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## **A ANALYSIS OF EVOLUTION OF BRAZIL'S TRADE RELATIONS WITH MERCOSUR AND OTHER ECONOMIC BLOCS**

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## **A ANALYSIS OF EVOLUTION OF BRAZIL'S TRADE RELATIONS WITH MERCOSUR AND OTHER ECONOMIC BLOCS<sup>1</sup>**

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### **Abstract**

The central objective of this paper is to make a historical retrospect of the process of formation of Mercosur, the development of trade relations, and the consequent process of convergence and divergence that is the context that. It is still assessing the effectiveness of the process of interaction in the increase of commercial transactions, both intra and extra-bloc. In this stage the feature that differentiates the other is the process of unification of the states. Since the emergence of the idea of integration of economies in the Southern Cone of Latin America, even in the mid-1980, the process has gone through several phases. The first building known as the Mercosur, between 1991 and 1998 is characterised by strong increase in the flow of trade between the countries of the bloc.

**Key-words:** Trade; Economic integration; Mercosur

### **Resumo**

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O objetivo central deste trabalho é fazer uma retrospectiva histórica do processo de formação do Mercosul, o desenvolvimento das relações comerciais, bem como o conseqüente processo de convergência e divergência neste contexto. E ainda avaliar a eficácia do processo de interação no aumento das transações comerciais, tanto intra quanto extra-bloco. Nesta etapa, a característica que diferencia o outro é o processo de unificação dos estados. Desde o surgimento da idéia de integração das economias do Cone Sul da América Latina, ainda em meados dos anos-1980, o processo passou por várias fases. O primeiro edifício conhecido como o Mercosul, entre 1991 e 1998 caracteriza-se por um forte aumento do fluxo de comércio entre os países do bloco.

**Palavras-chave:** Comércio; Integração econômica; Mercosul

## 1. INTRODUCTION

The central objective of this paper is to make a historical retrospect of the process of formation of Mercosur, the development of trade relations, and the consequent process of convergence and divergence that is the context that. It is still assessing the effectiveness of the process of interaction in the increase of commercial transactions, both intra and extra-bloc.

The term "economic integration" to the decade of 1950 was used to describe aspects of international economic relations, including trade and monetary relations, movement of capital and even international cooperation. From 1950, "came to be used specifically to describe a situation or process involving the combination of separate economies in regions economic extended" (Robson, 1985, p. 11).

To Brum (2002), economic integration has five major stages: area of tariff preference; zone of free trade, customs union, common market and economic and monetary union (where member countries reach the stage of creating a single central bank and a single currency for the block). The last stage of integration is the political union or merger of the nation states into a single state. In this stage the feature that differentiates the other is the process of unification of the states.

For Baumann, Canuto and Gonçalves (2004) economic integration extends to the whole economic system in each country, therefore, the increase in the volume of transactions demand adjustment in terms of institutional and overcoming deficiencies in infrastructure. Thus, regional integration involves internal reforms that seek competitiveness among developing economies.

In Latin America, for its feature of integration depends, in the context of the world economy, were always serious obstacles to the process of regional integration. Throughout the twentieth century, several attempts at integration were launched, but all esbarravam in the fact that these countries were much more tied to the markets of the core countries than with the neighbouring economies.

Since the emergence of the idea of integration of economies in the Southern Cone of Latin America, even in the mid-1980, the process has gone through several phases. The first building known as the Mercosur, between 1991 and 1998 is characterised by strong increase in the flow of trade between the countries of the bloc.



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Then came the stage of crisis, showing a drastic fall of the flows of intra-bloc for the period from 1998 to 2002 caused by macroeconomic imbalances. The third phase, from 2003 until today, it is characterized as the reconstruction of Mercosur, whose flows of trade once again growing rapidly, but it still has trade conflicts within the block that need to be restructured.

Brazil is a giant trade within the bloc, the Gross Domestic Product (GDP) Brazil represents about 75% of the GDP of Mercosur. In 1998, the block was destination of 17.3% of Brazilian exports. In 2002 that figure dropped to 5.5%, due to the crisis in Argentina. From January to October 2004, reached 9.2%. Exports from Argentina to Brazil reached 30% of the total exported in 1998, fell to 18% in 2002 and from January to July 2004 were in 15% (Pereira, 2004). These data, by itself, already showing very large imbalances and fluctuations, which weaken the integration process.

