

INSTITUTE CULTURAL MINERVA

INSTITUTE OF BRAZILIAN BUSINESS AND PUBLIC MANAGEMENT ISSUES - IBI

THE GEORGE WASHINGTON UNIVERSITY

WASHINGTON, DC

MERCOSUR AND NAFTA - TRENDS OF TRADE

Author: Paula Crisóstomo Lopes Lima

Spring 1997

SUMMARY

INTRODUCTION

I. THE MERCOSUL/MERCOSUR

II. THE NAFTA

III - MERCOSUL - Merchandise Trade

IV - NAFTA - Merchandise Trade

CONCLUSION

INTRODUCTION

Many aspects are changing the way business is done around the world, such as: the globalization of the economy, technological advances, the formation of economic blocs, etc. For instance, regional trading blocs have been formed around the world and are becoming a growing force in the global economy. A process of regional economic integration is taking place.

The objective of this paper is to try to determine the trends of trade within MERCOSUR (The Southern Common Market) for the future, within NAFTA (North America Free Trade Agreement) and the trends of trade between these two economic blocs.

In order to achieve this goal, an analysis of trade among the MERCOSUL member countries and trade among NAFTA member countries will be made, analyzing their impact on overall trade. Trade between MERCOSUR and NAFTA will be also studied here, as well as many besides the other countries. It is assumed here that only merchandise trade is the subject of study.

Due to some restrictions, such as time, data availability, etc., to do this paper, the scope of this study will be limited to Brazil and United States. Since Brazil is the largest country in MERCOSUR and the United States is the biggest in NAFTA, the methodology utilized here was to study Brazilian merchandise trade with NAFTA, MERCOSUR and rest of the world and US merchandise trade with NAFTA, MERCOSUL and rest of the world, trying to identify the trade trends.

I. MERCOSUR

MERCOSUR (The Southern Common Market) is one of the most important emerging markets in the world, offering fantastic possibilities for trade and investment. It represents an important stage of economic integration of Latin America.

MERCOSUR is composed by four countries: Argentina, Brazil, Paraguay and Uruguay. It represents a total population of approximately 200 million individuals, living in an area covering more than 12 million square kilometers.

In the beginning (1991), MERCOSUL was only a free-trade area. On January 1, 1995, it began operating as a customs union, meaning that it has tariff preferences between its four member countries (free-trade area) and a common external policy on trade with non-member countries and economic groups.

MERCOSUR is moving step by step toward reaching its goal, that is first to become a free-trade zone, then to have a customs unification and finally, a common market, where in addition to customs unification, the free movement of manpower and capital across the member nations' international frontiers is possible, and depends on the equal rights and duties of signatory countries.

In summary, the purpose of MERCOSUL is to create a common market in which goods and services can be freely traded among member countries and to permit the unrestricted movement of factors of production such as labor and capital. In order to achieve this goal, it is necessary to coordinate macroeconomic and sector policies and to harmonize national legislation in order to enhance competitiveness. MERCOSUR is now in a transitional period, moving toward its final goal.

Although MERCOSUR is not yet fully implemented, It has been actively consolidating trade relations among its member nations. The volume of business among member nations has been increasing every year and it already represents an advanced stage of Latin America integration. In fact, MERCOSUR provided the foundation for Argentina, Paraguay, Uruguay and Brazil to become more integrated among themselves and to compete more effectively on the international market.

HISTORICAL BACKGROUND

Latin America has taken several steps towards regional integration. The most important ones were the ALALC/LAFTA (Latin American Free Trade Association) that was signed in 1960 and the ALADI (Latin American Integration Association) that was created in 1980 to replace ALALC/LAFTA. ALADI, which is still in force, brought together Argentina, Bolivia, Brazil, Colombia, Chile, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela in order to establish a common market. ALADI used other means to attempt member state integration than ALALC/LAFTA. Instead of creating a free-trade zone, an economic preference zone was established. ALADI facilitates a series of bilateral trade agreements among its eleven members.

After that, Brazil and Argentina signed 12 commercial protocols in 1986, under the ALADI system. The Declaration of Iguazu (1985) was their first concrete step towards economic association of the two countries. In 1988, Brazil and Argentina signed a Treaty for Integration, Cooperation and Development, which set the stage for a common market between the two countries within ten years, with the gradual elimination of all tariff barriers and harmonization of the macroeconomic policies of both nations. It was further established that this agreement would be open to all other Latin American countries.

On March 26, 1991, after the adhesion of Paraguay and Uruguay, the four countries, Argentina, Brazil, Paraguay and Uruguay, signed a treaty for the creation of a common market among them, MERCOSUL. This treaty, called the Treaty of Asunción, provides the possibility for other ALADI affiliated nation to join the common market. For example, Chile is currently negotiating trade agreements with MERCOSUL, which means that MERCOSUL is negotiating with non-member countries as an institutionalized group.

There are other countries that are considering the possibility of joining MERCOSUR, such as Bolivia, Colombia, Ecuador, Peru and Venezuela. Indeed, Chile and Bolivia have made progress on talks leading to an association with MERCOSUR. Besides this, MERCOSUR is carrying on trade negotiations with the European Union (EU).

