

## MERCOSUR AND AGRICULTURAL MARKETS

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Texas Agricultural Market Research Center (TAMRC) International Market Research Report No. IM-2-96, August 1996 by Rita T. Vieira and Gary W. Williams.

**ABSTRACT:** With a Gross Domestic product (GDP) of US\$750 billion, a population of about 200 million consumers, and 11.8 million square kilometers of area, MERCOSUR (Common Market of the South) is the most important regional integration plan of Latin America. Signed on March 26, 1991 by the four South American countries of Argentina, Brazil, Paraguay, and Uruguay, the Treaty of Asunción established a process of transition for the creation of a common market among the signatory countries by January 1, 1995. This paper provides an overview of the origin and characteristics of MERCOSUR and the implications of MERCOSUR for agricultural markets.

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## MERCOSUR AND AGRICULTURAL MARKETS

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### EXECUTIVE SUMMARY

With a Gross Domestic product (GDP) of US\$750 billion, a population of about 200 million consumers, and 11.8 million square kilometers of area, MERCOSUR (Common Market of the South) is the most important regional integration plan of Latin America. Signed on March 26, 1991 by the four South American countries of Argentina, Brazil, Paraguay, and Uruguay, the Treaty of Asunción established a process of transition for the creation of a common market among the signatory countries by January 1, 1995. Despite an overly ambitious goal to establish a common market by 1995, the integration process has met with some success.

MERCOSUR is not Latin America's first attempt at regional integration. The most well-known previous attempts at were the Latin American Free Trade Association (ALALC) and the Latin American Development and Integration Association (ALADI). Established in 1960, ALALC attempted to create a free trade area among Argentina, Brazil, Chile, Paraguay, Peru, Uruguay, Mexico. Colombia, Ecuador, Venezuela, and Bolivia joined in later years. Despite good intentions, however, the participating ALALC countries failed to agree on important issues.

The MERCOSUR integration process has ALADI as its basis. In 1988, Brazil and Argentina signed the Integration, Cooperation, and Development Treaty with the objective of establishing a common market in ten years. In July 1990, the two countries signed the Buenos Aires Act which drastically moved up the schedule to establish a common market to four and a half years with a target date of December 1994. A month later, both Uruguay and Paraguay joined the proposed integration scheme. On March 26, 1991, the foreign ministers of Argentina, Brazil, Paraguay, and Uruguay signed the Treaty of Asunción, formally establishing MERCOSUR.

The main objective of the Treaty of Asunción was the establishment of a Common Market which was to be characterized by: (1) free circulation of goods, services, and factors of production among member countries, (2) common external tariffs among member countries, and (3) macroeconomic policy coordination among member countries. In June 1992, the MERCOSUR countries agreed on a process for achieving the objectives of the Treaty of Asunción by January 1995.

The schedule of internal tariff reductions under the Treaty is progressively linear and automatic. Tariff reductions began immediately with the signing of the Treaty. The objective was to attain a zero average tariff on imports from member countries into Argentina and Brazil by the end of December 1994 with tariff cuts to occur on January 1 and July 1 of each year. Uruguay and Paraguay were given an additional year. The Treaty of Asunción also allowed member countries to exempt a number of products from tariff reduction. The number of exempted products was to be gradually reduced, however, with the objective of eliminating all such exemptions by December 1994 for Argentina and Brazil and a year later for Paraguay and Uruguay.

As of January 1, 1995, however, only the first stage of integration (preferential internal tariffs) had been clearly achieved. Although the goal of establishing a common market by 1995 was not reached, significant progress in trade among the MERCOSUR member countries has occurred. In fact, by 1995, after a four-year transitory period, MERCOSUR functions as an imperfect customs union with more than 85% of the goods produced in non-member countries being subject to a common tariff that ranges from zero to 20%.

The commercial success of MERCOSUR has exceeded the most optimistic predictions for the early 1990s. MERCOSUR has achieved international recognition as the third largest trading block in the world after the European Union and NAFTA. The trade volume among MERCOSUR member countries has practically tripled over the last five years. The integration between Argentina and Brazil has laid important groundwork for further market integration in South America. In 1994, trade between Brazil and Argentina exceeded US\$7 billion, a record for trade between two countries in Southern America. Argentina has become Brazil's second largest export market.

The goal of economic integration is to increase the level of economic development in all participating countries. Economic integration, however, is also painful, forcing a restructuring of each participating country's economic activities. Fierce competition among various segments of the agricultural sectors of MERCOSUR member countries has impacted the direction and pattern of economic development and trade among the four countries. Agricultural products and agricultural industries in which Brazil was once considered less competitive in comparison to the highly specialized sectors in Argentina are now experiencing a considerable increase in exports. Brazil has exhibited major advances in the processed food sector while Argentina has distinguished itself in the production of primary agricultural goods. Brazil has become an importer of grains giving Argentina, Uruguay, and Paraguay preferential access to its large market.

Economic integration has been a slow process for the MERCOSUR countries. If MERCOSUR is ever to become a true common market, a number of important - and politically difficult - challenges remain, including the elimination of all remaining tariff and non-tariff trade barriers, the granting of free movement to productive factors among member countries, the harmonization of macroeconomic policies, and the coordination of national legislation. The difficulties in achieving economic coordination and harmonization among MERCOSUR members are exacerbated by the differences in the political systems of the four member countries.

