balance	-5.2



BRAZIL

Population (million) - 2000	173
GDP (US\$ billion) - 2000 (e)	651.1
GDP Per Capita (US\$)-2000 (e)	3,764
GDP Growth Rate (annual rate/2000)	4.0%
Composition of GDP-1999:	
Agriculture	14%
Industry	36%
Service	50%
External sector-1999:	
Exports (US\$ billion)	46.9
Imports (US\$ billion)	48.7
Trade balance	-1.8

ARGENTINA

Population (million) - 2000	37
GDP (US\$ billion) - 2000 (e)	285
GDP Per Capita (US\$)-2000 (e)	7,703
GDP Growth Rate (annual rate/2000)	0.8%
Composition of GDP-1999:	
Agriculture	7%
Industry	29%
Service	64%
External sector-1999:	
Exports (US\$ billion)	23
Imports (US\$ billion)	25
Trade balance	-2.0

PARAGUAY

Population (million) - 2000	5,6
GDP (US\$ billion) - 2000 (e)	7.4
GDP Per Capita (US\$)-2000 (e)	1,321
GDP Growth Rate (annual rate/2000)	-0.5%
Composition of GDP-1999:	
Agriculture	28%
Industry	21%
Service	51%
External sector-1999:	
Exports (US\$ billion)	3.1
Imports (US\$ billion)	3.2
Trade balance	-0.1

URUGUAY

Population (million) - 2000	3.3
GDP (US\$ billion) - 2000 (e)	20.5
GDP Per Capita (US\$) - 2000 (e)	6,212
GDP Growth Rate (annual rate/2000)	-1.5%
Composition of GDP-1999:	
Agriculture	10%
Industry	28%
Service	62%
External sector-1999:	
Exports (US\$ billion)	2.1
Imports (US\$ billion)	3.4
Trade balance	-1.3

(e) – Estimate

1. History

1.1. The Relation Between Argentina and Brazil: from Confrontation to Cooperation

The rapprochement between Brazil and Argentina started when President Ernesto Geisel decided to review Brazilian regional behavior, by abandoning the policy of consolidating its diplomatic and economical presence in the small states of the River Plate in open confrontation with Argentina.

The liaisons that had been reestablished with Uruguay, symbolized by the Tratado da Lagoa Mirim, and with the Amazonian neighbors, for the Tratado de Cooperação Amazônica, reduced the distrusts of Brazilian intentions in the South American continent. Geisel's change in policy was probably based on the Brazilian perception that Itaipu (the Itaipu hydroelectric power plant, located 14 kilometers North of the International Bridge linking the cities of Foz do Iguaçu, Brazil, and Ciudad del Este, Paraguay, consists of a series of various types of dams a total distance of 7,744 meters with a crest elevation of 225 meters) was already an accomplished fact and that Argentina was no longer in a position to frustrate that project.¹

The Brazilian government felt that it was the moment to begin negotiations, not only because it had the conditions to negotiate, but also because an open and permanent confrontation with its main neighbor just contributed to reducing, instead of increasing,

¹ Costa, Gino. "A expansão da Presença Brasileira na América do Sul" in Política e Estratégia, volume 7, number 1, Jan/mar 1989.

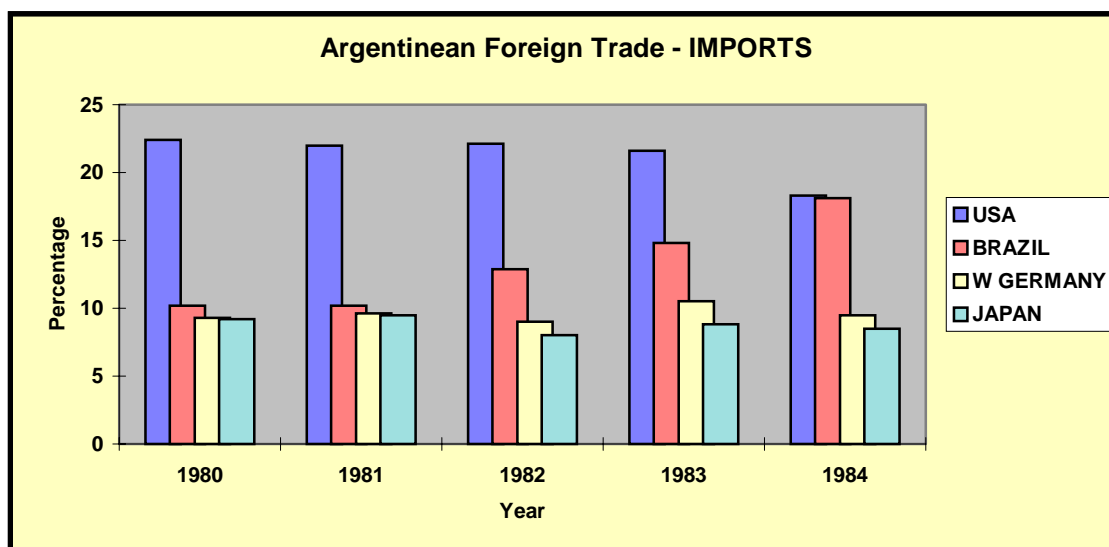
the international power of Brazil². Argentina, for its part, faced a serious conflict with Chile in the Beagle Channel. In order to face that challenge, that raised a real possibility of conflagration, Argentina could not raise tensions in its rear guard by risking an armed conflict with Brazil, a traditional Chilean ally in the sub-regional context.

The Geisel initiatives, however, only achieved success during the subsequent Figueiredo Government, which would sign, soon after he entered into office, the Acordo Tríplice that made compatible the construction of Itaipu and Corpus (Corpus Christi dam, with a projected cost of four billion dollars, is a binational project planned for the Paraná River, between the province of Misiones, Argentina, and Itapúa, Paraguay, to generate 3,000 MW of electricity) dams. The signing of that Agreement inaugurated a new age in the relationship with Argentina. Brazil concluded, therefore, its only remaining dispute with its South American neighbors, creating the conditions for a rapprochement between two old rivals of the River Plate region.

In 1980, President João Baptista Figueiredo went on an official visit to Buenos Aires (the first of a Brazilian Head of State since 1935) where he signed cooperation protocols in the military area (in the fields of technology of missiles, fighter airplanes and nuclear energy) and searched to strengthen the trade relationships between the two countries³. As a result of that visit and of the Argentine economy's internal crisis, Brazil consolidated its position as the second supplier to the Argentine market, as indicated below.

² Bandeira, Moniz. O eixo Brasil-Argentina. O processo de Integração na América Latina. Ed. UNB. Brasília, 1987.

³ BANDEIRA, Moniz. Estado Nacional e Política Internacional na América Latina. O Continente nas Relações Argentina-Brasil (1930-1992). Ed. UNB. Brasília, 1993.



Source: HIRST, Mónica. Las Relate Económicas Argentinean-brasileñas 1974-1985. FLACSO, Buenos Aires.

In the international arena, the beginning of the 1980s is characterized by a financial crisis of worldwide proportions and ideological rebipolarization. These phenomena constrained Brazilian and Argentinean external action, and made it necessary for the diplomatic performance spaces of the two countries to become organized and unified, having as a platform South America.

The Malvinas War accelerated the end of the mutual distrusts between Argentina and Brazil, breaking the continental balance as regards to safety, founded in the Monroe Doctrine and the Tratado Interamericano de Assistência Recíproca – TIAR. Brazil supported diplomatically - in an open way - and militarily and economically – in a discreet way – its regional neighbor in the war against Great Britain.

1.2. Redemocratization: Impact on the Bilateral Relations

With these facts, indicative of a growing rapprochement between Argentina and Brazil, the conditions for deeper bilateral relations were sufficiently mature. When civil power was restored in the two countries, the way for the integration was already

relatively paved and there was already close bilateral cooperation in several government areas. A true change began in the character of the bilateral relationships. The democratic governments induced important changes in the internal identity and, as a consequence, in the conformation of the external agenda of the two countries, demilitarizing them in a growing way.

If it is true that the validity of democratic systems in the area became a catalyst for the integration process, it is also true that this condition did not guarantee, by itself, the success of the project. Other convergence levels would have to exist⁴.

In the period of 1985-1989, for instance, the integration process benefited from the foreign policy convergence of the two countries, whose central objectives intended, among other things, to neutralize the mutual distrusts and accumulated resistances following decades of bilateral rivalry. Both countries agreed that democracy was a “trump card” in the field of values to be valued for diplomatic action in other areas. Also both countries interpreted redemocratization as a source of larger international credibility, which they otherwise lacked due to the crises of the debt and of the internal fragility of their savings. Bilateral integration provided, therefore, larger resources to face international pressures, representing an important factor of legitimization and of assertion of their respective foreign policies. The more relevant convergence of purposes, however, would take place at the highest political level, between the Presidents of Republics.

The axis for sub-regional integration was inaugurated, officially, in November of 1985 on the occasion of the inauguration of the Tancredo Neves Bridge (the Tancredo Neves Bridge links Foz do Iguaçu, on the Brazilian side, to Puerto Iguazu, on the Argentinian side). Presidents José Sarney and Raul Alfonsín signed the Declaração de

⁴ OLIVEIRA, Álvaro Luiz Vereda. A Relevância das variáveis Exógenas na Constituição do MERCOSUL. IRI/PUC RJ. may 1996.

Iguaçu, that included understandings for united performance in Latin-American multilateral forums (Grupo de Contadora e Grupo e Apoio a Contadora) and an intention to reactivate integration policies in the continent. Formalized, in July of 1986, in the Ata de Cooperação Econômica – ACE – this legal instrument sought to increase trade, starting from key-sectors of the two economies. The ACE demonstrated itself to be very efficient in diversifying and increasing bilateral trade, creating the bases for a step still more ambitious. On November 11, 1988, Brazil and Argentina signed the Tratado de Integração, Cooperação e Desenvolvimento, that foresaw the formation of a Common Market between the two countries, including the complete elimination of barriers to trade (for all products, no more restricted to some key-sectors), the adoption of a common external tariff and the coordination of the macroeconomics policies. This period was characterized by changes in the political-diplomatic behavior in Latin America with respect to regional integration, in that it emphasized gradualism, selectivity, flexibility and opening to the other partners.

Starting from 1988, the internal difficulties in the two countries jeopardized the maintenance of the rhythm of integration. Until that moment, the state's persuasive action had been fundamental to overcome the mutual resistances, to guarantee the implementation of the established protocols and to set up a dynamic integration.

The recessive picture, the out of control inflation and the failure of the macroeconomic policies moved the national bureaucracies away from long-term concerns. At the same time, it reduced the support of the public for the governments of democratic transition. The weaknesses of the rulers' policies were reflected in the integration process. The succession, in the two countries, left doubts on the commitment of the newly elected Presidents to the process of Integration.

1.3. The Post-Cold War Period and the Lost Decade: Embarrassment and Incentives.

In the international arena, the 1990s are marked by accelerated structural transformations. In the arena of economic values, the immediate post-cold war was characterized by the progress of the liberal theories. The processes of capital and technology globalization, as well as of market regionalization, acquire new force at the end of the 1980s. Regionalization turns out to be seen as something the States can apply in order to gain some control on these phenomenonons.