According to the Bureau of Foreign Trade (Secex, 2006), in 2005 only for Mercosur, Brazil exported US \$ 11726 billion, and imported US \$ 7052 billion, representing a surplus of \$ 4675 billion that year.

## **2. A HISTORY OF TRAINING OF MERCOSUR**

In 1985 the protocols signed by the Presidents Jose Sarney (1985-1989), of Brazil, and Raul Alfonsín (1983-1988), of Argentina, led to a project for integrating production and technology, whose expansion would be gradual, seeking greater autonomy in relation to the world market, implementing the first agreements for the Southern Common Market (Mercosur). In 1986, the Act was signed for the Integration Argentine-Brazilian that established the Program Integration and Economic Cooperation (Pice). The objective of this programme was to provide a common economic space, with the selective opening of their markets and stimulating the addition of specific sectors of the economy of the two countries, based on the principles of gradualidade, flexibility and balance, in order to allow the adjustment Progressive sectors of the business of each state to the new conditions of competitiveness.

The first contacts regarding the formation of a process of regional integration, emerged after the end of military dictatorships in Argentina and Brazil, respectively in 1983 and 1985. The declaration of Iguazu, signed by Brazil and Argentina on November 30, 1985, is the beginning of the process of regional integration. Meetings between the two countries including the presence of Paraguay and Uruguay, allowed the construction of Mercosur, drawn up by the Treaty of Asuncion on March 26, 1991.

From the Treaty of Asuncion, which define the basis for the establishment of the common market, has been edited additional protocols, among which stand out the Protocol of Brasilia for the Solution of Disputes in Mercosur, December 1991 and the Protocol of Gold Black on Institutional Aspects, December 1994, which established the institutional structure of Mercosur to apply during the period of consolidation of the customs union.

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Among the main prospects for the Mercosur, are: i) to build a free trade area, taking into account the farmed products, ii) a period of twenty years to become a "common market" itself.

The economic integration of the countries that make up the Common Market of the South had a development apparently faster, which travelled by the European Integration. However, the conditions of integration among the Southern Cone countries occur in a stage where there is not yet fully established and developing a scenario different from hitherto lived in Europe.

According to Vieira and Carvalho (1997), trade within the Mercosur grew over time. In 1991, the year of the signing of the Treaty of Asuncion, trade between the countries members of this bloc somava only \$ 4.5 billion in 1993, I was around \$ 8 billion, and in 1995, already exceeded \$ 12 , 5 billion. While total exports of the Mercosur countries increased to 52.5% in the period of 1990/95, exports intra-regional (flows between countries of the bloc) grew 206.7% in the same period.

According Santos (1994), the intra-regional trade of Mercosur is 47% in food, beverages and tobacco, 34% in manufacturing, 10% in ores and metal; 7% in raw materials and agricultural products and 4% in fuels .

Table 1 - Exchange Business Partners Brazil and the Mercosur 1990-2005 (\$ in millions Fob)

	Exports			Imports			Balance	
	General	Mercosur	Participation	General	Mercosur	Participation	General	Mercosur
1990	31.414	1.320	4,20%	20.661	2.312	11,19%	10.753	-992
1995	46.506	6.154	13,23%	49.972	6.844	13,70%	-3.466	-690
1996	47.747	7.305	15,30%	53.346	8.302	15,56%	-5.599	-997
1997	42.994	7.045	17,07%	59.741	9.426	15,78%	-16.747	-2.381
1998	51.140	8.878	17,36%	57.764	9.416	13,63%	-6.624	-538
1999	48.011	6.778	14,12%	49.295	6.719	13,96%	-1.284	59
2000	55.086	7.733	14,04%	55.839	7.795	12,61%	-753	-62
2001	58.223	6.364	10,93%	55.572	7.009	11,68%	2.651	-645
2002	60.362	3.311	5,48%	47.240	5.611	11,88%	13.122	-2.300
2003	73.084	5.672	7,76%	48.291	5.685	11,77%	24.793	-13
2004	96.475	8.912	9,24%	62.835	6.390	10,18%	33.640	2.522
2005	118.308	11.726	9,21%	73.551	7.052	9,59%	44.757	4.674