Despite the challenges faced by the governments involved in the economic integration of the region, MERCOSUR has strengthened the relationship of member countries with world markets. The U.S., for example, has increased its trade with MERCOSUR countries. Without question, the MERCOSUR experience has demonstrated that economic development and stabilization within a major Latin American region is possible through free trade and economic cooperation among countries.

## TABLE OF CONTENTS

	Page
ABSTRACT .....	i
EXECUTIVE SUMMARY .....	ii
An Historical Overview of Regional Integration in Latin America .....	1
The Treaty of Asunción .....	3
Implementation of the Treaty of Asunción .....	4
The Trade Effects of MERCOSUR .....	5
General Trade Effects .....	5
Effects on World Agricultural Trade .....	6
Effects on U.S- MERCOSUR Trade .....	6
Effects on MERCOSUR Grain Markets .....	7
Conclusions .....	8
References .....	11

## LIST OF TABLES

Table 1: Brazil: Trade with MERCOSUR Countries, 1990-1994 .....	13
Table 2: Brazil: Trade Balance with MERCOSUR Countries, 1990-1993 .....	13
Table 3: Brazil: Trade with Argentina by Selected Sectors, 1991-1994 .....	14
Table 4: MERCOSUR: Agricultural Trade Balance by Country and Product Category, 1993 .....	15
Table 5: MERCOSUR: Destination of Agricultural Exports by Country, 1993 .....	16
Table 6: MERCOSUR: Trade with the U.S. by Country, 1992-1994 .....	16
Table 7: U.S.: Main Agricultural Products Imported from MERCOSUR by Country, 1992-1994 .....	17
Table 8: U.S.: Main Agricultural Products Exported to MERCOSUR by Country, 1992-1994 .....	18
Table 9: Brazil: Grain Exports from U.S., 1985-1994 .....	19
Table 10: MERCOSUR: Soybean, Rice, Wheat, Corn Area Harvested, 1985-1994 .....	20
Table 11: MERCOSUR and the U.S.: Average Yield, 1994 .....	21

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With a Gross Domestic product (GDP) of US\$750 billion, a population of about 200 million consumers, and 11.8 million square kilometers of area, MERCOSUR (Common Market of the South) is the most important regional integration plan of Latin America. Signed on March 26, 1991 by the four South American countries of Argentina, Brazil, Paraguay, and Uruguay, the Treaty of Asunción established a process of transition for the creation of a common market among the signatory countries by January 1, 1995. Despite an overly ambitious goal to establish a common market by 1995, the integration process has met with some success.

This paper provides an overview of the origin and characteristics of MERCOSUR and the implications of MERCOSUR for agricultural markets. Following an historical overview of regional integration in Latin America, the provisions of the original Treaty of Asunción that established MERCOSUR is discussed which is followed by an assessment of the outcome of the attempt to implement the agreement. The paper then assesses the trade effects of MERCOSUR with emphasis on interregional trade among the MERCOSUR countries, world agricultural trade, and U.S.-MERCOSUR trade. The paper ends with some concluding comments.

### **An Historical Overview of Regional Integration in Latin America**

MERCOSUR is not Latin America's first attempt at regional integration. Although the most well-known previous Latin American attempts at regional integration were the Latin American Free Trade Association (ALALC) and the Latin American Development and Integration Association (ALADI), they derived from earlier attempts at integration such as the Economic Commission for Latin America and the Caribbean (CEPAL) in 1948.

The Treaty of Montevideo (Uruguay) created ALALC in 1960 with an objective of establishing a free trade area among Argentina, Brazil, Chile, Paraguay, Peru, Uruguay, and Mexico. Colombia and Ecuador joined ALALC in 1961, followed by Venezuela in 1966 and Bolivia in 1967. The original goal of ALALC to establish a common market by 1972 (12 years) was revised by the Caracas protocol to December 31, 1980. ALALC intended to eliminate all forms of protectionism and, thus, to promote multilateral trade.

Despite good intentions, however, the participating ALALC countries failed to agree on important issues. At the same time, little flexibility in the treaty, a lack a commitment from the private sector, and political problems in almost all of Latin America increased conflicts and reduced progress toward integration. Differences in economic policy and philosophy among governments also proved problematic. Some of the participating countries, such as Argentina, Brazil, and Mexico, were considered strictly "mercantilist" and outward-looking in their economic policies. Others such as

Bolivia, Chile, Colombia, Ecuador, and Peru were considered to be "developmentists" and inward-looking in their economic policies.

Consequently, the governments of Bolivia, Chile, Columbia, Ecuador, and Peru broke away from ALALC in May 1969 and signed the Cartagena Agreement creating the Andean Pact. Unfortunately, the pact did not live up to expectations. Little economic integration ever occurred among the member countries.

In 1975, all countries of Latin America approved the formation of the Latin America Economic System (SELA), a regional organization intended to provide for consultation, coordination, cooperation, and the mutual promotion of social objectives among the member countries.

The petroleum crisis of the late 1970s which generated a deep recession in Latin American countries proved to be a major obstacle to regional integration in the region through the various trade agreements that had been negotiated. After several attempts, a new treaty was signed in 1980 by Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, and Venezuela which ended ALALC and created the Latin American Development and Integration Association (ALADI). The main objective of ALADI was a more realistic approach to the process of integration through stimulating bilateral agreements among member countries instead of attempting to create one large area of free trade among all member countries.