In the foreign trade arena, an intransigent discussion was observed in GATT (General Agreement on Trade and Tariffs) on trade liberalization rules in goods, services and investments. It was clear that the economic policies of import substitution turned out, in a growing way, to be incongruous with the tendencies of the trade world, without any internal compensation that justified a different posture. The import substitution policies, also, rapidly lost internal sustainability, because the development model based on such policies had worn themselves out.

The internal fragilities and the perception of a danger of growing marginalization of the continent introduced new conditions in the regional game, creating renewed interest for an active interdependence among the countries of the region.

Starting from 1990, the governments of recently elected Carlos Menem in Argentina and Fernando Collor de Melo in Brazil, started alligning themselves with North American foreign policy, although the regional unit continued being essential for the negotiation with the USA before the "Initiative to the Americas". This was

fundamental for the strategy of economically projecting Brazil and Argentina in the world economy.

The dynamics of integration acquired momentum. Uruguay and Paraguay could not remain indifferent to this process. Argentina and Brazil decided then not only to confirm the purposes of the Tratado de Integração, Cooperação e Desenvolvimento (Treaty of Integration, Cooperation and Development) of 1988, keeping integration a priority of their foreign policies, but also to accelerate it. In addition, the adhesion request from Paraguay and Uruguay was accepted to the new project to create a common market of the south, to which were added development and democracy themes, in synchronization with what was happening in the economic world. The Treaty of Asuncion, signed one month after the end of the hostilities in the Persian Gulf, it is a project that was conceived in the Post-Cold War⁵ period.

1.4. MERCOSUL: Factual Report

The Treaty of Asuncion, signed on March 26, 1991, in the Paraguayan capital, by Presidents Carlos Menem of Argentina; Luís Alberto Lacalle, of Uruguay; Andrés Rodrigues, of Paraguay; and Fernando Collor, of Brazil, contemplated the creation of a common market among four States by 1995 and established, as well, a transition period with gradual reduction of custom duties and of barriers to the free circulation of capital and labor.

One of the main characteristics of the Treaty of Asuncion, that confirmed the political will of accelerating the integration process among the member-countries, is the

⁵ LAFER, Celso. “Sentido Estratégico do MERCOSUL” in MERCOSUL: Desafios a vencer. CBRI. São Paulo, July 1994.

short period stipulated for the execution of the Programa de Liberalização Econômica (Program of Economic Liberalization). In only three and a half years, such a Program intended to eliminate the duties and other restrictions applied to the intra-regional trade. Although such a progressive elimination of duties did not apply for the whole tariff universe – all of the countries could include sensitive items in exception lists – the fact that by 1995 it gotten the participating countries to reduce and even eliminate tariffs over 85% of intra-block traded products underscored the political commitment for the consolidation of the integration project proposed by MERCOSUL.

Besides the requirement of free circulation of goods, services, financial resources and workers, the Treaty of Asuncion included the following additional measures:

- Establishment of a Tarifa Externa Comum – TEC – (Common External Tariff – CET) for external products imported into the area and coordination of positions in the regional and international commercial forums.
- Creation of Conselho do Mercado Comum – CMC – (Council of Common Market – CCM) and of Grupo do Mercado Comum – GMC – (Group of Common Market – GCM).
- The CMC would be the forum of political decision, integrated by the ministers of the External Relations and of the Economy from the four countries and they should meet at least once a year with the four presidents of Republic. The presidency would be rotated every six months.
- The decisions would be made by consensus and with the participation of all of the member-countries.

- Coordination of macroeconomic and sectorial policies in the foreign trade, agriculture, industry, fiscal, monetary, exchange, stock market, services, customs, transport and communications areas.
- The member-countries of ALADI could request entrance into MERCOSUL, but their admission could only happen five years after the signature of the Treaty of Asuncion. The applicant country could be accepted before, if it was not linked to other regional integration mechanisms or sub-regional programs outside of ALADI. All the requests for adhesion would need to be approved unanimously.

November, 1991, was very important for MERCOSUL. First, on November 20th, the Departamento de Integração Latino-Americana (DIN) was created (department that belongs to Ministry of Foreign Relations, in Brazil). It absorbed the functions of the extinct Divisão Econômica Latino-Americana (DECLA) and created two new divisions: the Divisão do Mercado Comum do Sul (DMC) and the Divisão de Integração Regional (DIR). Such status elevation of regional integration subjects, with the fact to have as head of that new Department the permanent representative in ALADI, Ambassador Rubens Barbosa, demonstrated the strong will of the Brazilian government in accelerating the exchange among the countries of MERCOSUL. Second, on november 29, the Treaty of Asuncion entered into force, after being registered in ALADI under the form of an Acordo de Complementação Econômica (ACE-18), which meant the legalization under international trade law of the exclusive access of the member-countries to the advantages and benefits agreed in MERCOSUL.

Eighteen days after entering into force, on December 17, 1991, Presidents Menem, Lacalle, Rodrigues and Collor signed, for the occasion of the CMC's Ist Meeting, held in the Brazilian capital – Brasília –, the Protocolo de Brasília, that established a three stage procedure for the Settlement of Disputes: first, direct

negotiation among the state-parties; second, the intervention of the GMC advised by specialists with the intention of promoting an agreement among the interested parties; and third, an arbitration procedure with obligatory and unappealable decisions.

Besides the Protocolo de Brasília, the other measures approved during 1st Meeting of CMC were relevant for the strengthening of MERCOSUL:

- The establishment of sanctions for companies that submit fraudulent certificates of origin;
- The creation of an 11th Subgrupo de Trabalho (SGT) to treat labor relationships and having worker and entrepreneur participation.

The CMC's 2nd Meeting, held from June 26 to 27, 1992, in Las Leñas was of exceptional importance to the conformation of MERCOSUL, because it established a harmonization chronology of macroeconomic policies for member states. Decided in a time of enormous structural readjustment, such harmonization was, at the same time, the most difficult theme to be treaded along the calendar of the negotiations, and also the most evident sign that the integration process was really irreversible.

In spite of clear evidence of the political will of moving forward into this process, two years of difficult negotiations were necessary, permeated with impasses and postponements (the CMC 5th Meeting was postponed twice). The result of those negotiations was the definition of a common external tariff's variation levels (from 0% to 20%) for 85% of nine thousand product lines found in the MERCOSUL Harmonized Tariff Schedule.

Along that long marathon of negotiations from CMC 2nd Meeting, on June 27, 1992, until the CMC's 6th Meeting, on August 5, 1994, it began to be clear that the closest that would be gotten until December 31, 1994 – date foreseen by the Treaty of

Asuncion for implementation of a common market – would be a Customs Union. However, in view of the magnitude of the obstacles, as, for instance, the impasse regarding setting an CET on computer products, with Argentina not wanting more than 4% and Brazil no less than 18%, the creation of a Custom Union on January 1, 1995 represented an undeniable success.

Even if CET allows lists of exceptions, with different periods of convergences – capital goods had up to 2001 to converge in 14% and computer and telecommunications equipments have up to 2006 to get to 16% – the balance of negotiations that resulted in the creation of a Customs Union and of a free trade area, were extremely favorable, because it proved the unaffected political will of moving the integration process ahead in spite of significant domestic difficulties.

The period that extends from Customs Union's creation, on January 1st, 1995, until today was not free from stumbles. The registered progresses, however, were much larger and they do not leave doubts in regard to progress of MERCOSUL. From this progress, the one of major importance for its implications was the signature of Protocolo de Ouro Preto by presidents Itamar Franco, Carlos Menem, Alberto Lacalle, and Juan Carlos Wasmosy, during the CMC's 7th Meeting, on December 17, 1994. That Protocol was the most important step since the Treaty of Asuncion signature, on March 26, 1991, because it transformed MERCOSUL into a legal entity recognized under international law, in other words, it allowed the block to negotiate as a trade block with other economic blocks and countries in the world.

In acknowledgement of the new legal status granted by the Protocolo de Ouro Preto, the Acordo-Quadro de Cooperação Inter-Regional, signed between the four countries of MERCOSUL and the fifteen countries of the European Union (E.U.), in Madrid, on December 16, 1995, foresees the creation of a free trade area between these two economic integration experiences happening in the world. Such close relationships,

before being rare and highly auspicious, are quite natural: the E.U. countries are the largest trading partners and the largest investors in MERCOSUL. The E.U. also prefers block to block understandings, which coincides with the interests of the MERCOSUL countries. In that sense, E.U. has a clear advantage over the free trade agreement led by the United States, the North American Free Trade Agreement (NAFTA), because it prefers to negotiate with countries and not with blocks. This is an attitude of difficult acceptance for countries that are beginning to know the advantages of united performance.

The Chile association, through a free trade agreement with MERCOSUL, that occurred during the CMC's 10th Meeting, held in San Luis, on June 24, 1996, was a clear demonstration of the advantages and economic potential of an inhabited space of over 220 million consumers with an approximate GDP of 1 trillion dollars. Following the same path, Bolivia also made an official free trade agreement with MERCOSUL, on January 1, 1997, and can be followed by other Andean countries, especially Venezuela, so is not at all unlikely that we will have, in a short space of time, a South American free trade area.

If those associations have been giving undeniable proof of an open spirit of regionalism practiced by MERCOSUL and also of its economic maturity, the most evident proof of its political maturity was given in April 1996, when the governments from Brazil, Argentina and Uruguay united against the coup threat in Paraguay. The immediate support to legality and to President Wasmosy and the threat of breaking diplomatic and commercial relations with a possible Paraguayan government led by General Lino Oviedo demonstrated MERCOSUL's political force, that was given greater force during the CMC's 10th Meeting, when the four presidents signed the San Luis' declaration (it says that membership in MERCOSUL is contingent on having a democratically elected government in power).

A serious test to MERCOSUL political cohesion, however, happened in April 1995, when the Brazilian government decreed a Medida Provisória⁶ that raised to 70% the automobile import tariffs and also established an industrial policy for the automotive sector, which aimed to create incentives to attract the foreign assemblers. Argentina had a consolidated automotive regime that established that, for each imported car from MERCOSUL partners, the export of “made in Argentina” models was required. Albeit Brazil also had a managed trade program with Argentina, it was more generous to Argentina in that it allowed more Argentine cars to be imported into Brazil for every Brazilian car exported to Argentina.

That distortion, besides stimulating new investment to Argentina instead of Brazil, was generating significant surpluses in the Argentinean trade balance, which consequently prompted President Menem's vehement protest against the bond between automobile export and import created by the Medida Provisória, that would certainly affect the installation projects of new assemblers. After having threatened not to come to the World Economic Forum, that would take place in São Paulo on June 19, 1995, Menem ended being convinced by Presidente Fernando Henrique that MERCOSUL's incoming cars would have differentiated treatment.