OBJECTIVES:

MERCOSUL has four main objectives:

1. Free transit of goods, services and production factors among member nations with, inter alia, the elimination of customs rights and non-tariff restrictions on the transit of goods, or any other measures with similar effects;
2. Fixing of a Common Foreign Tariff (TEC) and adopting of a common trade policy with regard to non-member countries or groups of countries, and the coordination of positions in regional and international commercial and economic meetings;
3. Coordination of macroeconomics and sectorial policies of member nations relating to foreign trade, agriculture, industry, taxes, monetary system, exchange and capital, services, customs, transport and communications, and any others they may agree on, in order to ensure free competition among member countries; and

4. The commitment by the member nations to make the necessary legal adjustments in order to strengthen the integration process.

INSTITUTIONAL STRUCTURE

The basis for the institutional MERCOSUR structure up to the formation of the common market was established by the Treaty of Asuncion and Ouro Preto Protocol.

Under the Ouro Preto Protocol, the institutional structure of MERCOSUR is composed by:

a) Common Market Council (CMC). The highest-level agency of MERCOSUR, the CMC is comprised by the foreign ministers and ministers of economic affairs of the four countries. It conducts MERCOSUR policy and it is responsible for the compliance with objectives and time frames set forth in the Treaty of Asuncion, as well as for decision-making. It is the highest policy-making body and has the authority to act as legal representative of the group;

b) Common Market Group (GMC). This is the executive body of MERCOSUR. Its main duties are the compliance with the Treaty of Asuncion and to take resolutions required for the implementation of the decisions made by CMC, with the support of ten technical working groups. The working subgroups are: SGT1 Communications, SGT2 Mining, SGT3 Technical Guidelines, SGT4 Financial Matters, SGT5 Transport and Infrastructure, SGT6 Environment, SGT7 Industry, SGT8 Agriculture, SGT9 Energy and SGT0 Labor, Employment and Social Security Matters;

c) MERCOSUR Trade Commission (CCM). The CCM assists the MERCOSUR executive body (GMC) and is responsible for the coordination of the common trade policy and for supervision of the implementation of the common external tariff (CET);

d) Joint Parliamentary Committee (CPC). This committee is the body representing the legislative branches of the member nations;

e) The Administrative Office (SAM), responsible for safeguarding the documents and publication of the MERCOSUR Official Bulletin in both Portuguese and Spanish. It is also responsible for communicating the GMC activities, in order to allow a greater disclosure of decisions and relevant documentation;

f) The Economic and Social Advisory Forum (FCES), an advisory body by nature which represents the economic and social sectors of the member countries.

II. NAFTA

In December 1992, the North American Free Trade Agreement (NAFTA) was signed by the leaders from Canada, Mexico and the United States, but it only came into affect on January 1st, 1994, after the negotiation of supplemental agreements on labor and the environment, and Congressional approval of the required implementing legislation.

This agreement creates the largest free trade zone in the world, eclipsing even the European Economic Community in terms of total gross domestic product (GDP) and population, establishing a free trade area among developed and developing countries.

NAFTA establishes a gradual elimination of tariff protection and a reduction of non-tariff barriers in order to promote free trade in goods and services; establishes rules for investment; strengthens protection of intellectual property rights; and creates a dispute settlement mechanism among the three countries. Starting when NAFTA entered into force, the tariffs began to be eliminated over the next 15 years. In this sense, the agreement sets an important precedent for trade and economic cooperation and is often seen as North America's response to the European trading bloc.

This agreement promotes North American economic integration and will definitely strengthen the global competitiveness of the region.

The biggest benefit that the North American Free Trade Agreement brought to the United States was the fact that as an international accord it ensured that the benefits for the US trading interest will be maintained.

NAFTA, since it is not a customs union, but only a free trade area, does not have a common external policy on trade with non-member countries, and allows each member nation to shape its own trade policies towards third parties. However, NAFTA's rules of origin limit the extent to which third country products may enter the free trade area through the country with the lowest external trade barriers.

HISTORICAL BACKGROUND

Carlos Salinas de Gortari (Mexican President) and George Bush (US President) agreed to pursue the negotiation of a free trade agreement between the two countries on June 11, 1990. They began formal discussions one year later with a third country, Canada, also taking a seat at the negotiating table.

Before reaching this point, several events occurred among these three countries. During the 1980s, Mexico seemed to follow the Canadian model of pursuing closer economic integration with the US in incremental steps. As Canada moved from sectoral talks to free trade area (FTA) negotiations, Mexico too entered into a series of negotiations with the US, moving from specific issues such as subsidies and countervailing duties in 1985, to sectoral talks under bilateral framework agreements 1987 and 1989, and finally to the pursuit of an FTA in 1990. At the same time, Canada and Mexico began to pursue closer bilateral trade relations.

When we talk about US-Canada and US-Mexico agreements it is possible to say that the auto pact between the United States and Canada in 1965 was the foundation stone of NAFTA and after that, the maquiladora boom began to link the northern cities of Mexico with the United States' industrial economy.

Summarizing, NAFTA was the last step of a process of economic integration that started with separate bilateral FTAs between individual countries and ended in a full-fledged trilateral negotiation. The Canada-US FTA was the most important accord and set many useful precedents for NAFTA. In fact, NAFTA is an improved version of the 1988 US-Canada Free Trade Agreement (CFTA).