ALADI continues to be a forum for the discussion of integration. The ALADI system of regional custom preference has facilitated regional and international trade. In fact, the MERCOSUR integration process has ALADI as its basis. The main factor which stimulated the creation of MERCOSUR, however, was the relationship between Brazil and Argentina. In 1985, the Iguacu Declaration created a Commission to study and discuss the economic integration of those two countries, both of which had professed a desire to accelerate the process of bilateral integration. In 1986, Brazil and Argentina signed the Economic Cooperation and Integration Program (PICE), a formal program for economic and political cooperation. The goal of PICE was to expand and diversify bilateral trade between the two countries on a sector-by-sector basis. This program aimed at achieving a common market based on the principles of "gradualness," "flexibility," and "equilibrium." The intention was to move progressively toward greater entrepreneurial activity allowing new competitive conditions and supporting legislation. During this phase, the two countries signed protocols with respect to biotechnology, capital goods, nuclear cooperation, and the wheat, steel, and automotive industries.

In 1988, Brazil and Argentina signed the Integration, Cooperation, and Development Treaty with the objective of establishing a common market in ten years. In July 1990, the two countries signed the Buenos Aires Act which drastically moved up the schedule to establish a common market to four and a half years with a target date of December 1994. A month later (August 1990), both Uruguay and Paraguay joined the proposed integration scheme. On March 26, 1991, the foreign ministers of Argentina, Brazil, Paraguay, and Uruguay signed the Treaty of Asunción, formally establishing MERCOSUR.

## **The Treaty of Asunción**

The main objective of the Treaty of Asunción was the establishment of a Common Market which was to be characterized by: (1) free circulation of goods, services, and factors of production among member countries, (2) common external tariffs among member countries, and (3) macroeconomic policy coordination among member countries. The Treaty created the Common Market Council (CMC) and the Common Market Group (CMG) to administer and implement the Treaty. The CMC is the highest authoritative body of MERCOSUR, consisting of a minister of economics and a minister of foreign relations from each member country. This council was given the authority to establish general policy and guidelines for the transitional period of 1991 to 1995.

The CMG, on the other hand, assists the CMC in the technical aspects of negotiation processes. The CMG is responsible for the executive functions of MERCOSUR and consists of four permanent and four alternating representatives from the ministry of foreign relations, the ministry of economics, and the Central Bank in each member country. The activities of the CMG are coordinated by the ministries of foreign affairs of the four countries. In June 1992, the CMG met in Las Lenas, Argentina, an important market for the integration process, to establish a process for achieving the objectives of the Treaty of Asunción by the agreed upon date of January 1995.

The Treaty of Asunción created 10 subgroups under the responsibility of the CMG which was later expanded to 11 subgroups: (1) international trade, (2) customs issues, (3) technical measures, (4) monetary and fiscal policies, (5) land transportation, (6) maritime transportation, (7) industry and technology policy, (8) agricultural policy, (9) energy policy, (10) macroeconomic policy, (11) labor relations, employment and social security.

The schedule of tariff reductions under the Treaty is progressively linear and automatic. Tariff reductions began immediately with the signing of the Treaty. The objective was to attain a zero average tariff on imports from member countries into Argentina and Brazil by the end of December 1994 with tariff cuts to occur on January 1 and July 1 of each year. Uruguay and Paraguay were given an additional year. The biannual tariff reduction schedule for Brazil and Argentina, respectively, was as follows: (1) 1991: 40% and 47%, (2) 1992: 54% and 61%, (3) 1993: 68% and 75%, (4) 1994: 82% and 89%, and (5) 1995: 100%.

The Treaty of Asunción also allowed member countries to exempt a number of products from tariff reduction. The number of exempted products was to be gradually reduced, however, with the objective of eliminating all such exemptions for Argentina and Brazil by December 1994. Again, Paraguay and Uruguay were given an additional year to eliminate exemptions for all products. Brazil originally exempted 324 products from the required tariff reductions while Argentina, Paraguay, and Uruguay exempted 394, 439, and 960 products, respectively. The number of items exempted from the tariff reductions by Argentina and Brazil was to be cut initially by 20% and then by 20% at the end of each year from 1991 through 1994. In the case of Paraguay and Uruguay, the original cut in exempted items was to be only 10%, followed by another 10% cut at the end of 1991 with cuts of 20% at the end of each subsequent year through 1995.



The Treaty also established other important rules for the transition period, including provisional rules of origin, a system of resolving conflicts, and a system of safeguards. The “accession” clause of the Treaty allows members of ALADI to petition for membership after five years from the initiation of MERCOSUR. However, countries that participated in the negotiations of a previous sub-regional or extra-regional integration scheme will be able to petition for membership prior to the stipulated time frame.

### **Implementation of the Treaty of Asunción**

Integration toward a common market, as is the goal of MERCOSUR, is usually a sequential process that can be seen as occurring in four stages among member countries: (1) preferential internal tariffs, (2) free trade, (3) customs union, and (4) common market. In the *first* stage, participating countries charge lower tariffs on imports from member countries. The preference accorded imports of member countries, however, involves lower, but not necessarily zero tariffs and does not necessarily extend to 100% of all products. A free trade area is the *second* stage of economic integration and involves complete elimination of all tariffs and other trade barriers on all goods and services among member countries. Each country, however, retains its own external trade barriers with member countries. The *third* stage of economic integration is a customs union which is a free trade area with harmonized external trade barriers by all member countries. In the *fourth* stage, a common market is achieved when a customs union allows free movement of labor and capital among member countries.