The way the controversy caused by the Medida Provisória on vehicle import quotas was resolved illustrates that advantages from MERCOSUL have become a legal entity recognized under international law. Unlike the E.U., that possesses supra-national institutions, the system adopted by MERCOSUL facilitates direct negotiations among the member-states, avoiding the slowness of a bureaucratic body in charge of settling controversies.

⁶ It is a kind of resource that the Executive has in order to put into force a bill before it goes through to the Legislative.

The subject of MERCOSUL being a legal entity, however, is far away from being a peaceful and consensual point among the members-country. Uruguay, for instance, is a defender of supra-national organization creation inside of the MERCOSUL structure, while Brazil believes that, in the present evolution status, the inter-governmental approach makes the integration process more agile.

The learning from the joint policy exercise can be considered, together with the training opportunity for a more competitive insertion in the world economy, one of the largest merits of MERCOSUL. As the member-country's policies create more unison, it increases the block's credibility, which at this time is already the third largest economical block of the world.

In 1997, the President of France – Jacques Chirac – during his trip to Brazil, invited MERCOSUL to join with the European Union in creating an ambitious economical partnership illustrates even more that growing credibility. In the same way, the United State Trade Representative (USTR), Charlene Barschevsky, who had referred to MERCOSUL as a “little trade unity”, changed the speech and alerted the North American Congress to the “larger economy of Latin America, capable to threaten the interests of the United States in the hemisphere.”⁷

2. Appearance of a New Stage

Since the end of 1997, the regional and international economical-financial scenery began to change. The problems associated with the Brazilian current account deficit seemed to resolve itself in a good time and without large traumas. Maybe the increase of Brazilian companies' productivity allowed avoiding the increase of external

⁷ Source: Gazeta Mercantil, may 19, 1997 p A-6

imbalance. Besides the external imbalance, however, there were other difficulties derived from the federal and some states short-term debts.

The intensification of the world economic crisis and the consequent reduction of international trade growth made, in the second semester of 1998, and for the first time since the beginning of the Treaty of Asuncion, the two main partners of the block encounter a simultaneous phase of economic stagnation.

The recession, which the Brazilian economy went through in the last quarter of 1998, weakened intra-regional trade. In the same way, the low level of commodity prices also appeared as an obstacle for any strategies of redirecting exports extra-regionally.

Brazil and Argentina Macroeconomic situation at the end of 1998

Index	Brazil	Argentina
Level of activity	Four consecutive quarters of economic stagnation	Strong economic slowing down (compared to that registered in 1997 and the first semester of 1998)
Fiscal result	Strong public deficit (the growth of the internal public debt turned unsustainable)	Small public deficit
Reserves	Strong and persistent decrease	Moderate increment
Financial system	Relatively solid	Very solid
Interest rates	Very high	Moderate (with tendency to drop)
Exports	Small decrease (when compared to the year of 1997)	Accentuated fall (originated by the low price of the commodities and from the reduction in Brazilian demand)
Imports	Moderate fall	Strong fall
Deficit in Current Account	High	High and stable
Short-term perspective	Moderate recession (-1% to -2%)	Low growth (1% to 3%)

Source: CEPAL

3. Actual impact of the Crises of the 90s on MERCOSUL

Actual impact of the Crises of the 90s on MERCOSUL

Concept	Tequila Crisis (1995)	Asian-Russian crisis (1997/1998)	Brazilian crisis (1999)
International context	Increase of the interest rate. Strong dynamism of international trade	Depression in world trade	Very low dynamism of international trade
Price of commodities	High	Low/Very low	Very low
Previous situation	Slowing down	Strong growth	Recession
Effect of the crisis	Strong recession	Strong slowing down	Strong recession
Exports	Strong increase	Retraction	Strong retraction
Imports	Fall	Strong slowing down	Fall/Strong fall
Trade volume	Expansion	Stagnation	Strong retraction
Recovery process	Fast and strong	Uncertain	Slow

Source: CEPAL

The Mexico crisis in 1995 generated instability in the MERCOSUL region. The countries of the block, that had adopted an exchange anchor seeking to end chronic inflation problems, were frail. Because of a possible capital flight, the interest rates were maintained at high levels in the region.

However, the American aid to Mexico and the MERCOSUL countries' low commercial exchange with that country, facilitated the end of the crisis impact on the countries of the block. One other advantage, in addition to the above factors, was a situation where commodity prices were highly valued, making possible gains with the export of those products.

In the Asia crisis, the impact on capital flows was more intense, generating a great panic in the financial markets, which, in turn, induced a widespread flight of capital from the region to safer places. Again, there was the need to raise interest rates and to adopt measures to attract short-term capital in order to sustain the growing

current account deficit of the region. However, the IMF's help was not enough to reduce the intensity of the crisis in Asian countries. It is convenient to emphasize that the decrease of the demand in Asian countries, big commodity importers, made the price of those products suffer an accentuated fall in the international market, affecting the MERCOSUL countries doubly.

Finally, the Russian crisis arrived when, as a result of that country's fiscal imbalance and great dependence of foreign capital to sustain its balance of payments, Russia adopted an unilateral moratorium of its external debts. That attitude generated a great instability in the financial markets, which began to believe that Brazil might follow the same path.

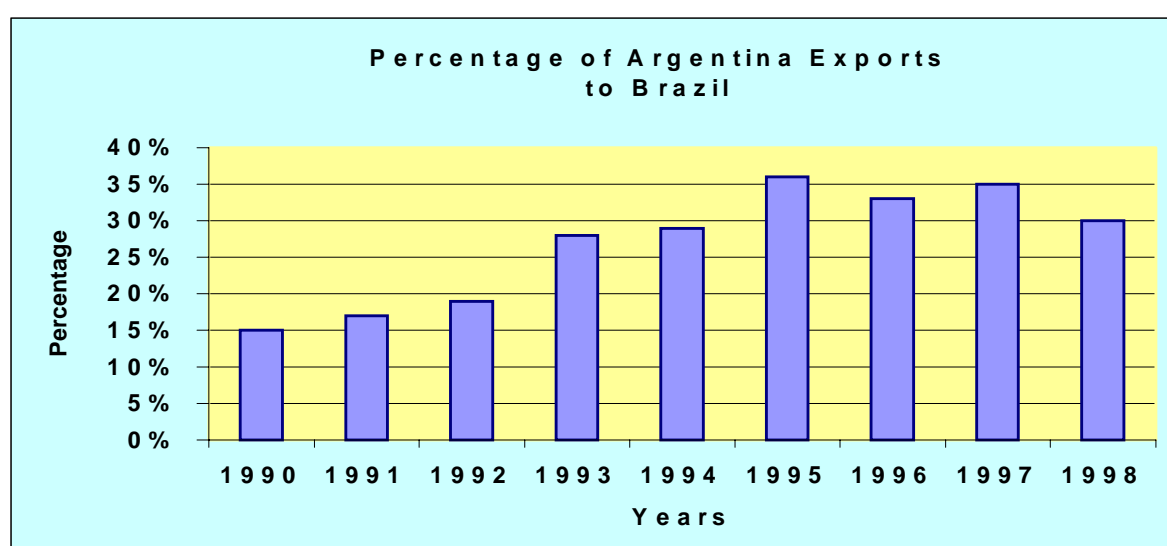
The sustenance of the Brazilian currency through the rise of interest rates caused a great imbalance in the country's public account. Besides the increasing deficit in the current account of the balance of payments driving away the investors, it also reduced the level of the foreign currency reserves in Brazil. That situation led to the implementation of Brazilian exchange depreciation.

4. Impact of the Brazilian Exchange Depreciation

The growing macroeconomic weakness of the Brazilian economy, characterized by an increasing current account deficit, caused the government to make its exchange policy flexible. This was coupled with an unsustainable fiscal policy that aimed to guarantee the sustenance of the exchange rate by offering high remuneration for foreign

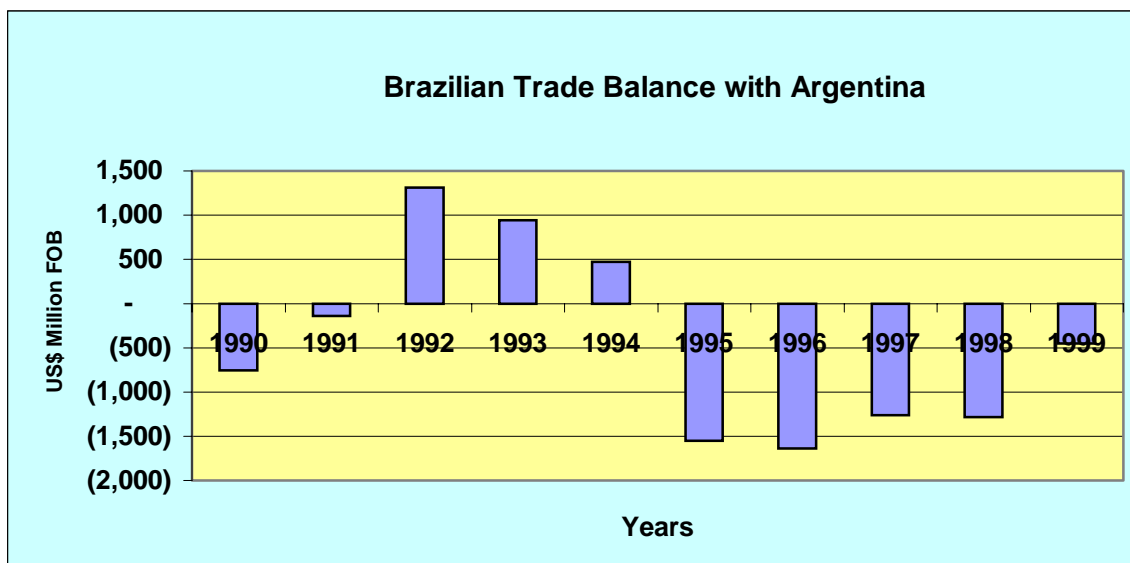
capital imported into the Brazilian economy, raised the country's public debt excessively.

Argentinean exports to Brazil represent only 3% of Argentinean GDP. Therefore, the spread of Argentinean dependence can be questioned in relation to Brazil. Other factors exist, as mentioned above, that had a larger influence in contributing to the crisis of that economy.



Source: IMF

Due to the Brazilian exchange depreciation in 1999, Argentinean exports to Brazil suffered a decrease. As we verified in the data of 1999 compared with 1998, the reduction of Brazilian imports originating from Argentina was approximately 30% (from US\$ 7,949 million to US\$ 5,690 million). Even so, Argentina finished 1999 with a surplus in its trade with Brazil around US\$ 94 million.