INSTITUTIONAL STRUCTURE

NAFTA's institutional structure is composed by:

a) The Free Trade Commission (FTC), the principal body of NAFTA, oversees NAFTA's performance and evolution, but is also responsible for dispute settlement. As a supreme organ of NAFTA, the FTC is composed of the US Trade Representative, the Canadian Minister for International Trade, and the Mexican Secretary of Commerce and Industrial Development. The day-to-day work is carried out by several working groups and committees.

b) The NAFTA Secretariat, an administrative office, serves the Free Trade Commission (FTC) and its dispute panels, committees, and working groups. The Secretariat consists of national offices in Mexico City, Ottawa and Washington.

It is interesting to note that a new secretariat was created at the first meeting on January 14, 1995, of the NAFTA Coordinating Secretariat (NAFTACS), which is a trilateral coordinating secretariat that complements the National Secretariats. It is based in Mexico and serves as a counterpart of the secretariats for the supplemental agreements on labor and environmental cooperation.

III - MERCOSUR - Trade

In this section, the evolution of the merchandise trade in MERCOSUR will be studied, analyzing Brazilian merchandise trade with other MERCOSUR member countries, NAFTA and rest of the world.

Table 1

MERCHANDISE TRADE				
Brazilian Exports, Imports to MERCOSUR				
US\$ 1000 F.O.B 10/29/96				
YEARS	EXPORTS	% VAR.	IMPORTS	% VAR.
1989	1,379,717	-	2,193,874	-
1990	1,320,244	-4.31	2,319,551	5.73
1991	2,309,352	74.92	2,268,369	-2.21
1992	4,097,469	77.43	2,228,563	-1.75
1993	5,386,909	31.47	3,378,254	51.59
1994	5,921,475	9.92	4,583,270	35.67
1995	6,153,768	3.92	6,839,350	49.22
1995-Jan/Sept	4,626,508	-	5,211,783	-
1996-Jan/Sept	5,341,237	15.45	5,870,626	12.64
Source: MICT/SECEX				

Brazilian exports to MERCOSUR increased sharply in 1991 (74,92%) compared to 1990. Since then, it has been increasing every year, but with diminishing rates, meaning that in general, Brazilian exports increased in the 1991-1996 period.

On the other hand, Brazilian imports from MERCOSUR increased 5.73% in 1990, but in 1991 and 1992 decreased 2.21% and 1.75%, respectively.

Since 1993, Brazilian imports from MERCOSUR have shown a good increase rate.

The merchandise trade balance was negative in 1989 and 1990. During the 1991-1994 period, Brazil showed a positive trade balance, but since 1995, the trade balance became negative again, meaning that Brazil is importing more from MERCOSUR than exporting to it.

In the January-September/96 period, Brazilian merchandise trade (exports + imports) with MERCOSUR member countries (Argentina, Paraguay and Uruguay) increased 13.95%, compared to the same period in 1995, going from US\$ 9.8 billion to US\$ 11.2 billion.

Brazilian exports in the same period increased 15.45% and imports, 12.64%. The merchandise trade balance between Brazil and MERCOSUL was negative on the Brazilian side (US\$ -529 million), but it was better than in the same period in 1995, which was US\$ -585 million.

Table 2

Brazilian Exports to MERCOSUR			
US\$ million			
Country	January-September		VAR. %
	1995	1996	
Argentina	3,016	3,784	25.46
Paraguay	975	955	-2.05
Uruguay	636	602	-5.35
MERCOSUL	4,627	5,341	15.43
total exports	34,178	35,858	4.92
Source: Siscomex			

The participation of Brazilian exports to MERCOSUR in the total amount of Brazilian exports was 14.89% in the first nine months of 1996, which is higher than in the same period of 1995 (13.54%). On the import side, in 1995 the participation was 13.87% and in 1996, 15.68%, also higher than in the year before (table 3).

Besides the increase in merchandise trade between Brazil and Mercosul, it is important to say that the most significant part of Brazilian exports to Mercosul are manufactured goods.

Brazilian exports to Mercosul increased 15.43% in the January-September/96 period, compared to the same period in 1995. This increase occurred basically due to the expansion of exports to Argentina, since exports to Paraguay and Uruguay decreased. Exports to Argentina represented 71% of the total exports to Mercosul in the Jan-Sept./96 period.

Exports to Paraguay totaled US\$ 975 million in 1995 and US\$ 955 million in 1996, showing a small decrease of 2.05%. Besides this, Brazilian exports to Uruguay decreased 5.35% in the same period. In fact, in the period under analysis, the participation of Brazilian exports to Paraguay and Uruguay over the total exports to MERCOSUR decreased from 21.07% to 17.88% and from 13.75% to 11.27%, respectively. However, the participation of Brazilian exports to Argentina as a percentage of total exports to MERCOSUR increased from 65.18% to 70.85%.

Table 3

Brazilian Imports from Mercosur		
US\$ million		
Country		VAR. %

	January-September		
	1995	1996	
Argentina	4,276	4,809	12.46
Paraguay	389	402	3.34
Uruguay	547	660	20.66
Mercosul	5,212	5,871	12.64
total imports	37,590	37,451	-0.37
Source: Siscomex			

Brazil imported US\$ 5.9 billion from MERCOSUR in the January-September/96 period, an increase of 12.64% compared to the same period of 1995 (US\$ 5,2 billion).