As of January 1, 1995, the target date for complete implementation of a common market among the four member countries, only the first stage of integration (preferential internal tariffs) had been clearly achieved. By that date, a free trade area between Brazil and Argentina extended to 99% of all but the exempted products. Harmonization of external tariffs has also proved more difficult than expected. A common external tariff varying from 0% to 20% on more than 85% of all products (approximately 8,500 items) traded by the four countries with non-member countries was ultimately negotiated. A number of products was also exempted from the common external tariff requirement. Argentina, Brazil, and Uruguay will maintain a maximum of 300 items on their respective common external tariff exemption lists through January 1, 2001, including capital goods as well as information and telecommunication products. Paraguay, however, received more favorable treatment and was allowed to maintain 399 items on its exemption list.

Also, given the differences in the industrial structures of the four countries, the levels of external tariffs required to be adopted by the MERCOSUR countries also differed. The differences were larger in the areas of capital goods and telecommunications. Argentina, Paraguay and Uruguay accepted the common external tariff level proposed by Brazil for capital goods (14%) and telecommunications (16%) for implementation in the years 2001 and 2006, respectively.

### **The Trade Effects of MERCOSUR**

The integration goals of the Treaty of Asunción were clearly ambitious. Because MERCOSUR has not yet reached common market status as called for in the Treaty, a revised schedule of transition will likely be established and the period of transition extended. Although the Treaty objectives have not yet been completely achieved, a significant degree of economic integration has been achieved which has had an impact on the internal and external trade of MERCOSUR countries.

### *General Trade Effects*

The pre-MERCOSUR (1990) total trade (exports plus imports) of Brazil with other MERCOSUR countries amounted to US\$3.64 billion (Table 1). By 1994, the total trade of Brazil with those countries jumped by 192% to US\$10.63 billion. The share of Brazilian exports destined for MERCOSUR countries increased from 4.2% in 1990 to 13.6% in 1994. The share of Brazilian imports originating from MERCOSUR countries increased from 11.2% to 14.1% over the same period. Brazilian exports to MERCOSUR countries increased by 348.6% while imports increased by only 103.2% over that period. Consequently, the Brazilian trade balance with MERCOSUR countries switched from a deficit of over US\$1.0 billion to about US\$2.1 billion in 1993 and about US\$1.2 billion in 1994 (Table 2).

Most of the change in Brazilian trade with MERCOSUR countries has come from increased trade, particularly exports, with Argentina. During the MERCOSUR transition period, Argentina became the second biggest market for Brazilian exports, accounting for 10% of Brazilian exports in 1994. The U.S. takes 20% of Brazilian exports and continues to be the largest importer of Brazilian products (Chalout, 1995).

The products exported by Brazil to MERCOSUR countries are highly diversified and are primarily value-added products such as automotive goods, capital goods, and chemical industry products. In general, production and trade between the two largest of the MERCOSUR countries have been quite complementary. Argentina has tended to export agricultural products and minerals to Brazil while Brazil has tended to export industrial, non-agricultural products to Argentina (Table 3). Brazilian exports of animal- and vegetable-origin products to Argentina were only US\$82 million and US\$86 million, respectively, in 1994 while imports of such products by Brazil from Argentina were much higher at US\$295 million and US\$920 million, respectively.

According to Chalout and Souto, about 60% of the value of Brazilian imports is wheat. Jank (1992) indicates that the markets for some Brazilian agricultural products have been particularly affected by the formation of MERCOSUR, including those for wheat, corn, rice, barley, powdered milk, cheese, grapes, peaches, pears, plums, garlic, potatoes, onions, beef, leather, soybeans, and sunflower seeds and products.

MERCOSUR has had an impact on the agricultural markets of the other member countries, as well. For example, Paolino finds that the price of chicken in Argentina fell due to the importation of Brazilian poultry products while the Brazilian chicken industry has experienced a price increase. Paolino also forecasts that the Argentine citrus sector will increase exports of fresh products and that the dairy industry in Paraguay will need to become more efficient to remain economically

competitive. Brazil is increasing its research efforts in order to increase its competitiveness in cotton. Relative to Brazil and Paraguay, Uruguay is becoming more competitive in the wheat market. Part of the increased competitiveness is due to better cultivation methods.

### *Effects on World Agricultural Trade*

MERCOSUR member countries are net exporters of agricultural products to the world market. In 1993, MERCOSUR countries jointly exported US\$17.0 billion and imported US\$4.7 billion of agricultural products for a trade balance of US\$12.3 billion (Table 4). The MERCOSUR trade balance was positive for meat, coffee, tea, mate and spices, cereal grains, oilseeds, sugar, vegetables, fruits and nuts, animal and vegetable oils, sugar, cocoa, tobacco, and food industry residue used for animal feeds. On the other hand, the MERCOSUR trade balance is negative for live animals, milling industry products (e.g., wheat flour), resins and gums, cereal preparations, beverages, and cotton.

While the agricultural exports of Argentina and Paraguay tend to be concentrated in a relatively few product groups, Brazilian exports tend to be more diversified. For Argentina, Brazil, and Paraguay, oilseed and oilseed product exports (soybeans, sunflower seeds, vegetable oils, and protein concentrates) are quite profitable. Major Paraguayan agricultural exports are soybeans and soybean products and cotton products. Beef is the most important export for Uruguay and the third most important export for other countries. Cereal grains (wheat, rice, etc.) are the most important agricultural products imported by Argentina and the second most important for Uruguay. Coffee exports are only important for Brazil. Also, exports of other products such as orange juice, tobacco, and sugar are also important to Brazil. Cotton has been a traditionally important export for Paraguay (Buxedas, 1995).