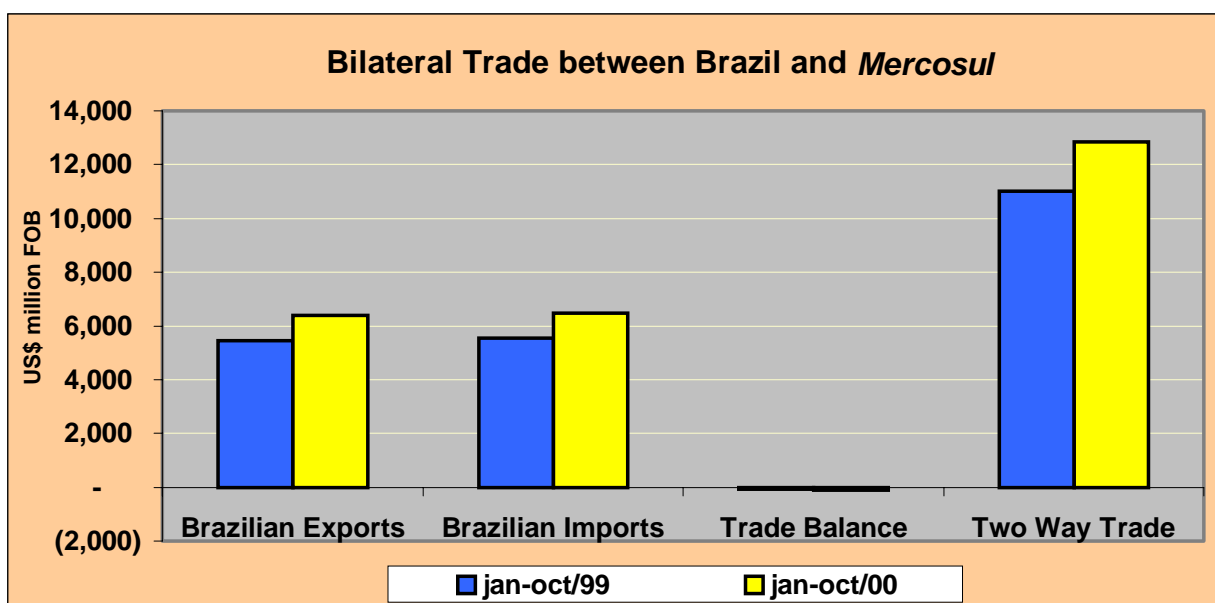
Source: SECEX

4.1. Bilateral Trade Between Brazil and MERCOSUL

Brazilian exports to MERCOSUL represented a growth of 16.58% in the first ten months of the year 2000 in relation to the same period of 1999, where the imports increased 16.53%.

In 1999, the exports, unlike one would expect, didn't reflect the competitiveness of the earnings of Brazilian products gained by the exchange depreciation. This reaction began to be observed just in the second semester of the year. The imports kept falling, allowing a surplus in the Brazilian trade balance in 1999 with the block in an amount of US\$ 59 million.

The accumulated balance from January to October of 2000, negative in US\$ 99 million, reflected the tendency of a returning deficit for that year. In 1998 the Brazilian deficit in the period was approximately US\$ 193 million.



Source: SECEX

4.1.1. Main Products

In 1999, with the Brazilian crisis and the exchange devaluation, a fall was observed in the exports of major items, most of them related with the automotive sector, resulting in a total fall of 23.66%.

However, some products presented an increase for specific reasons:

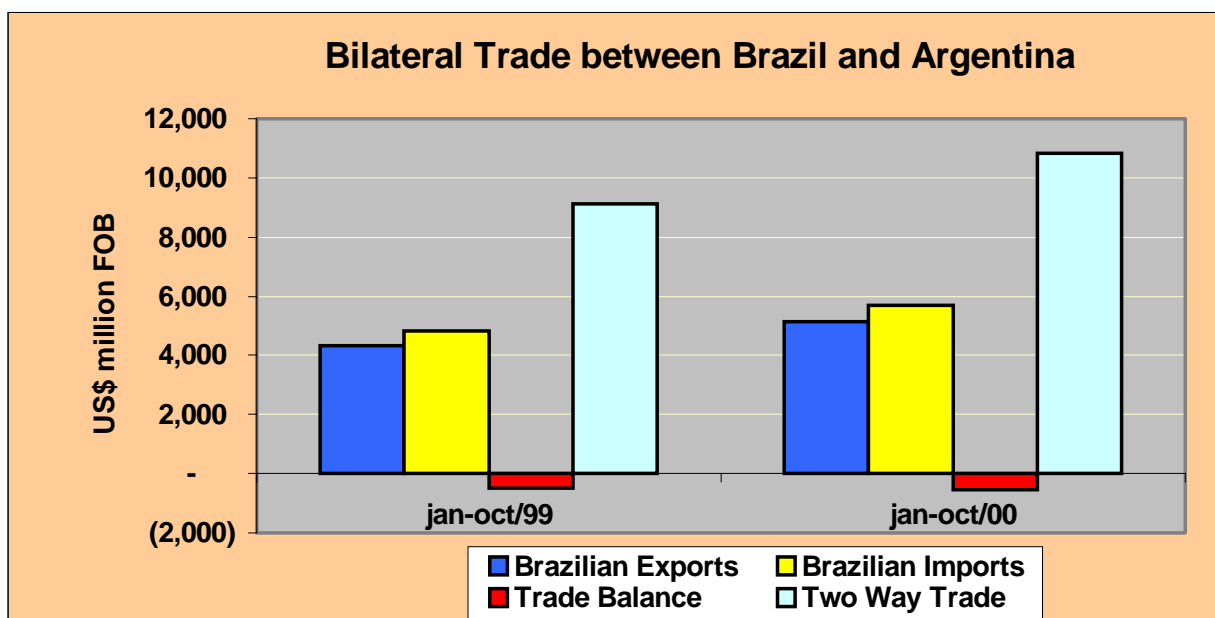
- **Shoes**: as of January 1, 1999, the end of the Argentinean adaptation regime, that imposed a duty of 7% upon the imports of shoes from MERCOSUL, and the imposition, by Argentina, of import barriers to the third markets, allowed the expansion of Brazil's export participation in that market. As regards Paraguay and Uruguay the adaptation regime still continued until December 31, 1999.

- **Data processing machines**: in Brazil, the producers' companies are multinationals that are transforming the country into a base for their exports to Latin America.
- **Medicines**: redirection of investments from Argentina to Brazil, in response to the better conditions presented after the devaluation of the Real in relation to Dollar.

With respect to the automotive sector, although among the selected products there is a perceptible reduction in Brazilian exports to MERCOSUL and an increase in imports, this doesn't happen when is considered entirely the chapter 87 (Vehicles other than railway or tramway rolling stock, and parts and accessories) of Harmonized Tariff Schedule of MERCOSUL, when is verified that there was a fall of 54.82% in Brazil exports to MERCOSUL and also a fall of 53.16% in its imports from MERCOSUL, not having therefore any alteration in the participation of each country in two way trade of these products in this automotive sector.

In imports there was a reduction of 28.7%, and the largest reductions also concentrated on the automotive sector.

4.2. Bilateral Trade Between Brazil and Argentina



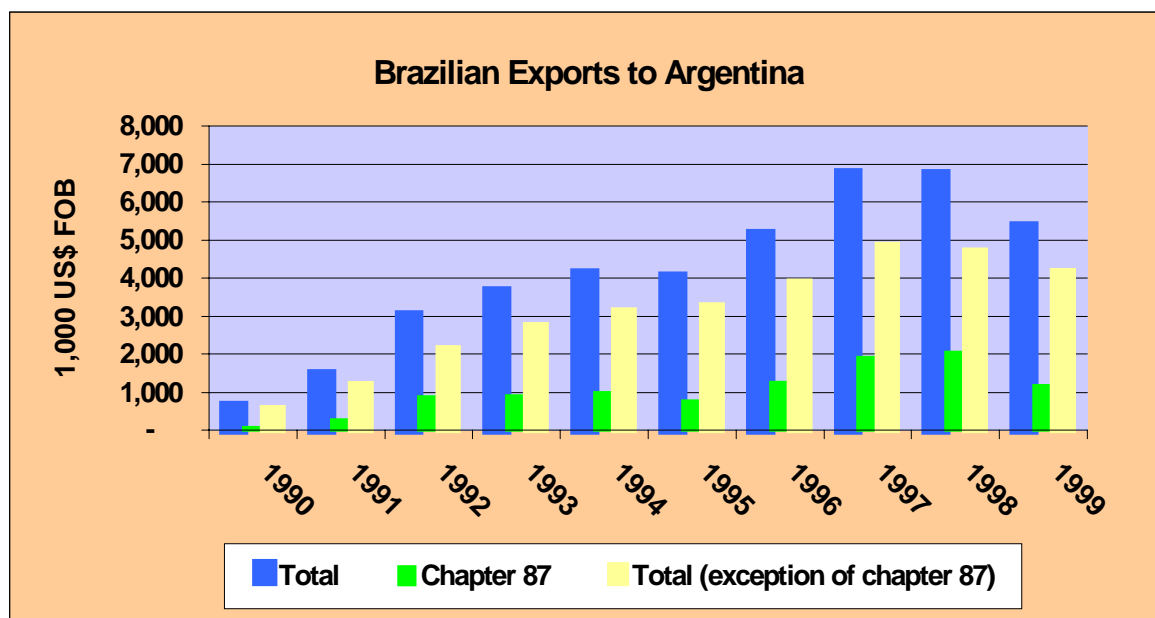
Source: SECEX

In the period from January to October of 2000, the trade balance of Brazil with Argentina was in negative US\$ 554 million, 10% larger than in the same period of last year, when it was in negative US\$ 501 million.

4.2.1. Exports

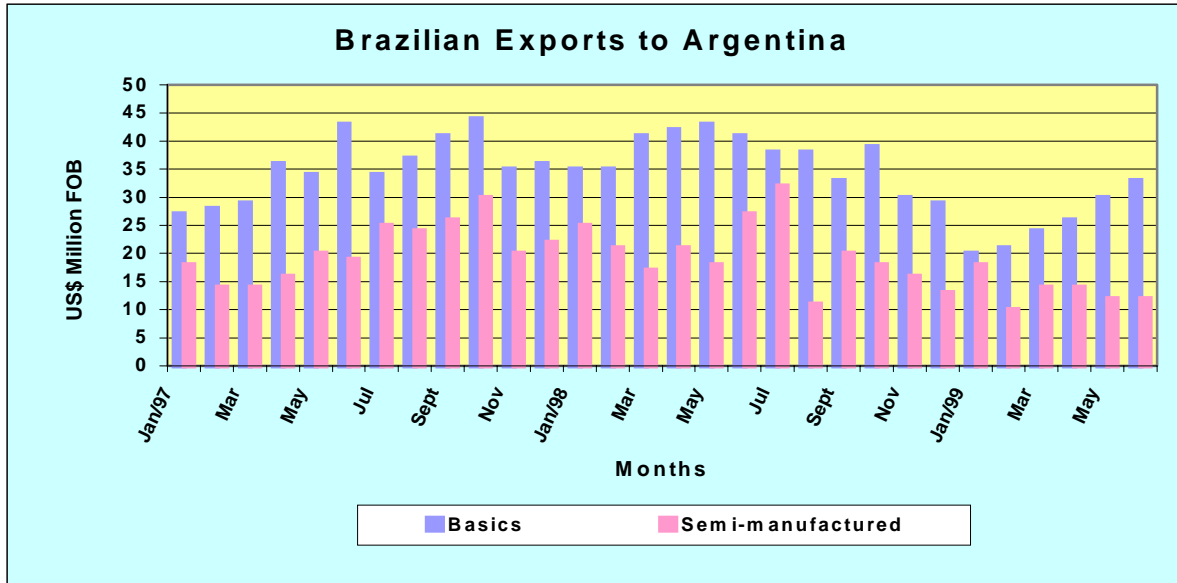
From 1995 to 1997, automotive sector products leveraged Brazilian exports to Argentina. In this period, total exports between Brazil and Argentina increased 67.46%, and the exports of chapter 87 of NCM increased 146.56% and the rest of the products,

48.81%. The participation of the automotive sector exports jumped from 19%, in 1995, to 28.09%, in 1997. In 1998 its participation was of 30.18%.

