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Conflict Between Argentina and Brazil Threatens MERCOSUR

by LADB Staff

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Member countries in the Mercado Comun del Sur (MERCOSUR) have made little progress toward resolving the serious crisis that threatens the organization. A meeting of the technical and political committees, scheduled for Aug. 17-18, has been postponed until Aug. 23-24. Skepticism about MERCOSUR's future is strong among Brazilian and Argentine officials, economists, and business leaders.

Trade among member countries is weakening and the bloc's stability is at risk despite official government statements pledging continued commitment to the bloc. Since its creation in 1991, MERCOSUR, a market of 200 million consumers, has increased trade both within and outside the bloc. But the economic recession, which spread through the region after Brazil's currency devaluation in January, has brought with it the most serious crisis in MERCOSUR's history.

Brazil's Foreign Minister Felipe Lampreia said the devaluation was not the cause of the problem but "an ingredient that was added to already existing problems." He said it was not fair to blame Brazil since its partners in MERCOSUR did not maximize the trade advantage they enjoyed before the devaluation.

Argentina's peso remains pegged at par to the US dollar, leaving its exports at a disadvantage in the Brazilian market. Argentina and the other MERCOSUR members fear that trade has rapidly turned in Brazil's favor since the devaluation.

Actions and reactions characterize organization

On July 15, Argentina tried to impose import quotas on textiles and other goods, which prompted Brazil to postpone talks on autos, a key Argentine export to Brazil (see NotiSur, 1999-07-30).

Brazil called for an emergency meeting. On July 29, Argentine President Carlos Saul Menem met in Brasilia with Brazilian President Fernando Henrique Cardoso, at which time Menem dropped the restrictions imposed three days earlier. Although Argentina exempted MERCOSUR members from quotas, it proposed temporary import quotas and export caps at the meeting in Montevideo Aug. 6-7. Brazil dismissed the measures as protectionist and refused to discuss them.

In Montevideo, the technical body (Grupo Mercado Comun, GMC) and the political body (Consejo Mercado Comun, CMC) tried unsuccessfully to resolve the crisis. The economic and foreign ministers decided that the Argentine restrictions and other unilateral actions should be discussed by the Grupo de Coordinacion Macroeconomica and the Seguimiento de Coyuntura.

The two groups were told to submit reports in 30 days. One committee will study ways to balance member nations' economic policies, and the other will examine the change in trade flows within MERCOSUR and beyond. But on Aug. 9, Argentina imposed further restrictions on imports from Brazil this time on shoes. Brazilian shoemakers were told their products must conform to Argentine standards, which analysts say will make exports more costly. Then Brazilian rice producers blocked a road on the Argentine border to protest cheap rice imports from Argentina.

On Aug. 10, the Brazil government said it will extend special loans to rice producers worth up to US\$108 million to protect them from falling prices caused by imports from partners Uruguay and Argentina. Amid the actions by both countries, the Uruguayan Foreign Ministry announced that the technical and political groups will meet in Montevideo Aug 23-24.

Meanwhile, sources at the Uruguayan Foreign Ministry told Inter Press Service the chance of a solution to the conflict is "remote," especially since Brazil is holding off for a new Argentine administration. Argentine general elections are Oct. 24 and the new government takes office Dec. 10. Argentine economist Adalberto Rodriguez said Brazil is waiting until after the elections for any serious negotiations. In the meantime, MERCOSUR "doesn't exist, it is between parentheses," he added.

Partners fear new devaluation

Argentine Economy Minister Roque Fernandez says Brazil must improve its fiscal solvency. But its deficit persists and the Brazilian states hold large short-term debts a combination of factors similar to those preceding the January currency devaluation. As Brazil again suffers currency- exchange pressures, Argentine officials fear another Brazilian devaluation this year.

Argentine economist Guillermo Calvo warned that another devaluation is possible and would mean "the end" of MERCOSUR. "This combination of a fixed exchange rate in Argentina and a floating rate in Brazil is not good for us," he said.

Economist Beatriz Nofal agreed, saying "as it stands, MERCOSUR does not work." She recommended creating institutions to help overcome the trade bloc's economic distortions, divergences, and conflicts.

Argentine Industry Minister Alieto Guadagni also said MERCOSUR's serious problems are made worse by the lack of laws and institutions to function during adversity. "MERCOSUR is in agony because we don't have institutions to indicate what we should do, for example, if the exchange rate shoots up in one country and creates a distortion," said Guadagni. "We aren't protectionist; we want healthy competition."

Argentina's former economy minister Domingo Cavallo proposed that MERCOSUR suspend negotiations until the economies of the four associates begin to grow again. "To maintain negotiations under present circumstances is risky," he said. "Anything done in these moments can only jeopardize the regional bloc. The measures adopted could be unpopular, which would end up turning the population of both countries against MERCOSUR."

Lula questions regional trade policies

On a visit to Argentina, Brazil's leftist leader Luiz Inacio Lula da Silva said that his country and Argentina are losing a great opportunity because of the neoliberal economic policies of the governments. "What is behind all this is something simple: Brazil and Argentina are facing the predictable consequences of the economic policies that their governments have adopted, especially exchange, monetary, and trade policies," said Lula in an article in the Argentine daily paper Clarin. "The two countries are going through strong recessions, with serious consequences for agriculture and industry and with tragic repercussions in unemployment and social exclusion."

Lula said the two governments, slaves to the dictates of the International Monetary Fund (IMF) and world financial markets, believe they are preparing their countries for even greater integration in the globalized economy. "But what is happening is that they are becoming more vulnerable to world economic and financial disorder," said Lula.

Even so, Lula said, MERCOSUR has great possibilities. "MERCOSUR could join other countries in South America and resist the serious threat that the creation of a Free Trade Area of the Americas (FTAA), as proposed by the US, represents for the continent." New crisis looms Argentina's plan to put a duty-free zone on the border with Paraguay near Asuncion threatens to set off a new MERCOSUR row, this time between Argentina and Paraguay.

On Aug. 19, Paraguay's Minister of Industry and Trade Guillermo Caballero Vargas called plans for a free zone in Clorinda an "aggression," and said if they go through, Paraguay might withdraw from MERCOSUR. He said it "violates the spirit, if not the letter, of MERCOSUR." Caballero said it is completely unacceptable that subsidized merchandise from around the world easily enter Paraguay through Clorinda, 25 km from Asuncion in the department of Formosa.

"We are in a very serious recession with generalized unemployment in the country, and we cannot allow free zones to be built under our noses to deteriorate our economy," Caballero said. "In these conditions, MERCOSUR is a problem and not a solution as it should be. And that causes us to lose interest in this bloc and to discuss our participation in it."

Argentina's Ambassador to Paraguay Jose Maria Berro Madero said he was surprised that Paraguay was just now complaining about the zone, which has been under consideration since 1997. [Sources: BBC, 08/10/99; CNN, 08/12/99; Clarin (Argentina), 08/13/99; Spanish news service EFE, 08/13/99, 08/15/99; Reuters, 08/09-11/99, 08/16/99; Inter Press Service, 08/11/99, 08/13/99, 08/17/99; Notimex, 08/16/99, 08/17/99; El Pais (Uruguay), 08/19/99]

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