The agricultural exports of MERCOSUR countries are mainly destined for the Atlantic coast markets of Europe and the Western Hemisphere (Table 5). Exports to markets in the Pacific are at a competitive disadvantage compared to those of large agricultural countries like the U.S., Australia, and New Zealand which are geographically better able to benefit from such exports and which have a greater knowledge and experience level in those markets (Buxedas, 1995). The European Union is the largest importer of MERCOSUR agricultural exports, accounting for 42% of all MERCOSUR agricultural exports.

### *Effects on U.S.- MERCOSUR Trade*

Trade between the U.S. and MERCOSUR countries (exports plus imports) amounted to about US\$25 billion in 1994 (Table 6). Brazil accounted for 59% of MERCOSUR exports to the U.S. and 81% of MERCOSUR imports from the U.S. Trade between the U.S. and MERCOSUR has also increased in recent years. MERCOSUR exports to the U.S. increased by 42% between 1992 and 1994 while MERCOSUR imports from the U.S. increased by 16.5% over the same period.

Major U.S. agricultural imports from Argentina include sugar and preparations of vegetables, fruits, and nuts (Table 7). From Brazil, U.S. agricultural imports include orange juice, coffee, tobacco, and cocoa. The major U.S. agricultural import from both Paraguay and Uruguay is raw cattle hides and

skins. The main U.S. exports to Argentina include fruits, nuts, and oilseeds (Table 8). To Brazil, the U.S. exports primarily oilseeds, cereal grains, and cotton. Primary U.S. exports to both Paraguay and Uruguay include tobacco and tobacco products.

### *Effects on MERCOSUR Grain Markets*

Economic integration among the MERCOSUR countries has had a significant impact on grain markets in member countries. Internal import tariffs on grain were reduced to 0% over the last five years. Also, Argentina, Paraguay, and Uruguay have gained preferential access to the large Brazilian wheat, corn, and rice import markets. As a consequence, Brazilian imports of wheat, rice, and corn from MERCOSUR countries have increased.

Before 1985, MERCOSUR countries accounted for 10% to 30% of the total grain imported by Brazil. By the early 1990s, these countries accounted for about 60% of Brazilian grain imports (Jank, 1994). Brazil imported about 4.8 mmt (million metric tons) of wheat, 1 mmt of rice, and 0.5 mmt of corn from its MERCOSUR neighbors. Argentina is now the most important source of imported wheat for Brazil, displacing imports from the U.S. (Table 9).

The area planted to soybeans increased 22%, 63%, and 95% in Brazil, Argentina, and Paraguay, respectively, from 1985 to 1994 (Table 10). Argentina, Uruguay, and Paraguay have all experienced an increase in rice area over the same period.

In Brazil, a rapid 1.86% annual rate of population growth has out paced the growth of grain production necessitating increased grain imports (Jank, 1994). According to Jank, about 7,700 births occur in Brazil each day. The Brazilian grain production crisis became even more severe in 1994/95 when production reached only about 80 mmt. The forecast for 1995/96 is even lower grain production at only 75 mmt.

According to CONAB (Companhia Nacional de Abastecimento), the Brazilian wheat area harvested in 1994-95 decreased 29% compared to a year earlier. Wheat consumption hit 8.5 mmt in 1994-95 while production reached only 2 mmt compared to 6 mmt in 1987. The 6 mmt of wheat imported by Brazil in 1994-95 came from Argentina (4.3 mmt), Canada (1.05 mmt), Uruguay (0.36 mmt), and Paraguay (0.10 mmt).

Brazilian soybean area is also expected to decline by about 10.7% in 1995-96 to 22 mmt compared to 25.93 mmt a year earlier. Rice area in Brazil is also expected to decline by about 8.4% in 1995-96. The Brazilian price of rice was 31% lower in 1995 than the five-year average of 1990 to 1994. The corn recently exported by Argentina to the Brazilian northeast region was more price competitive than corn from the Brazilian central west region. Brazilian corn area is expected to decline by 7.9% in 1995-96.

Although Brazil is still the largest producer of soybeans, corn, and rice among MERCOSUR countries, Argentina is the largest producer of wheat and second largest producer of soybeans, corn, and rice. For many products, the cost of production in Argentina is lower than in Brazil because of

the highly fertile land and good climatic conditions in the Pampas region. Argentine production costs are US\$136/ton for soybeans, US\$179/ton for rice, US\$103/ton for wheat, and US\$86/ton to US\$109/ton for corn. In comparison, Brazilian costs are US\$175/ton for soybeans, US\$151/ton for rice, US\$215/ton for wheat, and US\$150/ton to US\$166/ton for corn (Stulp,1992). Also, Brazilian corn yields are almost half those of Argentina and one third of those in the U.S. (Table 11).

Argentine agricultural production is concentrated in the Pampas region which makes up 18.7% of the land area but accounts for 90% of the country's cereal and oilseed production, 70% of the meat production, and 88% of the milk production. A recent study concludes that despite real competitiveness and the natural fertility of Argentine soils, opportunities for increased production in Argentina are limited (Wedmann). The study suggests that Argentine agricultural production is highly unresponsive to price changes and that future production increases will depend on the rate of new technology adoption to improve yields and hold down costs of production. Water deficiencies and higher production costs limit the opportunities for the expansion of production to non-traditional areas in Argentina. In the case of soybeans, for example, the expansion of the area under soybean production has displaced wheat production. Soybeans also compete with corn and livestock for the use of the Pampas land.