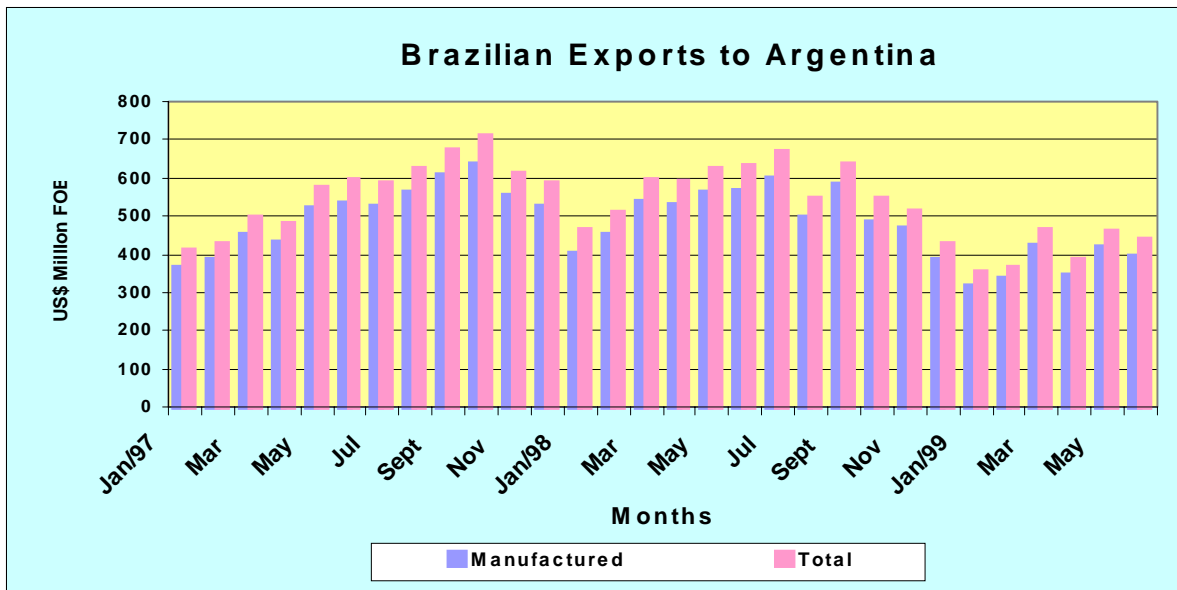


Source: SECEX

In the period 1997/1998, the exports kept stable (variation of -0.3%, in 1998, in relation to 1997), having been sustained by an increase of 7.10% in the exports of chapter 87 products, since the exports of the rest of the products presented fell of 3.18% due, mainly, to coffee in grain (-17.02%), portable terminals of cellular telephonies (-25.78%), aluminum oxide (-33.58%), semi-manufactured products of iron and steel (-44.31%), Cathode-ray tubes (-27.72%), copper wires (-23.43%) and hermetic motorcompressors (-1.93%).



Source: SECEX



Source: SECEX

In 1999, a fall of 20,5% was observed in the exports. In the period from January to October, the Brazilian exports to Argentina rose from US\$ 4,317 Billion, in 1999, to US\$ 5,135 Billion, in 2000, resulting in a total elevation of 18.93%. The products that obtained larger relative growth were: portable terminals of cellular telephonies (+ 255.11%), “tereftalato” of polyethylene in primary form (+ 258.85%) and paper to

write (+363.02%). The automotive sector represented an increase of 7.53% in that same period.

BRAZILIAN EXPORTS TO ARGENTINA MAIN PRODUCTS

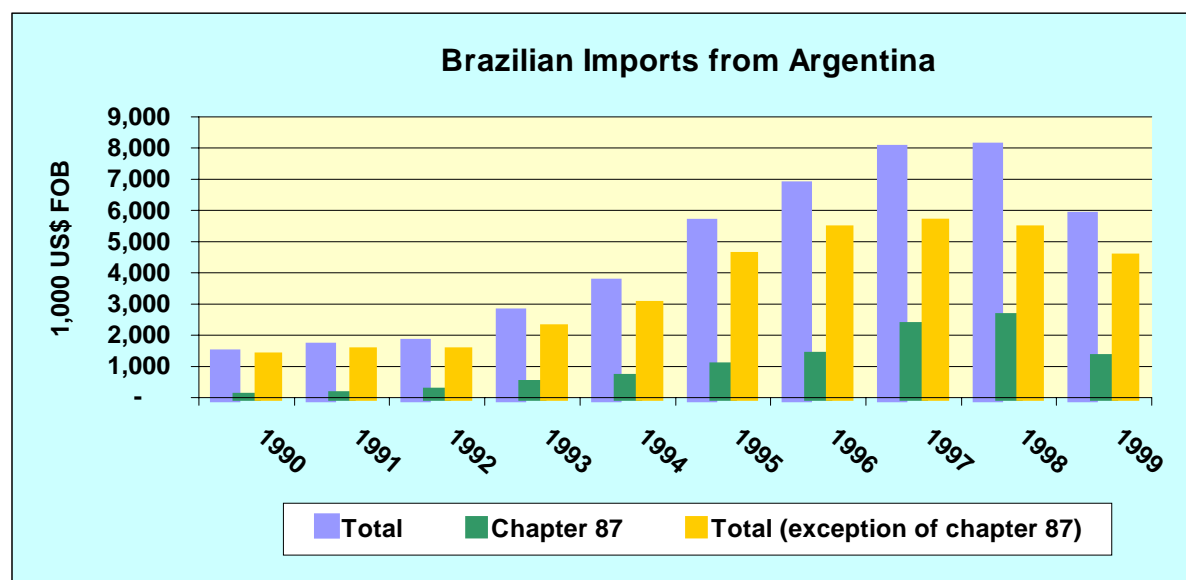
Harmonized Tariff Schedule			Value US\$ FOB Jan-Out/2000	Part. %	Value US\$ FOB Jan-Out/1999	Var. % 00/99
Total General			5,134,984,659	100.00	4,317,530,396	18.93
Heading/Subheading	ARTICLE DESCRIPTION					
1	8525.20.22	Transmission apparatus incorporating reception Apparatus; transceivers; citizens Band (CB):	296,606,535	5.78	83,526,165	255.11
2	8703.23.10	Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 8702), of a cylinder capacity exceeding 1,500 cc but not exceeding 3,000 cc	228,130,516	4.44	110,380,685	106.68
3	8704.22.10	Motor vehicles for the transport of goods, G.V.W. exceeding 5 metric tons but not exceeding 20 metric tons	111,840,644	2.18	137,284,510	-18.53
4	8708.99.90	Other parts and accessories of the motor vehicles of headings 8701 to 8705	111,017,170	2.16	94,097,249	17.98
5	8703.32.10	Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 8702), of a cylinder capacity exceeding 1,500cc but not 2,500cc	99,602,963	1.94	74,641,152	33.44
6	8704.21.90	Motor vehicles for the transport of goods, G.V.W. not exceeding 5 metric tons	95,167,062	1.85	81,742,655	16.42
7	8471.50.10	Digital processing units other than those of subheading 8471.41 and 8471.49, whether or not containing in the same housing one or two of the following types of unit; storage units, input units, output units; 35% with cathode-ray tube (CRT)	89,430,913	1.74	92,268,295	-3.08
8	2818.20.10	Aluminum oxide, other than artificial corundum	73,784,868	1.44	28,527,625	158.64
9	2601.12.00	Iron ores and concentrates, including roasted iron pyrites; iron ores and concentrates, other than roasted iron Pyrites; Agglomerated	59,136,104	1.15	35,178,399	68.10
10	3901.10.92	Polymers of ethylene, in primary forms; Polyethylene having a specific gravity of less than 0.94	52,745,475	1.03	44,318,369	19.01

Source: SECEX

4.2.2. Imports

From 1995 to 1997, imports behaved very similar to the exports, with a growth in the automotive sector of 125.68%, being this sector was mainly responsible for a growth in the total of the imports of 42.03%. The imports of the rest of the products increased 23.27% (intra-MERCOSUL).

In the period of 1997/1998, the imports of automotive sector continued to grow (12.94%), while the rest of the products had a reduction of 3.67%, due, mainly, to the reduction in imports of raw cotton (-46.48%), wheat flour (-34.77%) and sport shoes (-42%).



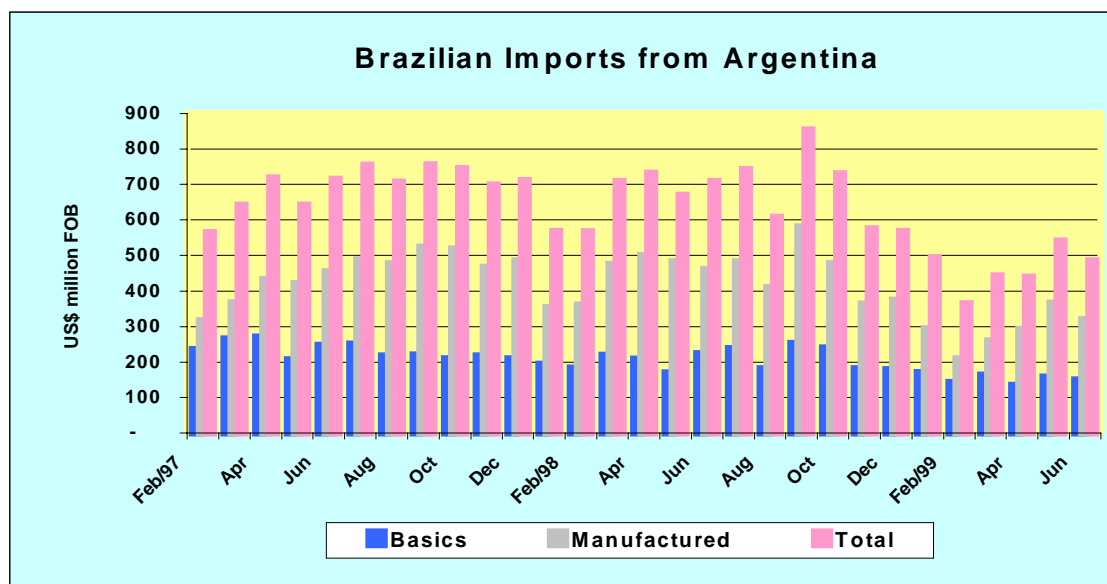
Source: SECEX

From September to February of 1999, there was an accentuated fall in imports of chapter 87 of NCM (-71.3%). The total imports from Argentina fell 48,4% and the rest of other the products, 37.45%.