Imports from Argentina represented 82% of the total imports from MERCOSUR. Brazil imported almost US\$ 4.3 billion from Argentina in the Jan-Sept/95 period, and US\$ 4.8 billion from Jan-Sept/96, with an increase of 12.46%. Brazil also increased its imports from Paraguay (3.34%) and Uruguay (20.66%) in the same period.

Table 4

Merchandise Trade						
Brazil Exports to NAFTA						
US\$ F.O.B. million						
Year	Country			Total	Total	Naftas part
	US	Canada	Mexico	Nafta	Brazil's exp.	on total exp.
1990	7,594	522	505	8,621	31,414	27.44
1991	6,264	464	758	7,486	31,620	23.67
1992	6,933	402	1,114	8,449	35,793	23.61
1993	7,877	455	995	9,327	38,597	24.17
1994	8,816	501	1,050	10,367	43,545	23.81
1995	6,683	461	496	7,640	46,506	16.43
Source: MICT/SECEX DECEX/GEREST						

Brazilian exports to NAFTA represented 27.44% of the total Brazilian exports in 1990, and approximately 24% in 1991, 1992, 1993 and 1994. During this period the participation of Brazilian exports to NAFTA stayed almost the same. In 1995, exports to NAFTA only represented 16.43% of the total Brazilian exports. This happened mostly because Brazilian exports to the US and Mexico dropped a lot, 24.19% and 52.76%, respectively.

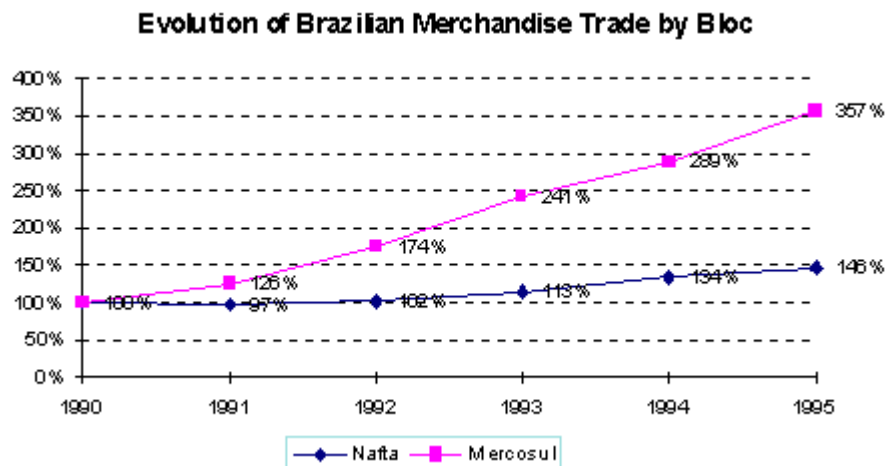
Table 5

Merchandise Trade						
-------------------	--	--	--	--	--	--

Brazil Imports from NAFTA						
US\$ F.O.B. million						
Year	Country			Total	Total	Naftas part
	US	Canada	Mexico	Nafta	Brazil's imp.	on total imp.
1990	4,393	407	190	4,990	20,661	24.15
1991	4,938	511	204	5,653	21,041	26.87
1992	4,539	491	353	5,383	20,554	26.19
1993	5,052	692	318	6,062	25,256	24.00
1994	6,674	835	323	7,832	33,079	23.68
1995	10,300	1,122	812	12,234	49,583	24.67
Source: MICT/SECEX DECEX/GEREST						

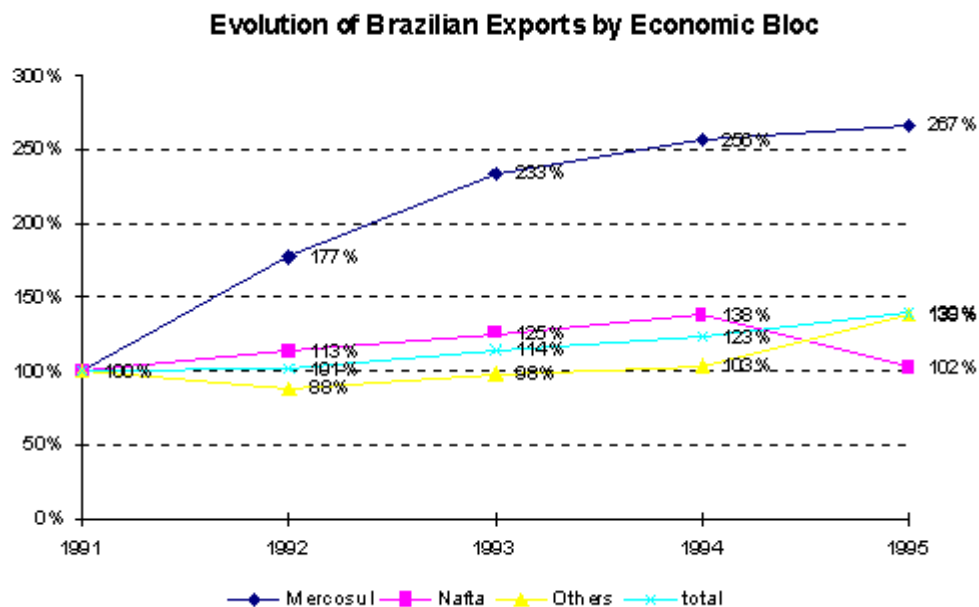
Imports from NAFTA over the total amount of Brazilian imports have been dropping since 1992. In 1991, they represented 26.87%, in 1992 26.19%, in 1993, 24%, in 1994, 23.68%, but in 1995, they increased and were higher than in the 3 previous years, reaching 24.67% of total imports. In general, Brazilian imports from the US and Canada have been increasing since 1993. However, imports from Mexico had increased in 1991 and 1992; decreased in 1993 and started increasing again in 1994. In 1995, they had the greatest increase of 151.39%, going from US\$ 323 million (1994) to US\$ 812 million (1995).