Source: MDIC / Secex; Drafting AEB (2005)

According to Table 1 there is a growing increase in trade with Brazil's partners in Mercosur. In 1990 exports accounted for US \$ 1,320 million for the block, going to \$ 11,726 million in 2005. Regarding Brazilian imports from the Mercosur in 1990 accounted for \$ 2,312 million in 2005 and went on to represent \$ 7,052 million. It is noteworthy that the

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balance of the Brazilian trade balance with Mercosur remained negative for much of the period, but the same happened in relation to other trade partners, depending on factors such as excessive valuation of the national currency to the dollar front (between 1994 and 1999), and the prices of agricultural products have shown a trend of decline in that period, which affects the values exported by Brazil so important. However, after 2004 the balance becomes positive and growing trend in recent years.

Conducting a quick stock of what happened in the Mercosur, in the last 10 years, realizes that the achievements are concentrated only in the objective of forming a free trade area and a customs union and that the predominant motivation was limited to the increment trade between the participants of the agreement. Argentina, Brazil, Paraguay and Uruguay committed the mistake of not adequately explore the Mercosur, as a tool to increase the competitiveness of the bloc vis-à-vis the rest of the world and thereby expanding the total exports, especially to the United States, the European Union and Asia. With that, there were increased income and domestic consumption, leaving the economies vulnerable to external shocks, and historical common feature of these economies.

According to data from Aveburg (2002), evaluated individual countries' exports intra-block and the rest of the world, it appears that the flow of commerce was disproportionate. While growth within the block exports from Argentina, Brazil, Uruguay and Paraguay, was 448.0%, 435.3%, 50.8% and 126.8% respectively between 1998/00 and the triênios 1988/90, with the rest of the world that growth was only 73.5%, 37.8%, -20.6% and 6% respectively. The disproportionate growth of intra-bloc relations to the detriment of relations with other countries is to ratify the view that the members are looking for new markets for their products, and there is a vision of the formation of a block to fetch competitiveness in the international insertion, that in fact should be the goal of the formation of a bloc.

As for intra-bloc, there is the great growth of transactions between Brazil and Argentina (Table 2), where the Brazilian exports jumped from \$ 722 million in 1989 to more than \$ 6 billion in 2000. Moreover, realizes that the Brazilian imports from Argentina was \$ 1124 billion in 1989, to almost \$ 7 billion in 2000, as Table 2.

According Brum (2002) "Brazil has specialized in exporting and importing agricultural industry in the interior of the block. Already the Argentina performs the reverse process." Ratificando this assertion, flag (1987) states that: relations between Brazil and Argentina has always been characterised by ambivalence, in which trends to the conflict or cooperation is acentuavam as the joints of economic and political currents that eventually detivessem the power in each one of the countries.

Table 2 - Business Transactions between PMMs - 1989/2000 (\$ In millions)

Importing Country		Exporting Country				General
		Argentina	Brazil	Paraguay	Uruguay	
Argentina	1989	x	722	49	78	849
	1990	x	645	55	82	782
	1999	x	5.364	53	369	5.786
	2000	x	6.333	94	411	6.738
Brazil	1989	1.124	x	328	441	1.893



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	1990	1.423	x	312	502	2.237
	1999	5.689	x	235	557	6.481
	2000	6.990	x	337	530	7.857
Paraguay	1989	96	323	x	7	426
	1990	147	381	x	6	534
	1999	563	744	x	81	1.388
	2000	592	831	x	82	1.505
Uruguay	1989	207	335	11	x	553
	1990	263	295	12	x	570
	1999	818	670	19	x	1.507
	2000	808	668	122	x	1.598
General	1989	1.428	1.380	388	526	3.722
	1990	1.832	1.321	379	591	4.123
	1999	7.071	6.778	307	1.007	15.163
	2000	8.390	7.732	553	1.023	17.698

Source: CEPAL, 2004

According Dathein (1992), the project of Mercosur should be seen as an element that can represent exits to the structural crisis of the member countries, is a configuration that can open prospects for continuity of future development.