As of February 1999, the imports of chapter 87 remained relatively stable, while there was an increase in the total number of imports in the period from March-June/1999 of 7.98%, dominated by wheat, milk, leathers and skins, cotton and rice imports.

From January to October of 2000, there was an increase of 18.06% in the imports, in relation to the same period of 1999.

Regarding raw materials that Brazil traditionally imports from Argentina, wheat, leathers and skins, an increase was registered in the period, while rice and milk represented a fall.

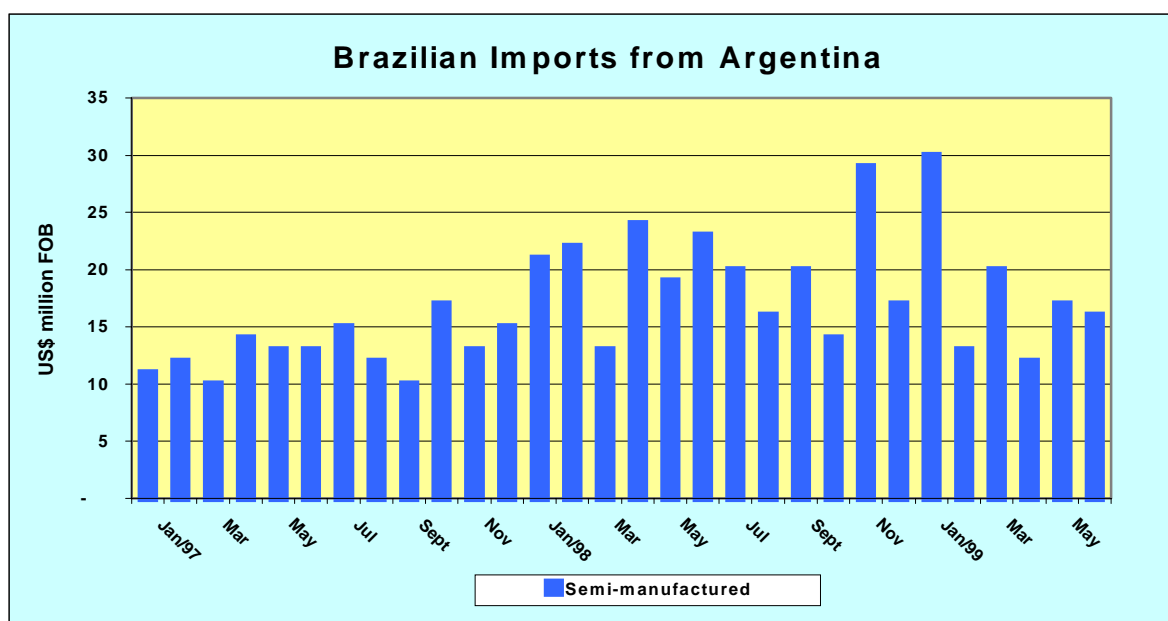


Source: SECEX

**BRAZILIAN IMPORTS FROM ARGENTINA
MAIN PRODUCTS**

Harmonized Tariff Schedule			Value US\$ FOB Jan-Out/2000	Part. %	Value US\$ FOB Jan-Out/1999	Var. % 00/99
Total General			5,689,025,014	100.00	4,818,730,479	18.06
Heading/Subheading	ARTICLE DESCRIPTION					
1	2709.00.10	Petroleum oils and oils obtained from bituminous minerals, crude	867,455,772	15.25	301,287,041	187.92
2	1001.90.90	Other wheat and meslin	714,988,090	12.57	679,268,635	5.26
3	8703.23.10	Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 8702), including station wagons and racing cars; of a cylinder capacity exceeding 1,500 cc but not exceeding 3,000 cc	328,689,901	5.78	373,905,936	-12.09
4	8704.21.90	Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 8702), including station wagons and racing cars; G.V.W. not exceeding 5 metric tons	302,154,049	3.54	189,384,682	59.55
5	2710.00.11	Petroleum oils and oils obtained from bituminous minerals, other than crude; preparations not elsewhere specified or included, containing by weight 70 percent or more of petroleum oils or of oils obtained from bituminous minerals, these oils being the basic constituents of the preparations; distillate and residual fuel oils (including blended fuel oils)	224,888,204	3.95	106,291,739	111.58
6	0402.21.10	Milk and cream, concentrated or containing added sugar or other sweetening matter; in powder, granules or other solid forms, of a fat content, by weight, exceeding 1.5 percent; not containing added sugar or other sweetening matter	136,374,903	2.40	158,151,106	-13.77
7	1005.90.10	Other corn (maize)	127,225,108	2.24	44,306,023	187.15
8	8708.40.90	Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 8702), including station wagons and racing cars	84,001,755	1.48	78,419,192	7.12
9	8703.21.00	Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 8702), including station wagons and racing cars; Of a cylinder capacity not exceeding 1,000 cc	82,111,221	1.44	111,339,499	-26.25
10	2711.13.00	Petroleum gases and other gaseous hydrocarbons; Liquefied; Butanes	74,677,947	1.31	33,458,243	123.20

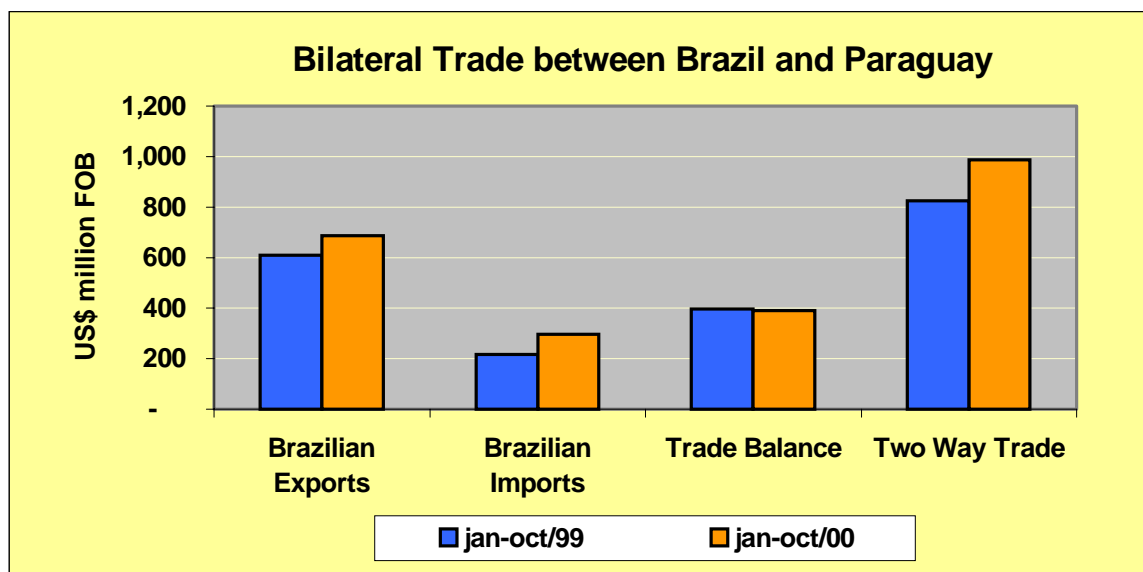
Source: SECEX



Source: SECEX

4.3. Bilateral Trade Between Brazil and Paraguay

The trade balance between Brazil and Paraguay in the first ten months of 2000, were surpluses of US\$ 399 million in favor of Brazil. Even with the surpluses, the trade between these two countries stayed practically stable in relation to the same period of 1999, when the trade balance reached US\$ 396 million. In that same period, there was an elevation in the imports (from US\$ 215 million to US\$ 298 million) of 38.64%, and in the exports (from US\$ 611 million to US\$ 688 million) of 12.64%.



Source: SECEX

**BRAZILIAN EXPORTS TO PARAGUAY
MAIN PRODUCTS**

Harmonized Tariff Schedule		Value US\$ FOB Jan-Out/2000	Part. %	Value US\$ FOB Jan-Out/1999	Var. % 00/99
Total General		687,928,477	100.00	687,928,477	12.64
Heading/Subheading	ARTICLE DESCRIPTION				
1	3105.20.00	21,258,690	3.09	13,497,302	57.50
	Mineral or chemical fertilizers containing the three fertilizing elements nitrogen, phosphorus and potassium				
2	4819.20.00	13,664,386	1.99	11,462,810	19.21
	Folding cartons, boxes and cases, of non-corrugated paper or paperboard				
3	2403.10.00	13,625,817	1.98	6,535,050	108.50
	Smoking tobacco, whether or not containing tobacco substitutes in any proportion				
4	4011.20.90	13,016,705	1.89	11,493,130	13.26
	New pneumatic tires, of rubber; of a kind used on buses or trucks				
5	2203.00.00	12,515,623	1.82	10,265,299	21.92
	Beer made from malt				
6	2202.10.00	11,816,760	7.72	8,083,135	46.19
	Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavored				
7	4011.10.00	9,774,839	1.42	9,124,250	7.13
	New pneumatic tires, of rubber; of a kind used on motor cars (including station wagons and racing cars)				
8	6908.90.00	9,721,305	1.41	11,427,782	-14.93
	Other glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes and the like, whether or not on a backing				

9	2401.20.30	Tobacco, partly or wholly stemmed/stripped; not threshed or similarly processed	8,620,825	1.25	5,332,446	61.67
10	5209.42.10	Woven fabrics of cotton, containing 85 percent or more by weight of cotton, weighing more than 200 g/m ² ; Bleached; Blue Denim	7,238,061	1.05	5,748,446	25.91

Source: SECEX

The Brazilian exports, from January to October, in 2000, to Paraguay rose by US\$ 77 million, passing from US\$ 611 million to US\$ 688 million, corresponding to an increase of 12.64%.