### **Conclusions**

Although the goal of establishing a common market by 1995 was not reached, significant progress in trade among the MERCOSUR member countries has occurred. In fact, by 1995, after having completed a four-year transition period, MERCOSUR functions as an imperfect customs union with more than 85% of the goods produced in non-member countries being subject to a common tariff that ranges from zero to 20%.

The commercial success of MERCOSUR has exceeded the most optimistic predictions for the early 1990s. MERCOSUR has achieved international recognition as the third largest trading block in the world after the European Union and NAFTA. The trade volume among MERCOSUR member countries has practically tripled over the last five years. The integration between Argentina and Brazil has laid important groundwork for further market integration in that part of South America. In 1994, trade between Brazil and Argentina exceeded US\$7 billion, a record for trade between two countries in South America. Argentina has become Brazil's second largest export market.

The goal of economic integration is to increase the level of economic development in all participating countries. Economic integration, however, is also painful, forcing a restructuring of each participating country's economic activities. When a country accedes to the market demands of a free trade association, the country also accepts trade regulations that are often quite different from those that have traditionally governed the country's trade. In turn, the new trading regime forces new standards of competition. Although the economy of a given participating country will likely benefit, only those sectors with a comparative advantage will benefit in comparison with the same sectors in the other participating countries. Those sectors that find themselves at a comparative disadvantage will suffer declines in productive activity. Those negatively affected by

the resulting short-run adjustments in the patterns of production and trade among participating countries often require some intervention to ease the pains of adjustment.

Although MERCOSUR is an effort to establish a cooperative and complementary economic region, most agricultural products of member countries have encountered fierce competition within MERCOSUR markets. Agricultural products and agricultural industries in which Brazil was once considered less competitive in comparison to the highly specialized sectors in Argentina are now experiencing a considerable increase in exports. Brazil has experienced growth in animal and crop products and has exhibited major advances in the processed food sector. On the other hand, Argentina has distinguished itself in the production and export of primary agricultural goods. Changes in the net agricultural trade flows between Brazil and Argentina have definitely benefited Argentina. In the case of grains, Brazil has become an importer giving Argentina, Uruguay and Paraguay preferential access to its large market. A traditional importer of barley and wheat, Brazil has also become an importer of rice and corn. The Brazilian regions most affected by the imports of grain are Rio Grande do Sul and Paraná, the major grain producing regions in Brazil.

The increasing economic integration of Argentina, Brazil, Paraguay, and Uruguay through MERCOSUR does not resolve all trade problems among those four Latin American countries. Economic integration has been a slow process. If MERCOSUR is ever to become a true common market, a number of important - and politically difficult - challenges remain, including the elimination of all remaining tariff and non-tariff trade barriers, the granting of free movement to productive factors among member countries, the harmonization of macroeconomic policies, and the coordination of national legislation. The difficulties in economic coordination and harmonization among MERCOSUR members are exacerbated by the differences in the political systems among member countries.

Despite the challenges faced by the governments involved in the economic integration of the region, MERCOSUR has strengthened the relationship of member countries with world markets. The U.S., for example, has increased its trade with MERCOSUR countries.

Without question, the MERCOSUR experience has demonstrated that economic development and stabilization within a Latin American region can be achieved through free trade and economic cooperation among countries. Pressures are mounting to expand MERCOSUR to other countries in Latin America. On June 25, 1996, Chile signed a free trade agreement with MERCOSUR. Chile did not join the customs union because its average external tariff of 11% is lower than that of MERCOSUR. Bolivia and Peru are pushing for a free trade area in South America. The objective would be to establish the Association of South American Free Trade (ALCSA) by the year 2005.

The likelihood of the success of ALCSA depends above all on the continued progress of MERCOSUR. The key to this progress is the continued economic growth of Brazil. With a population of 150 million and a GDP of nearly US\$500 billion, the Brazilian economy is a heavily weighted factor in the success and growth of both MERCOSUR and South America. As well, MERCOSUR will be critical in establishing a Western Hemispheric free trade area by the year 2005 as agreed to in the Summit of the Americas in December of 1994.

With a united market, South American countries would be able to better control relations with North America. Although NAFTA and MERCOSUR are similar in some respects, MERCOSUR is more ambitious with its long term plans for developing truly integrated economies of the member countries. The ultimate accomplishment of both NAFTA and MERCOSUR may be not only increased trade but also greater economic, political, social, and cultural integration among all countries of the Western Hemisphere.

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**Table 1: Brazil: Trade with MERCOSUR Countries, 1990-1994**

Year	Exports to MERCOSUR countries	% of all Exports	Imports from MERCOSUR countries	% of all Imports	Total Trade
	--- \$US billion ---		---- \$US billion ----		-\$US million--
1990	1,320	4.2	2,319	11.2	3,639
1991	2,309	7.3	2,268	10.8	4,578
1992	4,097	11.4	2,250	10.9	6,347
1993	5,395	14.0	3,361	13.1	8,757
1994	5,921	13.6	4,712	14.1	10,633

Source: Chalout

**Table 2: Brazil: Trade Balance with MERCOSUR Countries, 1990-1993**

Year	MERCOSUR	Argentina	Uruguay	Paraguay
	----- \$US millions -----			
1990	-1,006.49	-767.28	50.81	-290.02
1991	40.98	-138.51	276.53	-97.04
1992	1,899.12	1,367.37	356.76	174.99
1993	2,034.00	1,002.73	683.21	348.06
1994	1209.00	NA	NA	NA