Chart 1



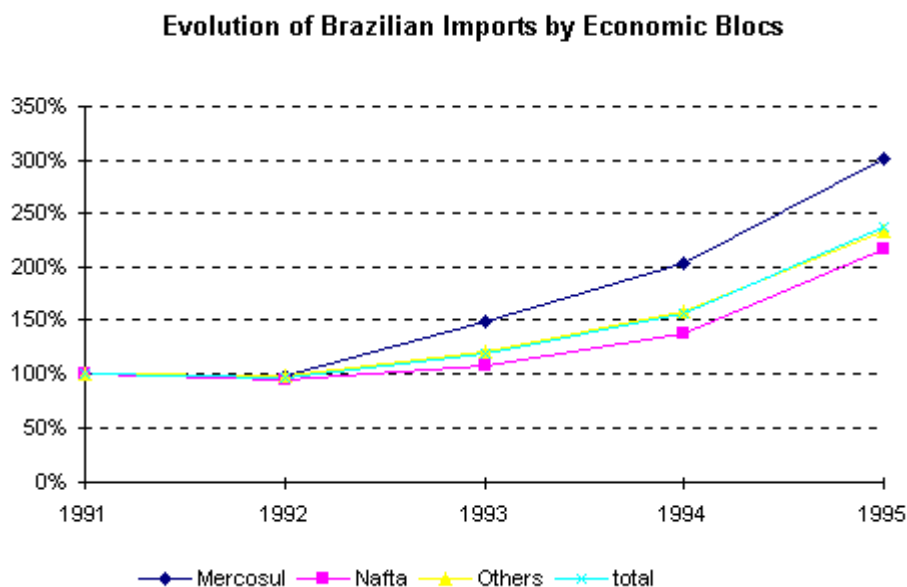
Brazilian merchandise trade with Mercosul has been increasing since 1990 (base year). It has increased 357% during the period 1990-1995. However, Brazilian merchandise trade with NAFTA showed a decrease in 1991, representing only 97% of the amount in 1990. Since then, it has been increasing, but it has been showing a smaller increase comparing to Brazilian merchandise trade with Mercosul in the same period. Merchandise trade with NAFTA increased only 146% in the 1990-1995 period.

Chart 2



Brazilian exports to MERCOSUR, NAFTA and total exports have increased every year since 1991. Exports to Mercosul grew more rapidly than exports to NAFTA and the rest of the world.

Chart 3



Brazilian imports from MERCOSUR, NAFTA and the total imports decreased in 1992 compared to 1991 (base year- 100%). Since 1993, they started increasing and imports from MERCOSUR also grew more rapidly than imports from NAFTA and from the rest of the world.

IV - NAFTA -Trade

In this section, the evolution of the merchandise trade in NAFTA will be studied, analyzing US merchandise trade with other NAFTA member countries, MERCOSUR and the rest of the world.

Table 6

Merchandise Trade						
US Exports to NAFTA						
US\$ millions						
Years	NAFTA			US Total	%Var	Participation on total (%)
	Canada	Mexico	Total		(NAFTA)	(NAFTA)
1991	85,150	33,277	118,427	421,730	-	28.08
1992	90,594	40,592	131,186	448,164	10.77	29.27
1993	100,444	41,581	142,025	464,767	8.26	30.56
1994	114,441	50,840	165,281	512,670	16.37	32.24
1995	127,226	46,292	173,518	584,742	4.98	29.67

Source: Statistical Abstract of the US 1996 - The National Data Book - US Department of Commerce - Bureau of the census

US exports to Canada have increased from 1991 (US\$ 85.1 billion) to 1994 (US\$ 114.4 billion). In 1995, compared to 1994, US exports increased, but with a lower rate (11.17%) than in 1994 (13.94%), reaching US\$ 127.2 billion. US exports to NAFTA increased by 46.52% during the 1991-1995 period. They increased 10.77% in 1992, 8.26% in 1993, 16.37% in 1994 and only 4.98% in 1995.

The participation of US exports to NAFTA in the total amount of US exports increased very minimally in the 1991-1994 period. However, in 1995, the participation dropped to 29.67%, mostly because of the drop in the US exports to Mexico. Mexico was passing through a severe crisis in 1995, which explains the drop in imports from the US.

US exports to Mexico increased with a lower rate in 1993 (2.44%) compared to the previous year (21.98%). In 1994, they increased very much, reaching 22.27%. However, in 1995, US exports to Mexico were only US\$ 46.3 billion, decreasing 8.95% compared to 1994 (US\$ 50.8 billion).