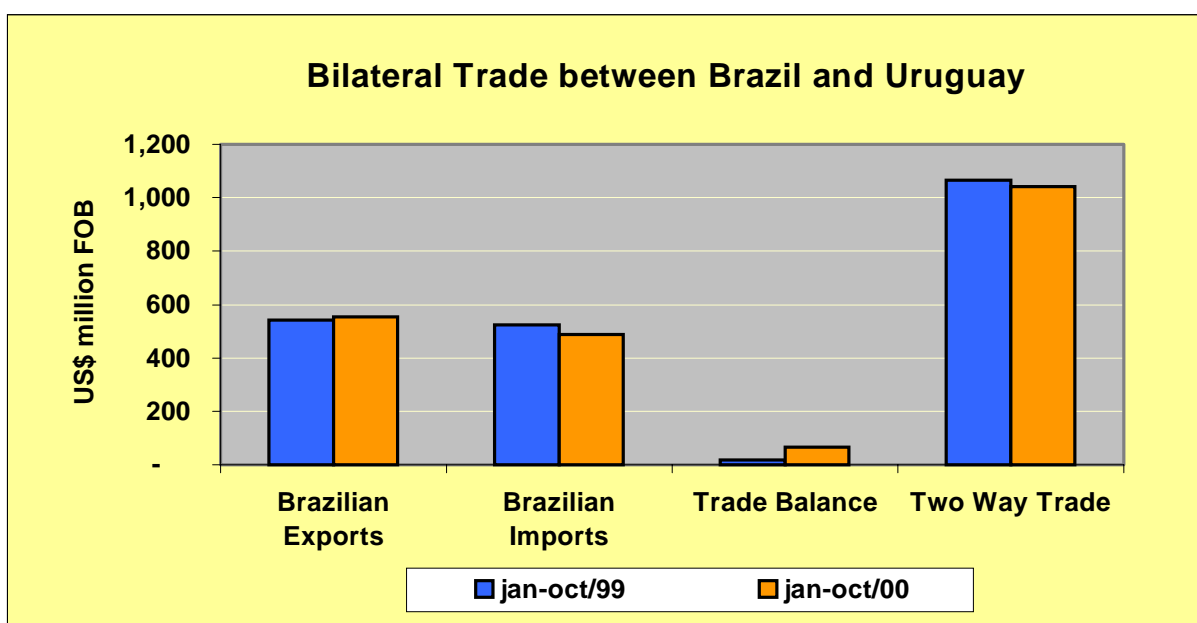
BRAZILIAN IMPORTS FROM PARAGUAY MAIN PRODUCTS

Harmonized Tariff Schedule			Value US\$ FOB Jan-Out/2000	Part. %	Value US\$ FOB Jan-Out/1999	Var. % 00/99
Total General			298,238,851	100.00	215,120,426	38.64
Heading/Subheading	ARTICLE DESCRIPTION					
1	1201.00.90	Soybeans, whether or not broken	110,719,455	37.12	76,151,638	45.39
2	5201.00.90	Other Cotton, not carded or combed	34,144,698	11.45	43,519,061	-21.54
3	5201.00.20	Cotton, not carded or combed	30,199,978	10.13	13,361,869	126.02
4	1005.90.10	Other corn (maize)	21,902,308	7.34	10,410,878	110.38
5	0201.10.00	Meat of bovine animals, fresh or chilled; carcasses and half-carcasses	12,298,295	4.12	5,610,363	119.21
6	2304.00.90	Oilcake and other solid residues, whether or not ground or in the form of pellets, resulting from the extraction of soybean oil	11,267,795	3.78	5,737,209	96.40
7	0102.90.90	Other cows imported specially for dairy purposes	10,670,077	3.58	5,381,674	98.27
8	0201.30.00	Meat of bovine animals, fresh or chilled; boneless	5,036,876	1.69	---	---
9	1507.10.00	Soybean oil and its fractions, whether or not refined, but not chemically modified; crude oil, whether or not degummed	3,708,122	1.24	22,178,315	-83.28
10	4104.29.00	Other leather of bovine or equine animals, without hair on, other than leather of heading 4108 or 4109	3,450,901	1.16	320,086	978.12

Source: SECEX

The Paraguayan exports, from January to October, in 2000, to Brazil grew, in value, US\$ 83 million, passing from US\$ 215 million to US\$ 298 million, corresponding to an increase of 38,64%.

4.4. Bilateral Trade Between Brazil and Uruguay



Source: SECEX

Brazilian's surplus with Uruguay in the first ten months of 2000 was US\$ 65 million. This balance represents the confirmation of a reversal in the bilateral trade between these two countries, presented last year, since this balance, from January to October of 1999, was a surplus in US\$ 18 million, against a deficit of US\$ 162 million in the whole year of 1998. This reversal is explained by the larger fall in imports than in exports, in 1999. In 2000, Brazilian imports from Uruguay continued to fall. They passed from US\$ 523 million to US\$ 488 million, a fall of 6.68%. The exports arose little more than 2%, passing from US\$ 541 million to US\$ 554 million.

**BRAZILIAN EXPORTS TO URUGUAY
MAIN PRODUCTS**

Harmonized Tariff Schedule			Value US\$ FOB Jan-Sept/1999	Part. %	Value US\$ FOB Jan-Sept/1998	Var. % 99/98
Total General			553,863,402	100.00	541,538,200	2.28
Heading/Subheading	ARTICLE DESCRIPTION					
1	0903.00.90	Maté	18,029,375	3.26	19,364,845	-6.90
2	1701.11.00	Cane sugar	10,087,153	1.82	10,667,541	-5.44
3	2304.00.90	Oilcake and other solid residues, whether or not ground or in the form of pellets, resulting from the extraction of soybean oil	9,757,999	1.76	12,243,291	-20.30
4	8703.23.10	Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 8702), including station wagons and racing cars; of a cylinder capacity exceeding 1,500 cc but not exceeding 3,000 cc	9,401,077	1.70	5,883,731	59.78
5	3901.10.92	Polymers of ethylene, in primary forms; Polyethylene having a specific gravity of less than 0.94	8,888,476	1.60	7,017,822	26.66
6	8704.21.90	Motor vehicles for the transport of goods; G.V.W. not exceeding 5 metric tons	8,105,276	1.46	4,436,280	82.70
7	8708.99.90	Other parts and accessories of the motor vehicles of headings 8701 to 8705	7,720,077	1.39	4,826,913	59.94
8	2401.10.30	Unmanufactured tobacco (whether or not threshed or similarly processed); refuse; not stemmed/stripped	7,663,693	1.38	4,945,944	54.95
9	2710.00.42	Benzene	7,306,953	1.32	4,193,757	74.23
10	9403.50.00	Wooden furniture of a kind used in the bedroom	7,015,390	1.27	6,029,956	16.34

Source: SECEX

The Brazilian exports to Uruguay, from January to October, in 2000, increased 2,28%, in relation to the year of 1999. This percentage represented an increase, in value, of US\$ 12,3 million.

Brazil exported, in that period, US\$ 553,8 million in 2000, having exported US\$541,5 million in 1999.

**BRAZILIAN IMPORTS FROM URUGUAY
MAIN PRODUCTS**

Harmonized Tariff Schedule			Value US\$ FOB Jan-Sept/1999	Part. %	Value US\$ FOB Jan-Sept/1998	Var. % 99/98
Total General			488,564,510	100.00	523,508,959	-6.68
Heading/Subheading	ARTICLE DESCRIPTION					
1	1006.20.20	Husked (brown) rice	39,927,480	8.17	20,487,172	94.89
2	1006.30.21	Semi-milled or wholly milled rice, whether or not polished or glazed	29,613,608	6.06	42,655,757	-30.58
3	1107.10.10	Malt not roasted	26,726,760	5.47	23,026,862	16.08
4	8703.23.10	Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading 8702), including station wagons and racing cars; of a cylinder capacity exceeding 1,500 cc but not exceeding 3,000 cc	18,947,68	3.88	24,956,986	-24.08
5	4005.99.90	Other compounded rubber, unvulcanized, in primary forms or in plates, sheets or strip	18,534,861	3.79	24,413,773	-24.08
6	3923.30.00	Carboys, bottles, flasks and similar articles	17,933,492	3.67	19,146,077	-6.33
7	0402.21.10	Milk and cream, concentrated or containing added sugar or other sweetening matter; not containing added sugar or other sweetening matter	17,503,170	3.58	8,959,631	95.36
8	0401.20.10	Milk and cream, not concentrated nor containing added sugar or other sweetening matter; of a fat content, by weight, exceeding 1 percent but not exceeding 6 percent	16,399,943	3.36	21,294,633	-22.99
9	0201.30.00	Meat of bovine animals, fresh or chilled; boneless	11,902,880	2.44	9,045,974	31.58
10	0201.20.90	Meat of bovine animals, fresh or chilled; other cuts with bone in	11,859,101	2.43	8,342,394	42.15

Source: SECEX

Uruguayan exports to Brazil suffered a decline of 6,68%, in the period from January to October of 2000, in comparison with the same period of 1999. Uruguay exported US\$ 488,6 million in 2000, and US\$ 523,5 million in 1999.

5. Barriers to the Trade

The principles – World Trade Organization (WTO)

The trading system should be ...

- without discrimination — a country should not discriminate between its trading partners (they are all, equally, granted “most-favoured-nation” or MFN status); and it should not discriminate between its own and foreign products, services or nationals (they are given “national treatment”).
- with barriers coming down through negotiation
- predictable — foreign companies, investors and governments should be confident that trade barriers (including tariffs, non-tariff barriers and other measures) should not be raised arbitrarily; more and more tariff rates and market-opening commitments are “bound” in the WTO.
- more competitive — by discouraging “unfair” practices such as export subsidies and dumping products at below cost to gain market share.
- more beneficial for less developed countries — by giving them more time to adjust, greater flexibility, and special privileges.

The obstacles to access foreign markets are linked to the existence of different defensive instruments, such as tariff barriers and non-tariff barriers.

Non-tariff barriers may be characterized in different forms with distinct restriction levels to imports. There are governmental laws, regulations, policies and practices that a country may use to restrain the access of import products in its market.

In the most developed countries, the tariff barriers tend to reduce or disappear along the way. Nevertheless, non-tariff barriers have followed a reverse course, incorporating a set of requirements and restraints that can create, in different ways, “legitimate” demands that make it difficult to access the importer market, like requirements of health and security, for instance.

With respect to MERCOSUL, Brazil suffers barriers imposed by Argentina in regard to cane sugar. Argentina also applies countervailing duties against several products exported by Brazil.

In regard to sugar cane, Argentina alleges Brazil subsidizes domestic production through the Programa Pro-Álcool. Brazil struggles to reduce the Argentine import tariff of 23% on Brazilian sugar. The impasse should go for a solution, being that Argentina committed itself, in a bilateral meeting held in Rio de Janeiro in December of 1998, to give a tariff preference of 10% to Brazilian sugar cane. However, until the present moment the agreement has not been implemented.

Argentina currently has nine anti-dumping duties definitively applied against Brazilian products and five investigations of anti-dumping in course, one being against iron and steel laminated products, with a temporary duty applied in April of 1999.

The table below shows the list of products that were or still are in process of investigation.

