12-17-1999

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LADB Article Id: 54047
ISSN: 1060-4189

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by LADB Staff
Category/Department: Region
Published: 1999-12-17

The Southern Cone Common Market (MERCOSUR) presidential summit met in Montevideo, Uruguay, Dec. 7-9. The agenda included an examination of the integration process, a discussion of progress toward macroeconomic coordination, and an analysis of the failure of the World Trade Organization (WTO) meeting in Seattle. However, some analysts saw the meeting as primarily an occasion to say goodbye to several outgoing presidents. Uruguay holds the rotating presidency and will be followed next semester by Argentina.

In his opening address, Uruguayan President Julio Maria Sanguinetti urged the bloc to intensify talks on the creation of a Free Trade Area of the Americas (FTAA) and with the European Union (EU) for a transoceanic free-trade zone. MERCOSUR, which includes Argentina, Brazil, Paraguay, and Uruguay, with Bolivia and Chile as associate members, has a US$1.1 trillion combined GDP. The trade bloc has been mired in internal differences that have paralyzed progress.

A dispute on auto imports is one of several that followed Brazil's devaluation of its currency by over 30% in January a move that sent MERCOSUR member nations into recession. Argentina responded with protectionist measures that angered Brazil and threatened the future of MERCOSUR.

No agreement reached on auto imports

Delegates were unable to agree on rules governing the automobile industry for the 2000-2003 period. But they were hopeful a deal would be struck before the Dec. 31 deadline.

Sugar and the automobile industry are the only areas not yet incorporated into the MERCOSUR customs union. The auto industry accounts for 20% of trade among the four full members or a projected US$22 billion this year. Argentina, South America's second-largest economy after Brazil, is desperately trying to keep car and auto-parts manufacturers from going to Brazil, where labor costs are lower and where the domestic market is five times bigger. The current pact, in effect for the last four years, allows MERCOSUR members to export vehicles and parts without paying import taxes, although export quotas are imposed.

The new Common Auto Policy (Politica Automotor Comun, PAC) is supposed to go into effect Jan. 1, beginning a gradual liberalization of the market that will eliminate all quotas in the MERCOSUR vehicle market by 2004. The principal effect of the PAC would be to raise from 23% to 35% the tariff (Arancel Externo Comun, AEC) for vehicles imported from countries outside the MERCOSUR bloc. Argentina proposed extending the current agreement, and Brazilian President Fernando Henrique Cardoso said he was willing to consider doing so. "If we don't reach a deal, it's simple we extend the life of the current one," said Cardoso. "We're not going to let MERCOSUR fall apart over automobiles."

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But Helio Mattar, industrial policy secretary for the Ministry of Development and Foreign Trade, later said Cardoso only meant that negotiations would continue. Argentina and Brazil agree in principle on the 35% common tariff on cars imported from outside MERCOSUR, but Paraguay and Uruguay oppose raising the common tariff. The difficulties in reaching an agreement are in the rules of protection of the auto industry the percentage of local auto parts in each car, import quotas, and duties and the governments of both Argentina and Brazil have issues on which they will not budge.

Argentina accuses Brazil of subsidizing auto assembly plants, which Brazil denies, saying that the benefits in question are applied by states and not by federal authorities. Another point of friction between MERCOSUR's two main players is Argentina's desire to extend until 2003 another auto deal it signed in 1995 with the WTO. The deal gives tax and other incentives to foreign automakers in Argentina, but also provides some benefits for its own car-parts industry. Brazil considers the WTO treaty protectionist and said it would cancel any auto pact with Argentina if that protocol were extended beyond 1999.

WTO failure in Seattle examined in Montevideo

After the WTO members failed to reach an agreement in Seattle, the resumption of trade negotiations with the European Union (EU) and other countries to create areas of free trade became a priority for MERCOSUR. "We have to intensify negotiations for the FTAA and continue exploring an agreement with the European Union," said Sanguinetti. The failure of the WTO's Third Ministerial Conference also led the MERCOSUR presidents to agree on a hard-line stance on liberalization of trade in farm products.

MERCOSUR members and associates will not take part in a new round of multilateral trade talks unless agriculture is on the agenda, the presidents said. Sanguinetti said that "no Millennium Round will be possible if agriculture is not on the agenda." He added that the liberalization of farm products "must be the starting- point."

MERCOSUR in need of revamping

The summit did little other than to bid farewell to the outgoing presidents. Brazilian economist Fabio Giambiagi, director of planning in Brazil's National Bank of Economic and Social Development, says to energize MERCOSUR and overcome the myriad trade disputes that have bogged it down, its original spirit must be recovered, progress must be made toward building a common market and supranational institutions, and each member country must specialize in certain branches of industry to make the bloc competitive as a whole.

"What we need is intraindustrial specialization," said Giambiagi. "What is being sought is not for Argentina to produce wheat and Brazil cars, but for both to produce cars, albeit certain kinds of cars in Argentina and other kinds in Brazil. That is how we have to understand the idea of returning to the bloc's origins, to the ideas underlying the agreements reached by Argentina and Brazil in the 1980s, which consisted of maximizing the advantages provided by an expanded market and large-scale economies. If we all produce everything, we'll do it poorly and inefficiently, and we'll produce relatively less."

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Meanwhile, Paraguay's Federacion de la Produccion, la Industria y el Comercio (Feprinco) proposed revising the MERCOSUR treaty to eliminate the damage it says the country has suffered from the present agreement. Feprinco president Nestor Mendez said, "In these nine years of existence, MERCOSUR has brought more harm than good to Paraguay," and he proposed renegotiating the Tratado de Asuncion, which laid the foundation for MERCOSUR in 1991, to establish harmony and equity in the economic and social growth of the member countries. He said that for Paraguayan business leaders, the existing asymmetries and other negative factors have prevented the country from enjoying the advantages of the market of 200 million people. [Sources: Spanish news service EFE, 12/07/99; CNN, 12/08/99; Notimex, 12/01/99, 12/03/99, 12/04/99, 12/07- 10/99; Inter Press Service, 12/03/99, 12/08/99, 12/13/99; Reuters, 12/08/99, 12/12-14/99]

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