This shows that after the North American Free Trade Agreement entered into effect (January 1, 1994), US exports to North America grew faster, 16.37% against only 8.26% in 1993. In 1994, US exports to Mexico were at records levels, reaching US\$ 50.8 billion, showing an increase of 22.27% compared to 1993. However, as said before, in 1995 Mexico went through an economic crisis and US exports to Mexico dropped.

Table 7

Merchandise Trade						
US Imports from NAFTA						
US\$ million						
Years	NAFTA			US Total	% Var	Participation on total (%)
	Canada	Mexico	Total		(NAFTA)	(NAFTA)
1991	91,064	31,130	122,194	487,129	-	25.08
1992	98,630	35,211	133,841	532,665	9.53	25.13

1993	111,216	39,917	151,133	580,511	12.92	26.03
1994	128,948	49,493	178,441	663,768	18.07	26.88
1995	145,349	61,685	207,034	743,445	16.02	27.85

Source: Statistical Abstract of the US 1996 - The National Data Book - US Department of Commerce - Bureau of the census

US Imports from Canada had the same behavior as exports, that is, they also increased from 1991 (US\$ 91.1 billion) to 1994 (US\$ 128.9 billion), every year with a higher rate than in the previous year, but in 1995, they had an increase lower than in 1994, only 12.72% against 15.94% in 1994.

In general, trade between the two countries (US and Canada) has been increasing since 1991, but the United States has had a negative trade balance in this period (1991-1995), meaning that the US is importing more from Canada than exporting to it.

US imports from Mexico increased during the period under analysis (1991-1995). The participation of US imports from Mexico as a proportion of the total amount of US imports also increased over the same period. In 1991, it represented 6.39% of the total amount and in 1995, 8.3%. Finally, US Imports from NAFTA increased 69.43% in the 1991-1995 period. They increased by 9.53% in 1992, 12.92% in 1993, 18.07% in 1994 and 16.02% in 1995.

The participation of US imports from NAFTA in relation to the total amount of US imports increased over the 1991-1995 period. It was 25.08% in 1991, 25.13% in 1992, 26.03% in 1993, 26.88% in 1994 and 27.85% in 1995.

Canada is the United States largest trading partner. Exports to Canada represented 20.19% in 1991 and 21.76% in 1995 (table 6). Meanwhile, imports accounted for 18.69% of total US Imports in 1991 and 19.55%, in 1995. The other two major trading partners of the United States are Japan and Mexico. Japan is the second largest: US exports to Japan represented 11.41% of US total exports in 1991 and 11%, in 1995. Imports from Japan reached 18.79% of all US imports in 1991 and 16.61%, in 1995. Exports to Mexico represented 7.89% of US total exports in 1991 and 7.92% in 1995. In 1994 it was a little bit higher than in those two years, and reached 9.92% of US total exports. On the other hand, imports from Mexico represented 6.39% in 1991, 7.46% in 1994 and 8.3% in 1995.

Table 8

Merchandise Trade								
US Exports to MERCOSUR								
US\$ million								
Year	Country				Total	Total	Mercosur's participation	
	Argentina	Brazil	Paraguay	Uruguay	Mercosur	US exp.	in total exports	
1991	2,045	6,148	374	216	8,783	421,730	2.08	
1992	3,223	5,751	415	231	9,620	448,164	2.15	
1993	3,776	6,058	521	254	10,609	464,767	2.28	
1994	4,466	8,118	794	311	13,689	512,670	2.67	
1995	4,100	11,100	1,000	500	16,700	501,710	3.33	

1995	4,189	11,439	992	396	17,016	584,742	2.91
------	-------	--------	-----	-----	--------	---------	------

Source: Statistical Abstract of the US 1996 - The National Data Book - US Department of Commerce - Bureau of the census

US exports to MERCOSUR in 1991 totaled only US\$ 8.8 billion and reached the amount of US\$ 17.0 billion in 1995. US exports to MERCOSUR more than doubled in this period and have been increasing every year.

Brazil is the most important MERCOSUR member country for US trade. Brazil accounted for 70% of US exports to MERCOSUR in 1991, 59.3% in 1994 and 67.22% in 1995. Argentina is the second most important for US exports.

MERCOSUR represents a very small share of US trade, only 2.08% of all US exports in 1991, 2.67% in 1994 and 2.91% in 1995. However the participation of US exports to MERCOSUR as share of total exports has been increasing since 1991.

Table 9

Merchandise Trade							
US Imports from MERCOSUR							
US\$ million							
Year	Country				Total	Total	Mercosur's participation
	Argentina	Brazil	Paraguay	Uruguay	Mercosur	US exp.	on total imp.
1991	1,287	6,717	43	237	8,284	487,129	1.70
1992	1,256	7,609	35	266	9,166	532,665	1.72
1993	1,206	7,479	50	266	9,001	580,511	1.55
1994	1,725	8,708	80	168	10,681	663,768	1.61
1995	1,761	8,830	55	167	10,813	743,445	1.45

