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TRADE

Mercosur faces new challenges

Economic analysts say a side deal between Brazil and Argentina runs contrary to the spirit of free trade and could seriously weaken Mercosur.

By Alan Clendenning

Associated Press

SAO PAULO - Brazilian appliance makers are cringing over new trade barriers designed to prevent Argentine industry from being overwhelmed by cheap imports in the so-called "Refrigerator War."

But now it may time for some wincing from Argentina and free trade advocates who support South America's Mercosur trade bloc, aimed at integrating a large chunk of the continent.

After heated opposition from Brazilian manufacturers, the agriculture minister said Brazil may use the new bilateral trade dispute resolution process to bypass Mercosur rules and restrict imports of Argentine wine, wheat and rice.

Politicians from both countries insist their "Mechanism of Competitive Adaptation" will smooth over the appliance dispute and other periodic trade spats between South America's two largest economies.

But economic analysts say the side deal runs contrary to the spirit of free trade and could seriously weaken Mercosur, a trade bloc originally made up of Argentina, Brazil, Paraguay and Uruguay.

With Venezuela on its way to becoming a full-fledged member and Bolivia invited to follow suit, Mercosur is becoming more of a political body than a free-trade advocacy group. Both Venezuelan leader Hugo Chávez and new Bolivian President Evo Morales are strident critics of American-style free trade, which they label a "neoliberal" push to benefit multinational companies and enslave Latin American workers.

But the Argentina-Brazil deal may eventually tempt Paraguay and Uruguay to abandon Mercosur in favor of free trade deals with the United States, and Brazil also risks losing its international clout as an advocate for developing nations trying to persuade rich countries to slash farm subsidies, analysts say.

The Argentina-Brazil trade agreement "is just further evidence that Mercosur is unraveling, losing its coherence and its original purpose," said Michael Shifter of the Inter-American Dialogue, a Washington think tank. "South America's political landscape is increasingly fractured, with governments making deals and seeking short-term political benefits."

Brazil and Argentina are by far the biggest Mercosur players, home to 221 million of the zone's 230 million people and 97 percent of the bloc's $767 billion in gross domestic product. But the zone will be expanded significantly when Venezuela joins, adding the continent's No. 3 economy and the world's fifth largest oil exporter to the mix.

Paulo Saab, who heads Brazil's appliance industry association, said the Feb. 1 Argentina-Brazil accord represents a "dangerous precedent altering the legal rules established with the creation of Mercosur."

The Sao Paulo Federation of Industries, which claims its members produce more than 75 percent of Brazil's gross domestic product, said it would consider boycotting certain Argentine products.

And while top Brazilian officials initially downplayed the impact on Mercosur, Brazilian Agriculture Minister Roberto Rodrigues announced last week that Brazil may use the accord to justify restrictions on imports of Argentine wine, wheat and rice.

If Brazil follows through, the move could cause severe damage to Argentina's thriving wine industry, because Brazil is the third largest export destination after the United States and Britain.

Wine restrictions would end up giving Brazilian consumers fewer choices (most agree that Brazil's wine is inferior to Argentina's) and hurt government tax receipts, said Otavio Lilla, marketing director of the Mistral Importadora Ltda. wine importing company, a big supplier in Sao Paulo.

It could also cause an increase in crime related to the black market, he said.