## 2. ARGENTINA: LARGEST PARTNER OF THE BLOCK

Data from the ECLAC (2004b), assessing the degree of openness of the four countries precursors of the block, for imports and exports of goods and services, since the beginning of the term of Treaty of Asuncion, show that Brazil and Argentina, members of the largest bloc, have degrees of openness and low in relation to other partners: while for Brazil and Argentina the weight of the exports and imports of goods and services in GDP is shown between 10% and 17%, Paraguay and Uruguay to these indicators exceed 1 / 3 BDP.

According to the ECLAC, since the entry into force of Mercosur was a considerable increase in exports, relative of goods and services between Australia and Argentina. Already on imports had differing results, Brazil has received significant gains in the rate of import and Argentina received significant losses. These results are with the improvement in current transactions of each country, the less dependence on foreign savings and mainly to the low level of interaction between the four economies as shown in Table 3. Brazil and Argentina are no intra-regional trade, between 9% and 20% of total exports of these countries, while for the remaining shows 1 / 4 and 1 / 3 of the value exported.

Table 3 - Importance of Trade Intra - Mercosur (% of total exports)

Country	1990	2004
Argentina	14,8	19,9

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Brazil	4,2	9,4
Paraguay	27,4	32,9
Uruguay	35,1	26,5

Source: Cepal (2004a), Cepal (2005c)

According to Col (1997), Brazil and Argentina are the largest partners in the region, trade between them, increased by 460% its flow between 1990 and 1996, and the trend of increase in trade relations is not modified in the following years, although the volumes of increase is no longer as sharp. Both have the advantage of that, either by geography or by history and by training their own production systems are global traders, different, then the other members of the bloc.

Table 4 shows the dynamism of Brazil as both exporter of Argentina, and the fact that exports of agricultural products and food, beverages and tobacco from Brazil have shown growth rates of three percent of red digits. For the case of Argentina, the growth was in products manufactured products, and mining.

Table 4 - Exports of Products Selected by Brazil and Argentina in Mercosur (\$ millions)

Countries	1990-92	2001-03	Variation %
<b>Agricultural products, products of hunting and fishing and forestry products</b>			
Argentina	3.541	5.812	64,1
Brazil	3.431	7.275	112,0
<b>Food, beverages and tobacco</b>			
Argentina	3.936	7.080	79,4
Brazil	5.363	11.057	106,2
<b>Products from mining</b>			
Argentina	266	3.452	1.199,7
Brazil	2.814	5.157	83,3
<b>Manufacturing</b>			
Argentina	3.397	8.156	140,1
Brazil	1.801	33.599	86,2
<b>Goods and non-durable products</b>			
Argentina	936	1.451	54,9
Brazil	3.154	4.653	47,6

Source: Cepal (2004), Cepal (2005a)

According Baumann (2006), imports Brazilian and Argentinian exhibit low weight throughout the region. The plot in Mercosur products as fuels, lubricants, capital equipment

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and consumer goods, showed rates of 8% in 1990 and 26% in 2003; for capital equipment, 24% in 1990 and 29% in 2003 and assets of consumption 23% and 13% respectively for those two years.

Table 5 shows the difference of imports in the period of 1990-1992, 2001-2003 from Brazil and Argentina in the Mercosur scenario of products selected. The Table shows that in the period under review, Brazil is highlighted in imports of consumer goods, intermediate goods, capital goods and services with a range of 104.5%, 115.3%, 198.2% and 250.3%, respectively. The Argentina also showed increases in their levels of imports, however, the lower rates that of Brazil, with 44.3%, 69.1%, 53.9% and 101.4%, respectively.

In Argentina and Brazil occupy the second position on the condition of suppliers at each other, trade between them has increased 460% between 1990 and 1996, a period in which there was a great leap to then stabilize relatively. Analyzing the two economies on a comparative, Argentina and Brazil versus other countries in the world, present conditions of competitiveness and participation in the world market for grain. They have the lowest levels of protection to the product, and some subsidies to consumers, while other countries subsidise the producer and the consumer tax. Protecting the producer aims to ensure the maintenance of basic food of the population, stimulating productivity, improved technology and competitiveness.