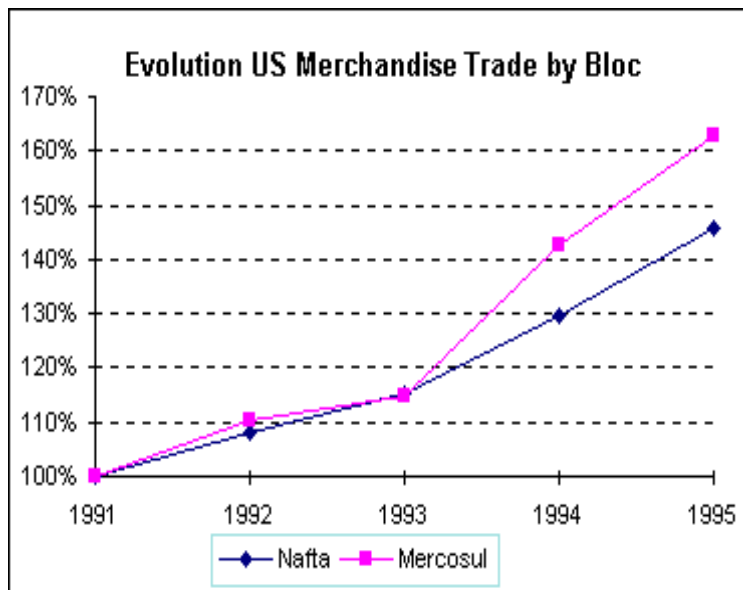
Source: Statistical Abstract of the US 1996 - The National Data Book - US Department of Commerce - Bureau of the census

US imports from Mercosul in 1991 were only US\$ 8.3 billion reaching US\$ 10.8 billion in 1995. US imports from MERCOSUR increased 30.53% in this period and have increased every year since.

Brazil is also the most important Mercosul member country for US trade related on the import side. Brazil accounted for 81.08% of all US imports from MERCOSUR in 1991, and 81.66% in 1995, showing a growing participation. Argentina is also the second most important country from the import side.

US imports from MERCOSUR reached only 1.7% of all US imports in 1991, 1.61% in 1994 and 1.45% in 1995. It has been decreasing since 1991. US imports from MERCOSUR are not significant.

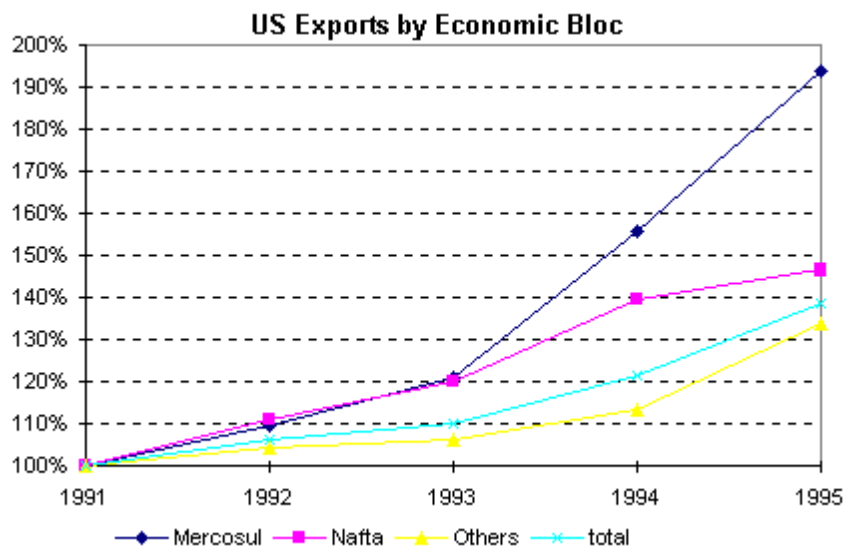
Chart 4



US merchandise trade with MERCOSUR has been increasing since 1991 (base year). It increased 163% during the period under study (1991-1995). However, US merchandise trade with NAFTA has also been increasing but it has been showing a smaller increase comparing to the US merchandise trade with Mercosul in the same period. Merchandise trade with NAFTA increased only 146% in the 1991-1995 period.

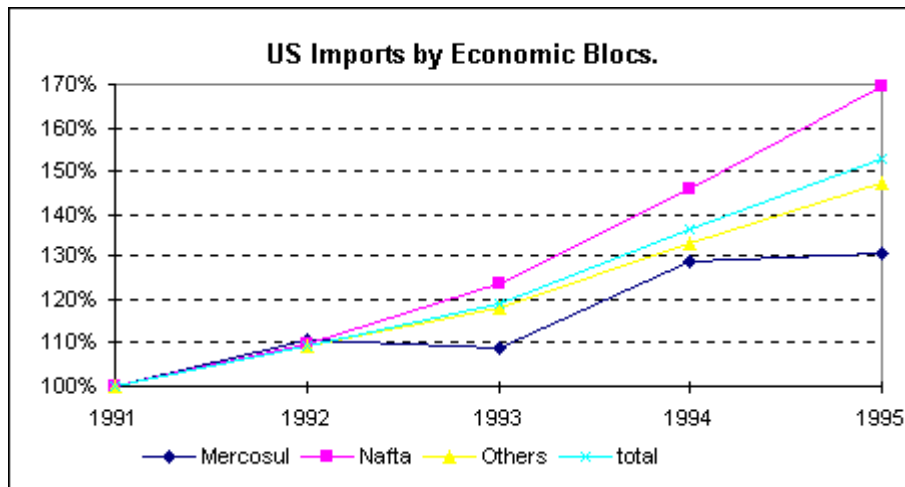
US merchandise trade with MERCOSUR increased basically because US Exports to MERCOSUR increased. However, in terms of value, merchandise trade with MERCOSUR is still small and even though merchandise trade with NAFTA showed a smaller rate of increase in the 1991-1995 period, in terms of value it is more significant.