Source: Secretariat of Foreign Trade, Brazil  
NA = Not Available

**Table 3: Brazil: Trade with Argentina by Selected Sectors, 1991-1994**

Product	1991		1992		1993		1994	
	Export	Import	Export	Import	Export	Import	Export	Import
	----- \$US Millions -----							
Transport materials	261	109	883	222	910	470	1,000	563
Machines/mechanic and electric apparatus	273	148	523	141	737	194	817	203
Chemistry industry	244	109	361	222	501	470	614	198
Metalurgic products	182	42	412	30	375	38	470	31
Mineral products	123	61	113	117	186	529	201	550
Textile materials	68	54	143	61	157	81	176	164
Cellulose, paper	87	21	132	11	204	9	179	12
Edible products/beverages and tobacco	52	27	97	25	130	22	198	52
Products of animal origin	12	121	99	53	111	105	82	295
Products of vegetable origin	57	672	59	739	72	906	86	920

Source: Chalout

**Table 4: MERCOSUR: Agricultural Trade Balance by Country and Product Category, 1993**

Products	Total	Argentina	Brazil	Paraguay	Uruguay
	----- \$US Million -----				
Live animals	-19	-2	-33	3	13
Meat and edible offals	1,496	334	946	46	170
Dairy products, eggs, natural honey	0	59	-134	-6	81
Products of animal origin	47	7	28	0	12
Plants, flowers	5	-6	12	0	-1
Vegetables	17	174	-145	1	-13
Other foods	283	122	131	-1	31
Coffee, tea, mate and spice	1,112	10	1,130	1	-29
Cereal grains	1,165	1,447	-422	-11	151
Milling industry products	-882	47	-950	-8	28
Oilseeds	1,778	656	900	222	0
Lac, resins, gum, etc.	-30	-20	-8	0	-1
Animal and vegetable fats and oils	1,288	1,059	197	40	-8
Sugar and sugar confectionary	850	17	853	-3	-18
Cocoa and cocoa preparations	222	-75	304	-3	-3
Cereal preparations	-4	-7	6	-9	6
Vegetable, fruits, and nut preparations	920	44	885	-2	8
Miscellaneous edible preparations	211	11	2,444	-13	-9
Beverages (including alcohol and liquors)	-140	-17	-35	-69	-19
Residues and waste from food industry	3,471	1,437	1,977	57	0
Tobacco and tobacco substitutes	918	103	869	-44	-9
Leather (raw)	-3	4	-14	1	6
Wool	155	95	4	0	56
Cotton	-524	8	-681	156	-6
Other	0	-2	1	1	0
Total	12,338	5,482	6,065	359	431

Source: Buxedas

**Table 5: MERCOSUR: Destination of Agricultural Exports by Country, 1993**

Destination	Total	Argentina	Brazil	Paraguay	Uruguay	
						----- \$US Million -----
						-
MERCOSUR	2,271	1,235	572	208	256	
NAFTA	1,736	404	1,265	24	42	
Other Western Hemisphere	1,163	805	198	77	83	
European Union	7,298	2,526	4,384	214	174	
Other Europe	810	159	620	27	4	
Asia	1,397	476	904	1	16	
Orient	1,219	455	702	3	59	
Africa	835	346	487	1	1	
Oceania	68	36	32	0	0	
Others	276	0	272	0	4	
Total	17,074	6,441	9,437	556	639	

Source: Buxedas

**Table 6: MERCOSUR: Trade with the U.S. by Country, 1992-1994**

Country	<u>Exports to the U.S.</u>			<u>Imports from the U.S.</u>		
	1992	1993	1994	1992	1993	1994
	----- \$US millions -----					
Argentina	3,221	3,772	4,466	1,254	1,206	1,725
Brazil	5,740	6,045	8,118	7,611	7,466	8,708
Paraguay	415	521	794	35	50	80
Uruguay	231	253	311	266	266	167
Total	9,607	10,591	13,689	9,166	8,988	10,680

Source: Bureau of the Census

**Table 7: U.S.: Main Agricultural Products Imported from MERCOSUR by Country, 1992-1994**

Products by Country	1992	1993	1994
	----- \$US1,000 -----		
<u>Argentina</u>			
Preparations of veg., fruits, nuts, etc.	154,828	71,616	64,175
Animal or vegetable fats and oils	19,228	40,193	63,207
Fish and crustaceans, mollusks and other aquatic	47,195	58,699	52,523
Sugar and sugar confectionary	199,570	17,461	37,157
Dairy produce; bird's eggs, honey	20,317	21,710	26,688
Coffee, tea, mate and spices	22,294	22,779	25,550
<u>Brazil</u>			
Coffee			
Coffee, tea, mate and spices	269,550	228,470	446,395
Coffee, not roasted, not decaffeinated (nesoi <sup>a</sup> )	159,325	153,101	303,114
Coffee Arabic, not roasted, not decaffeinated	91,934	56,545	114,313
Instant coffee, not flavored, not decaffeinated (nesoi <sup>a</sup> )	0	0	47,244
Preparations of vegetables, fruits, nuts	335,905	225,076	256,954
Edible fruits and nuts; peel of citrus fruit or honey	133,545	114,121	98,759
Orange juice unfermented, frozen	301,682	198,340	233,569
Cocoa and cocoa preparations	183,547	161,851	102,662
Cocoa beans, whole or broken, raw or roasted	56,609	49,962	36,386
Cocoa butter, fat and oil	88,502	70,815	30,791
Tobacco and manufactured tobacco substitutes	234,511	215,936	149,082
Flue-cured tobacco, threshed, stemmed, stripped	162,686	135,294	99,470
Sugar and sugar confectionary	89,405	95,343	62,582
Cane sugar raw no flavor/color (nesoi <sup>a</sup> )	66,847	73,057	42,532
<u>Paraguay</u>			
Wood and articles of wood; wood charcoal	4,642	12,163	16,370
Raw hides and skins	9,374	14,197	11,257
Animal or vegetable fats and oils	825	2,801	2,438
Tobacco	470	720	1,333
<u>Uruguay</u>			
Raw hides and skins	36,456	35,652	37,797
Wool and fine or coarse animal hair, including yar	16,831	15,949	16,224
Edible preparation of meat, fish, crustaceaus, mollusks	14,014	9,013	6,630