Table 5 - Selected Product Imports by Brazil and Argentina in Block (\$ millions)

Contries	1990-92	2001-03	Variation %
<b>Consumer products</b>			
Argentina	1.654	2.387	44,3
Brazil	2.397	4.902	104,5
<b>Products intermediaries</b>			
Argentina	4.845	8.194	69,1
Brazil	15.758	33.931	115,3
<b>Capital products</b>			
Argentina	2.150	3.309	53,9
Brazil	4.176	12.454	198,2
<b>Fuel end lubricants</b>			
Argentina	2	46	1.937,5
Brazil	108	726	581,5
<b>Services</b>			
Argentina	2.612	5.260	101,4
Brazil	3.723	13.042	250,3

Source: Cepal (2005a)

According Buxedas (1994), is the existence of chains agroindustriais highly competitive internationally, including a large number of products (sugar, coffee, cotton,



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cereals, oilseeds, meat and dairy) with great experience with commercial and productive human resources, technological capacity, companies and institutions that founded a development agro-industrial exporter, which in turn is boosted by the integration. In this case the integration can improve the conditions for competitiveness of the two countries, but it is important that both have the idea that the integration should contribute to a process of better integration of both in the world market and not only facilitate trade between members.

### **3. CONVERGENSES, DISAGREEMENTS AND DISTRIBUTION OF THE EFFECTS OF TRADE INTRA BLOCK**

According Kume, Piani and Miranda (2005), in terms tariff differences focus on three groups: the first one consisting of capital goods (about 900 tariff lines) and products of information technology and telecommunications (about 200 tariff lines) , and the other two called Lists Exception List and National System of Adequacy, consisting of products for which it was decided to grant a longer period to adapt to new conditions of competition in the region.

Studies indicate that the possible aggregate taxes in the other three countries on production agriculture range around 15 to 17%, while in Brazil, they reach 25 to 42%. One solution to this problem would be the implementation of Article 7 of the Treaty of Asuncion, which taxaria products imported from other states-parties, to have the same tax treatment applied to similar national. However, there is still another challenge to be faced if the bloc wants to move forward in the integration process, without that promotes the massacre of agriculture, which is the need for deregulation of the ports and at the same time establish a transport infrastructure capable of meeting efficiently and cheaper costs the demands of the sectors (Buxedas, 1994).

According to ECLAC (2005), in terms of relative size between the member countries of Mercosur in the differential rates of growth of GDP contributed to the smaller partners in little or nothing amend its relative weight in the group. Together Brazil and Argentina account for more than 90% of the product of Mercosur since the beginning of the decade of 1990.

Table 6 shows the differences in the sectoral composition of the product among the four countries, comparing the production structures in 1990-1992 and in 2003-2005. It highlighted reduction in the industry manufatureiro with varying degrees of intensity among the four member countries of the bloc, namely, there was a relative process of deindustrialisation, driven by crises, but also the advancement of agribusiness, which has been very intense in that period.

Table 6 - Product Composition (percent constant prices)

Agriculture	Country	1990-1992	2003-2005
	Argentina	8,3	5,8
	Brazil	7,0	7,9
	Paraguay	21,3	26,0
	Uruguay	11,2	12,3
Industry Manufacturing			

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	Argentina	25,7	16,6
	Brazil	21,5	20,4
	Paraguay	16,2	14,4
	Uruguay	24,5	18,2
Services			162,0
	Argentina	66,0	77,6
	Brazil	71,5	71,7
	Paraguay	52,7	58,6
	Uruguay	64,3	69,5

Source: Cepal (2005a)

Table 6 also shows that, except for Argentina, that retraction of the industry was the increase in participation of agriculture, hunting, forestry and fishing. Brazil won gains in productivity in agriculture, services and others, but had retraction productive in the industry in the analysis period. Already Argentina had a retraction in productivity in all sectors analyzed in that period, according to the severe economic crisis that overtook that country, from 1999. The activities grouped as services and others, corresponding to a variety of sectors and represents the largest parcel in the four countries, gaining space between 1990 and 2005.