Chart 5



US exports to MERCOSUR, NAFTA and the total exports have been increasing since 1991 (base year). However, US Exports to MERCOSUR grew more rapidly than to NAFTA and the rest of the world. This is in part explained by the fact that during this period the MERCOSUR member countries opened their economies and started importing more from the US.

Chart 6



US Imports from MERCOSUR, from NAFTA and also total imports increased during the 1991-1995 period. However, contrary to US exports, US imports grew more rapidly from NAFTA than from MERCOSUR.

CONCLUSION

The impact of MERCOSUR and NAFTA on the merchandise trade among their member countries was positive. It enhanced trade as was expected. In fact, in theory and now shown in reality, trade agreements or free trade areas are expected to improve trade among member countries.

This paper showed that Brazilian exports to MERCOSUL grew faster in 1991 and in 1992. Since then, it has been increasing, but with a lower rate than in these two years. Brazilian imports in 1991 and 1992 decreased a little bit, 2.21% and 1.75%, respectively. However, since 1993, it has been showing a good increase, As a whole, Brazilian merchandise trade with MERCOSUL is doing fine.

Argentina is the MERCOSUR member country that has the most trade with Brazil. In fact, Argentina is Brazil's second largest trading partner.

On the other hand, Brazilian merchandise trade with NAFTA has been increasing since 1991, showing a increase of 146% in the 1990-1995 period, showing that Brazil is also doing business with other countries, besides the MERCOSUR member countries. It is true, however, that trade with MERCOSUR has been growing more rapidly, showing a increase of 357% in the same period.

If one compares Brazilian exports to MERCOSUR, NAFTA and total exports during the 1991-1995 period, one can see that Brazilian exports to MERCOSUR are growing at a higher rate than Brazilian exports to NAFTA and to the rest of the world. Brazilian imports from MERCOSUR, NAFTA and total imports are also growing in the 1991-1995 period, but imports from MERCOSUR grew faster than from NAFTA. However, it is increasing, showing that Brazil is not only trading with MERCOSUR.

US exports to NAFTA increased 46,52% in the 1991-1995 period, and US imports to NAFTA, 69.43% in the same period.

Canada is the largest US trading partner. Japan is the second and Mexico, the third. NAFTA member nations are very important to the US.

US exports to MERCOSUR almost doubled over the 1991-1995 period, growing 93.74%, while US imports from MERCOSUR increased only 30.53%, showing that US is trading with MERCOSUR. Brazil is the most important MERCOSUR member country in US trade. However, MERCOSUL represents a very small share of US trade, only 2.11% in 1995.

US merchandise trade with MERCOSUR and NAFTA has been increasing since 1991 (base year). It has increased more rapidly with MERCOSUR (163%) than with NAFTA (146%), even though it does not represent much in terms of value. It is interesting to know that imports from NAFTA increased more than U.S. exports to NAFTA.

In general, US trade is increasing with MERCOSUR, NAFTA and with the rest of the world as a whole.

As far as we can see, trade results of NAFTA and MERCOSUR showed a substantial expansion, consolidating MERCOSUR and NAFTA as a successful trade agreement. In 1995, among the 10 most important US trading partners were: Canada, Japan, Mexico, United Kingdom, South Korea, Germany, France, etc. The MERCOSUR member countries are not very important, but Brazil in 1995 traded with US as much as China. The participation of Argentina is also increasing.

On the Brazilian side, in 1995, Brazil had among its 10 most important trading partners: US, Argentina, Japan, The Netherlands, Italy, Germany, etc. This fact shows that Brazil's most important trade partners are not from MERCOSUR, as only Argentina is included as the second. The US is the most important one.

Based on this, we can say that the trends for the trade between MERCOSUR and NAFTA are going to increase in the future. In my opinion, this trend suggests a potential to create a megabloc (MERCOSUR + NAFTA) for the future.

BIBLIOGRAPHY

Arocena, Martin. *Common Market of the Southern Cone*, August 1995

Comissão Parlamentar Conjunta do Mercosul, Seção Brasileira, Associação Brasileira de Estudos da Integração *Cartilha do Mercosul*.

Gary Clyde Hufbauer and Jeffrey J. Schott, *North American Free Trade, Issues and Recommendations*

Inter-American Development Bank, *Economic Integration in the Americas*, August 1996

Ministério da Indústria, do Comércio e do Turismo, Secretaria de Comércio Exterior *Balança Comercial Brasil x Mercosul 1996*

Ministério da Fazenda, Secretaria Executiva, Escola de Administração Fazendária, Gerência do Programa de Comércio Exterior *Mercosul - Estrutura e Viabilização de Negócios*, 1996

Organization of American States, *Toward Free Trade in the Americas*, 1995

Roberto A. Pastor, *The North America Free Trade Agreement: Hemispheric and Geopolitical Implications*

Roberto Bouzas and Jaime Ros, *Economic Integration in the Western Hemisphere*

United Nations (ECLA), *NAFTA Implementation in the United States: The First Two Years*, June 1996.