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LADB Staff

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MERCOSUR Giants Argentina, Brazil Announce Increase in Tariffs

by LADB Staff

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At a meeting of Southern Cone Common Market (MERCOSUR) economy ministers in Montevideo Nov. 14, Brazil and Argentina agreed to raise their common external tariff (arancel externo comun, AEC) by three percentage points. MERCOSUR partners Uruguay and Paraguay are debating whether to follow suit.

The tariff increase, which applies to all imports from countries outside the customs union, raises the maximum AEC duty to 20%, and the average to 17%. Argentina proposed the 3-point increase to its MERCOSUR partners to replace a 3% "statistical tax" it levied on all non-Mercosur imports, but which the World Trade Organization (WTO) ordered revoked by the end of the year. The statistical tax brings in about US\$900 million a year, money the cash-strapped Argentine government cannot easily do without.

Brazil, with its huge trade deficit and recent efforts to increase state revenue, quickly supported Argentina's suggestion. "We accepted the increase...because Argentina proposed it and we thought it reasonable, and because higher tariffs mean higher revenues, which will help our fiscal adjustment," said Marcos Caramburu, secretary for international affairs at the Brazilian Finance Ministry. Some analysts believe Brazil, Latin America's largest economy, will have to devalue its currency because of that country's wide current account and trade deficits, plus the shortfall in its public sector budget. After its stock market plummeted on Nov. 11, the government unveiled a 51-point, US\$18 billion package of tax hikes and spending cuts to respond to the crisis (see NotiSur, 11/14/97).

This new import-tax hike is expected to ease pressure on the current account by suppressing imports. Both Argentine and Brazilian officials dismissed concerns that the increase would generate objections from the WTO. And, both countries stressed that the 3 percentage point increase will be the last, at least until year-end 1998. Brazil and Argentina also decided to impose a temporary ban on certain imports to prevent products from southeast Asia flooding the local markets. The countries will implement "safeguards" against the importation of specific products from specific countries by imposing an extra duty, a quota, or both.

Brazil justified this decision in an official communique, saying the devaluation of the Asian currencies produces "an abrupt increase in imports at prices that make competition impossible and, if left unchecked, could cause serious harm to national production." Nonconsensual decisions create problems At the Montevideo meeting, Chile, an associate member of MERCOSUR, expressed serious reservations about the 3-point tariff increase, and Chile's Economy Minister Alvaro Garcia said he was concerned about his country's future within MERCOSUR if other policies such as this are imposed. Chile strongly advocates greater tariff reductions, and more friction could complicate Chile's incorporation as a full MERCOSUR member, slated for the second half of 1998. At a

meeting scheduled for early December in Chile, the MERCOSUR economy ministers will discuss mechanisms to guarantee that the adoption of any measure that has an impact on all member countries be done by consensus to avoid tensions such as those that arose with the AEC increase.

The increase, which was decided by Argentina and Brazil on Nov. 12, was endorsed by Uruguay and Paraguay on Nov. 14 in Montevideo. However, the credibility of the trading bloc seems to have been weakened by the process. Although a resolution was passed to allow Paraguay and Uruguay to study the "modality and extension" of the increase, it could not disguise that the increase was imposed by the stronger MERCOSUR partners. With a combined population of close to 200 million, MERCOSUR is the world's fourth-largest market, following the North American Free Trade Agreement (NAFTA), the 15-member European Union (EU), and Japan.

From 1990 to 1995, intraregional trade rose from US\$4 billion to US\$14.5 billion, and has not shown signs of slowing down. The bloc's trade with nations outside the subregion, meanwhile, rose an average of 14% in the same period. In a related matter, Brazilian President Fernando Henrique Cardoso called for adding defense and foreign policy dimensions to MERCOSUR. Cardoso proposed "moving towards a political MERCOSUR, in which, in addition to trade policy, we coordinate out common security and our foreign policy." Any attempt to expand MERCOSUR beyond trade will meet serious resistance, however. Uruguay's former president Luis Alberto Lacalle, one of the architects of MERCOSUR, reacted coolly to Cardoso's proposal, saying political dimensions should not be added to MERCOSUR at this time and stressing that decisions should be made by all member countries, not just Brazil and Argentina. [Sources: Agence France-Presse, 11/10/97; Reuter, 11/11/97, 11/13/97, 11/14/97, 11/17/97; Inter Press Service: 11/14/97, 11/17/97, 11/19/97; Ambito Financiero (Argentina), El Observador (Uruguay), Noticias Online (Paraguay), 11/19/97]

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