In general terms, there was an increase in the tertiary sector and a reduction on the primary and secondary sectors. The Table 7 below shows the performance of agricultural production in the 1980 and the years between 1990 and 2003, which is shown an increase in the general rate of average annual growth in agricultural production between the two periods in most countries, compared the decade up.

Table 7 - Variations in the volume of agricultural production (average 1999-2001=100)

Country	Average	Average	Variation %	Variation %
	1990-92 (A)	2001-03 (B)	1980-90	(A)/(B)
Argentina	73,5	101,3	19	38
Brazil	70,2	111,3	34	59
Paraguay	75,7	107,2	79	42
Uruguay	76,7	95,9	16	25

Source: Cepal (2005 a)

The average Brazilian agriculture fell from 34% in the period of 1980-1990, to 59% in the period from 1990 to 2003, while the average Argentina rose from 19% in the period of 1980-1990, to 38% in the period from 1990 to 2003 .

The industry's production manufatureira in Mercosur presented significant results in differentiated between member countries. The Table 8 shows the output manufatureira in Mercosur, measured in constant prices, Argentina and Brazil increased its production between 1990-1992, 2001-2003, but had decreased percentage of participation in the composition of the economy, which is to corroborate the assertion that was the agribusiness which grew so intense, and not the industry that fell.

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Table 8 - Production Manufacturing (\$ 1995 billion) between 1990 and 2003

Country	Average	Average	Variation %
	1990-92 (A)	2001-03 (B)	(A) (B)
Argentina	36,5	38,8	6
Brazil	121,9	150,3	23
Paraguay	1,1	1,2	8
Uruguay	3,8	3,0	-20
Latin America	294,5	365,5	24,1

Source: Cepal (2005a)

While there are great differences between participating countries of Mercosur. Brazil has the largest growth rates, from \$ 121.9 billion between 1990-1992, fell to \$ 150.3 billion between 2001/2003. Already Argentina to the second largest partner of Mercosur, rose from \$ 36.5 billion between 1990-1992, to \$ 38.8 billion between 2001-2003, little expressive result is related to Brazil, but of significance when considered in relationship to other partners in the block, and the severe economic crisis that the country experienced, and highlighting the Uruguay, which had a negative growth of 20%, but as their participation is small, so smooth affects the average of the group. Block gives a low average rate of all the countries of Latin America, 24% in the same period.

In the table below (9), are discriminated manufactureiros the sectors with greater weight in each country, whose sum exceeds 50% of the value added in industry and the difference in the degree of diversification.

Table 9 - Industry Manufactureira in Mercosur sectors that corresponded to 50% or more of the VA in 1992 and 2002 in each country

Country	Sector	1992	2002
Brazil	Food and drink	12,9	13,5
	Refining oil, coke, etc.	12	12,8
	Chemicals	10,4	11,1
	Metallic Products	7,6	8,3
	Non-metallic mineral products	4,9	4,6
	Machinery and equipment	4,6	5,6
Argentina	Food and drink	19,9	22,8
	Chemicals	10,8	11,5
	Refining oil, coke, etc.	8,6	8,2
	Editorial and graphics	5,8	4,8
	Motor vehicles	5,7	4,9

Source: Unido

Brazil and Argentina have manufactureiros sectors with a strong component of natural resources - food, beverages, textile products, fuels, minerals and other products - showing the



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comparative advantage of these countries for the international insertion linked the exploitation of these resources. Another important because it is an indication that the production in these countries has significant participation from sectors that are important to the economies of scale, and the presence of small industries in technology intensive.

The external sector between 1990 and 2005 with Mercosur will significantly increased in the economic relations of the four countries with the world, especially with Brazil, which increased by four times the volume of commercial transactions in Argentina than doubled their transactions, as shown in Table 9.

Table 10, there is a growing increase in Brazilian exports, which were \$ 31.4 billion in 1990, reaching \$ 117.7 billion in 2005, an increase of almost four times. Argentina has already increased their exports significantly. In 1990 accounted for \$ 12.3 billion, rose to \$ 40.1 billion in 2005.

For imports, Brazil fell from \$ 20.7 billion in 1990 2005 2005 became A \$ 27.7 billion, higher than the increase over Brazil. In the case of Paraguay and Uruguay, the variation of these two countries was less expressive, the results were neutralized due to the increase in imports which grew at rates higher than those of exports.