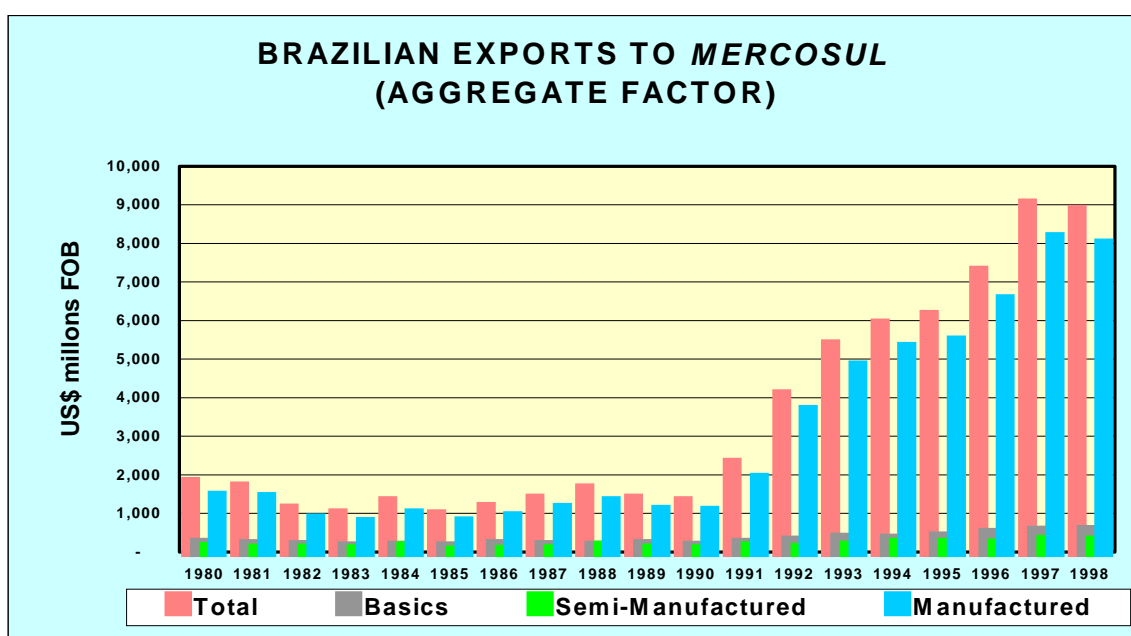
Investigations of Dumping by Argentina against Brazilian Exports

PRODUCT	OPENING	TEMPORARY DUTY	CURRENT SITUATION
Cables of aluminum	06/30/94	---	Closing in 02/27/96, with the application of minimum value of export, for 5 years
Discharge lamps, other than ultraviolet lamps, fluorescent, hot cathode	10/31/95	---	Price agreement revoked in 08/21/99
Fuses NH00, NH01, NH02	12/28/95	---	Closing in 12/16/97, with the antidumping right application for the type Nh02, for 3 years
Containers for compressed or liquefied gas, of iron or steel	04/19/96	03/26/97-minimum value of export for 4 months	Closing in 01/28/98, with the antidumping right application for 3 years.
Trays of PS	05/09/96	---	Closing in 06/10/97, with the signature of commitment of prices, with 5 year-old validity
Optical fiber cables	02/17/97	---	Closing in 12/18/98, with the antidumping right application (10%) for 2 years
Welded link of alloy steel	12/11/97	---	Closing in 06/11/99, with the signature of valid commitment of prices for 3 years
Natural and artificial abrasives	04/27/98	---	Closing in 06/10/99, with the signature of valid commitment of prices for 2 years
Hot-rolled flat-rolled products of iron or nonalloy steel	10/05/98	04/20/99 US\$ 410.00/t FOB	Closing in 12/09/99, with the signature of valid commitment of prices for 5 years
Boneless chickens	01/25/99	---	Investigation in course
"Jabalinas" of steel and copper	02/18/99	10/07/99 US\$2.12/kg	Investigation in course
Fabrics denim	04/29/99	---	Investigation in course
Sheet piling of steel	05/13/99	---	Investigation in course
Cold-rolled flat-rolled products of iron or nonalloy steel	09/02/99	---	Investigation in course

Source: annual report of WTO; report of the Argentina Sub-Secretariat of Foreign trade; and report of MDIC/SECEX /DECOM

6. Potential for the Future

Brazilian exports to MERCOSUL increased around 300% since the creation of the block, going from 4.2% of the total exports in 1990 to 17.4% in 1998, generating a trade current of US\$ 18.3 billion⁸.



Source: SECEX

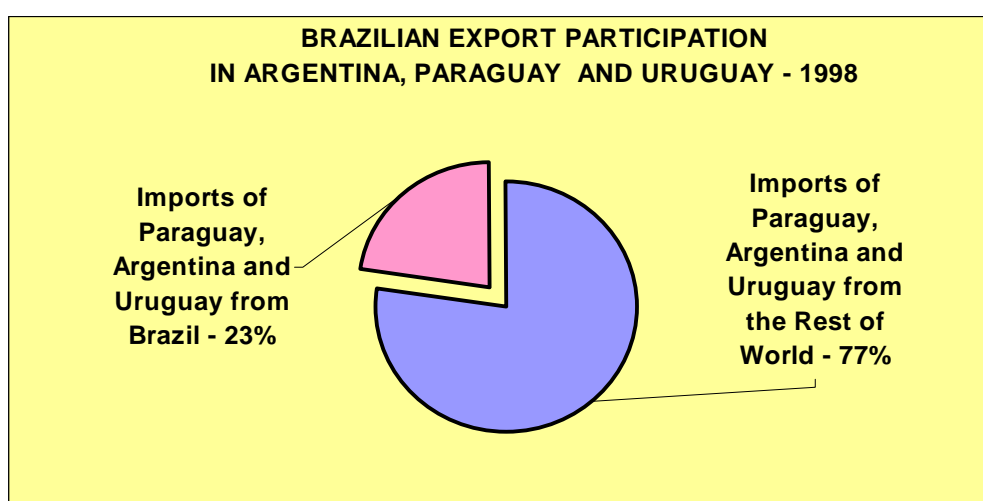
⁸ Some critics say that the large growth of *intra-MERCOSUL* trade was due to a trade diversion, as stated in the article by Alexander J. Yeats, published in World Bank magazine, titled "The World Bank Economic Review", volume, number 1, Washington, D. C., January, 2000. This text has the following summary: "This study employs a new methodological approach that measures production efficiency in changing trade patterns. It shows that the most rapidly growing products in *MERCOSUL*'s intratrade generally are goods which members do not have a comparative advantage and have not been able to export competitively to outside markets. This is consistent with substantial trade diversion within the arrangement. *MERCOSUL*'s discriminatory tariffs against nonmembers, which are four to six times higher than those in arrangements such as the European Union, European Free Trade Area, or North American free trade Agreement, are likely the cause. Recent further increases in *MERCOSUL*'s tariffs against nonmembers are likely to exacerbate the magnitude of trade diversion."

In order to make this scenery still better, i.e., a further increase in Brazilian exports, two variables become fundamental.

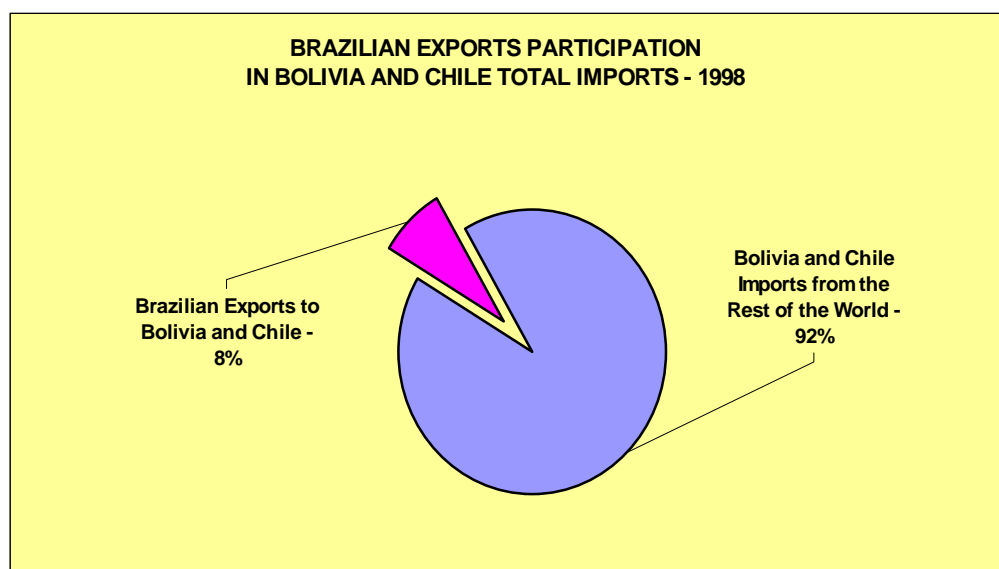
Firstly, the sustainable economic development will incorporate new segments of the population to the consumer market of the region, moving the aggregate demand to a superior level of consumption.

The second relevant variable is the incorporation of new members to the Block. The expansion of MERCOSUL, initially with Chile and Bolivia, will enlarge the MERCOSUL market. Besides, expects to an increment in the trade, in case a free trade area is created with the European Union or a true opening in the world agricultural sectors takes place.

Additionally, Brazil concluded, at the end of June, 1999, a Partial Scope Economic Complementation Agreement with the Andean Community countries (Colombia, Ecuador, Peru and Venezuela). This agreement will allow the circulation of 3,000 products with reduced import tariffs and it will also allow canceling out the trade deviation caused by the free trade agreement that the Andean Community maintains with Mexico.



Source: Ministry of Economic of Argentinean; Central Bank of Paraguay;
Central Bank of Uruguay and SECEX



Source: Central Bank of Bolivia; Central Bank of Chile and SECEX

7. Conclusion

MERCOSUL has been facing difficult moments. The depreciation of the Real, resulting from the new policies of free flotation of the currency, and the economic crisis in Brazil and, now, in Argentina, with a resulting decrease in intra-regional trade, contributed to the introduction of a high uncertainty degree in the block. It should be taken into account that the construction of common markets always goes through uncertainties. Besides, the closer the integration bonds among the countries, the larger the moments of divergence from interests.

Actually, the discussion below indicates a remarkable alignment between Argentine and Brazilian goals, but there is a difference in emphasis.

For Argentina, MERCOSUL is essentially an instrument with economic rather than political aims. For Argentina MERCOSUL is an instrument that allows improving efficiency and to allocate more appropriately its resources. It also is an instrument to

increase growth, to explore more integrally its potential of resources. Only lastly it is an instrument that allows improving its capacity of negotiation with the rest of the world. In addition, for Argentina MERCOSUL is an important instrument in regards to foreign policy and of safety. The fact of having a more integrated and also more inter-dependent region, in a democratic context, helps the development of potentialities, but to Argentina MERCOSUL is above all an economical instrument.

Similarly for Brazil, MERCOSUL also has a strong economic dimension; and it was also one instrument of consolidation of certain policies in the 1990s. However, for Brazil, MERCOSUL was always more a foreign policy instrument for international action. A relationship of cooperation between Brazil and Argentina is a necessary condition to develop more consistently the protagonist's role that Brazil sees accomplishing in its international plan.

Traditionally, Argentina and Brazil had a relationship of rivalry, not of confrontation, but of competition in the region. That deligitimized Brazilian pretensions of having a more preponderant role in the international extent, particularly in Latin America.

A more cooperative relationship with Argentina, as long as the old rivalry is left aside, improves the possibilities of Brazil to attain more legitimacy achieving the role it sees itself playing in the international arena. It does not matter if this role is possible, or if it is a product of fantasy, or if it is overestimating its own capacity. It is really a matter of perceptions. Ultimately, in Brazil, MERCOSUL has been seen more as a political than economic resource.

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