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Tensions between Brazil, Argentina threaten cohesion of MERCOSUR

by LADB Staff

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The resolution of two trade disputes between Argentina and Brazil temporarily eased tensions within the Southern Cone Common Market (MERCOSUR) trading bloc which accounts for 80% of South America's combined GDP. But the successes have not eradicated the political and economic problems within the bloc, which also includes Paraguay and Uruguay. Bolivia and Chile are associate members.

In the past several months, Brazil and Argentina, the heavyweights in the US\$1 trillion trade bloc, have clashed on several points, including trade in newsprint, shoes, steel, and textiles. The conflict began when Brazil devalued its local currency, the real, in January, which undercut the competitiveness of Argentine exports. Since then, trade between the two countries has contracted by 30%.

The trade war worsened last month when Brazil imposed restrictions on 90% of Argentine exports in retaliation for Argentina's restrictions on Brazilian imports. Those disputes stalled negotiations on MERCOSUR's vehicle-content agreement and hampered attempts to forge a united position regarding US and European Union (EU) farm subsidies.

Parties agree on shoes, paper

The Sept. 29 agreement to limit Brazilian shoe exports to Argentina to 6.1 million pairs until the end of June 2000 and to cap newsprint and paper exports from Brazil to Argentina at 61,000 metric tons from now to Sept. 30, 2000, encouraged industry and government negotiators. Brazil's footwear makers agreed to limit their sales to Argentina in the last quarter of the year to 1.7 million pairs, worth about US\$15 million.

In the first half of 2000, Brazil will export 4.4 million pairs to Argentina, 20% less than in the first half of this year. The deal signed by paper and cellulose manufacturers, meanwhile, set a quota of 5,000 MT on sales of Brazilian paper to Argentina for the last quarter of the year. Despite the agreements, on Oct. 20 Brazil charged that Argentina is still restricting shoe imports. Brazil's undersecretary for economic integration and foreign trade, Jose Graza Lima, said the delay in issuing permits for shoes now in storage could prevent Brazil from reaching the quota set for the rest of the year. "I hope this is only a bureaucratic problem," said Graza Lima.

Automobile-sector dispute still not resolved

A major trade issue that needs to be resolved before the end of the year concerns auto imports. Argentina and Brazil are hoping to reach an agreement by mid-November covering auto imports from 2000 to 2004. The vehicle-content rules now in effect expire Dec. 30. "It's clear there are plans to increase investment in Argentina's auto sector as well as Brazil's so this is a guarantee that the

new accord will work," Argentine chief trade negotiator Jorge Campbell said. French automaker Renault, which controls Nissan Motor Co., is considering building Nissan vehicles in either Brazil or Argentina while DaimlerChrysler is investing US\$20 million to produce a new model of Jeep Grand Cherokee in Argentina.

Argentine President Carlos Saul Menem is anxious to sign an agreement before he leaves office, but that will require concessions from Argentina. Menem promised to withdraw a bill, which Brazil has strongly criticized, stipulating that cars manufactured in Argentina must use 50% national parts rather than 30%, the previous figure. Brazil says the bill must be dropped before any agreement is signed. Problems await a new Argentine government. Analysts say the recent agreements are just a lull in the MERCOSUR storms.

Several small sectoral disputes are still pending, and Brazil has only suspended rather than lifted its restrictions on imports of 400 products from Argentina. The Brazilian government is also carrying out health inspections on products from 13 Argentine dairy companies, over their objections.

Brazil has accused Argentine milk, rice, and wheat exporters of dumping their products at below-market prices to gain market share. A study by the Adimar Schievelbein consulting firm found that anti-dumping complaints filed by Brazil with the World Trade Organization (WTO) rose from nine in 1997 to 47 in 1998. Brazil was second among developing countries in anti-dumping complaints filed with the WTO. But Argentina, which has repeatedly accused Brazil of unfair trade practices, headed the list.

Analysts say calm will likely last until after Dec 10, when Argentina's new president takes office. Argentine negotiator Campbell said now is the time to move forward on other issues. "Trade officials from Argentina, Brazil, Uruguay, and Paraguay are working in Montevideo on our agriculture stand," said Campbell. "If there's no serious discussion of agricultural subsidies in the next round of WTO talks, then there's no meaning to the next round, is there?" The next WTO talks begin in Seattle in November.

Political tensions continue

Meanwhile, political tensions continue between Argentina and Paraguay regarding Paraguayan Gen. Lino Oviedo, who was granted political asylum in Argentina. Menem refused to consider Paraguay's request for Oviedo's extradition to face charges related to the assassination of Vice President Luis Maria Argana (see NotiSur, 1999-09-17). Paraguayan Foreign Minister Jose Feliz Fernandez said Menem's decision to move Oviedo to the southern province of Tierra del Fuego was a step toward normalizing diplomatic relations between the two countries. Oviedo was moved after violating the condition of his asylum by making political comments.

On Oct. 12, Argentina further annoyed Paraguay by asking it to investigate organized crime, weapon and drug smuggling, and financial wrongdoing within its borders. The Argentine Foreign Ministry's communique reminded Paraguay that it needs to comply with MERCOSUR agreements regarding combatting organized crime. Foreign Minister Guido di Tella also called on Paraguay to respect agreements related to "the control of exchange houses, banks, and financial establishments, especially those in Ciudad del Este" on the borders with Brazil and Argentina.

Paraguay's relations with Uruguay are also strained since Uruguayan President Julio Sanguinetti refused to extradite the former Paraguayan defense minister, retired Gen. Jose Segovia Boltes, charged with absconding with public funds. Paraguayan President Luis Gonzalez Macchi said his administration has a better relationship with Brazil than with the other MERCOSUR members. "Really, we have a better relationship with Brazil, that is obvious, that is understandable, because of the situation at this moment with Argentina," said Gonzalez. He said Paraguay does not expect anything to change until the new Argentine and Uruguayan governments take over. [Sources: Inter Press Service, Reuters, 09/30/99; CNN, 10/14/99; Clarin (Argentina), 09/29/99, 10/16/99; Notimex, 10/01/99, 10/15/99, 10/19/99, 10/20/99; Spanish news service EFE, 10/15/99, 10/21/99]

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