Source: Bureau of the Census

<sup>a</sup> not elsewhere specified or included.

**Table 8: U.S.: Main Agricultural Products Exported to MERCOSUR by Country, 1992-1994**

Products by Country	1992	1993	1994
	----- \$US1,000 -----		
<u>Argentina</u>			
Oilseeds and oleaginous fruits	25,101	16,190	23,754
Miscellaneous edible preparations	4,357	8,166	18,422
Preparations of vegetable, fruits, nuts or other	8,920	7,345	10,241
Edible fruits and nuts; peels of citrus fruit or honey	5,429	3,634	75,899
Tobacco and manufactured tobacco substitutes	4,055	6,068	5,041
<u>Brazil</u>			
Oilseeds	65,602	11,548	150,474
Cereal grains	19,862	32,938	105,227
Cotton, including yarns and woven fabrics thereof	4,970	82,591	86,510
Animal or vegetable fats and oils	9,153	14,980	27,065
Edible fruit and nuts; peel of citrus fruit; honey	4,574	7,368	25,781
Live animals	12,518	12,339	12,416
<u>Paraguay</u>			
Tobacco and manufactured tobacco	46,081	54,555	44,962
Cigarettes containing tobacco	45,815	53,953	44,796
Miscellaneous edible preparations	6,590	7,782	7,405
Preparations of cereals, flour, starch or milk	713	571	820
<u>Uruguay</u>			
Tobacco and manufactured tobacco substitutes	1,288	1,829	3,966
Cereals	414	239	2,886

Source: Bureau of the Census

**Table 9: Brazil: Grain Imports from the U.S.,  
1985-1994**

Year	Wheat	Rice	Corn
	----- Metric Tons -----		
1985	2,043,015	301	553,347
1986	612,220	590,322	1,365,802
1987	103,956	0	513,289
1988	0	0	0
1989	133,167	2,967	19,932
1990	0	185,417	405,038
1991	643,196	282,956	148,181
1992	133,775	7,397	0
1993	162,676	12,458	70,614
1994	0	343,084	345,455

Source: USDA, FATUS



**Table 10: MERCOSUR: Soybean, Rice, Wheat, and Corn Area Harvested, 1985-1994**

Year	Soybeans				Rice				Wheat				Corn			
	<u>Argentina</u>	<u>Brazil</u>	<u>Paraguay</u>	<u>Uruguay</u>	<u>Argentina</u>	<u>Brazil</u>	<u>Paraguay</u>	<u>Uruguay</u>	<u>Argentina</u>	<u>Brazil</u>	<u>Paraguay</u>	<u>Uruguay</u>	<u>Argentina</u>	<u>Brazil</u>	<u>Paraguay</u>	<u>Uruguay</u>
	-----1,000 hectares -----															
1985	3,316	94,450	550	25	130	5,585	35	86	5,270	2,610	127	212	3,351	12,710	350	350
1986	3,510	9,270	530	43	90	5,980	35	81	4,982	3,820	154	185	2,900	14,610	400	400
1987	4,260	10,500	615	43	100	5,961	42	81	4,789	3,475	175	167	2,600	13,375	547	547
1988	4,000	9,750	850	50	108	5,350	35	100	4,700	3,450	195	170	1,700	12,970	420	420
1989	4,950	11,550	980	44	100	4,180	35	85	5,450	3,355	235	226	1,700	12,100	480	480
1990	4,750	9,750	890	34	110	4,230	35	110	5,700	3,280	240	218	1,950	13,490	243	243
1991	4,800	9,700	900	13	140	4,614	35	130	4,550	2,145	160	130	2,400	14,030	250	250
1992	4,900	10,625	980	13	130	4,384	90	131	4,200	1,997	160	150	2,450	12,400	270	270
1993	5,300	11,400	1,050	13	134	4,375	90	120	4,800	1,408	160	150	2,400	13,675	280	280
1994	5,400	11,514	1,075	13	140	4,300	90	130	4,900	1,450	160	170	2,400	13,000	280	280

Source: USDA, *PS&D View*

**Table 11: MERCOSUR and the U.S.: Average Yield, 1994**

	Soybeans	Rice	Wheat	Corn
	----- metric tons/hectare -----			
			-	
Argentina	2.30	2.86	2.14	4.20
Brazil	2.11	1.66	1.38	2.31
Uruguay	1.54	3.46	2.00	1.57
Paraguay	1.72	1.11	1.56	1.68
U.S.	2.79	4.67	2.53	8.68

Source: USDA, *PS&D View*