Table 10 - Exports and Imports of Goods (Fob) (U\$\$ in billions currents)

País	1990	1995	2000	2005
<b>Exports</b>				
Argentina	12,3	21,1	26,4	40,1
Brazil	31,4	46,5	55,1	117,7
Paraguay	2,1	4,2	2,3	2,8
Uruguay	1,7	2,1	2,4	3,5
<b>Imports</b>				
Argentina	3,7	18,8	23,8	27,7
Brazil	20,7	49,7	55,8	73,5
Paraguay	1,7	4,5	2,9	3,4
Uruguay	1,3	2,7	3,3	3,8

Source: Cepal (2004), Cepal (2005b)

An assessment of the data shows that Mercosur is still just another trading partner of Brazil. There was a performance very different from Brazil in trade relations with Mercosur and other trading partners. The integration process needs to go further, to generate a block competitive both in exports and in the attraction of new investments in the international production system, which would be able to generate changes in the pattern of economic development in the region.



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#### 4. THE RELATIONS WITH OTHER ECONOMIC BLOCKS

Brazil maintains trade relations with various blocks, among the major OECD, NAFTA, Mercosur, UE, among others, and with which sells numerous products, and the key: vehicles (automobiles land, tractors, cycles and their ancillary part), electronics (machinery, sound and reproduction, parts, etc.), fuel (mineral fuels, mineral oils, waxes minerals), agro-industrial (preparations of meat, fish and crustaceans, molluscs and other aquatic invertebrates), footwear (shoes, and gaiters similar artifacts, and parts), oilseeds (seeds and oleaginous fruit, grains, seeds and fruits different; industrial or medicinal plants, straw or fodder) and meat (meat and offal, edible).

Imports and exports of the main Brazilian products in the OECD (Organization of Economic Cooperation for Economic Development), shows the great flow of OECD imports of cars, electronics and fuel. From 1995, under effect of the implementation of the Plan Real in Brazil, with the economic stability of the currency and overestimating there was a growing increase in imports from the country, that is also reflected in relations with the OECD. Only in 1995, Brazil imported US \$ 4304 billion automobile, tractors, parts and accessories, \$ 4.52 billion of electronic equipment and \$ 1.28 billion of material fuel. Then, this figure falls again, and in 2005 were imported \$ 2.81 billion, or half the value of 1995, but still much greater than in 1989, the year in which begins the series, which was of 304 million dollars. That is, the economy is opened, reached a peak, then a balance, not suffered much more drastic changes over the series. This is both the question of stability of the Brazilian economy, but also for advancing the process of modernization of the park productive Brazilian (Secex, 2006).

The trade balance is positive with the OECD, over virtually the entire evaluation period, in sectors of agroindustrializados, footwear, oil and meat. In electronic fuel and the balance is almost always negative, and on vehicles and parts are intense oscillation, to finish the evaluation period with considerable surplus.

With respect to NAFTA (Mexico, USA, Canada), with respect to imports and exports of goods perceive to be a significant increase in purchases of electronic products and drop in imports of agro-industrial products and meat, which shows the opposite of exports to this block, which tend to grow each year.

The European Union-EU is a traditional trading partner of Brazil. After opening trade in 1989, both imports as exports to the bloc had large amounts of growth. The only exception is the meat that had a very large drop in the volume imported. The largest increases in import volumes are related to vehicles, and electronics, 824% and 263% respectively. As for exports, the largest increase was in the meat industry, with a growth of 886% in the period (Secex, 2006).

After the process of opening of the Brazilian economy was an intensification of commercial relations of Brazil with the EU, but imports grew on average more than exports, which can be explained by the increase in imports of cars and electronics that had very high growth. However this growth has its peak in the first half of the period and then presents some stabilization, which shows that in the medium term the balance of Brazil will not be affected.

The ALADI - Latin American Association of Integration - (exclusive Mercosur) - Bolivia, Chile, Colombia, Cuba, Ecuador, Mexico, Peru and Venezuela, presented in the same



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way the EU, an increase in imports and exports averages. Only the industry of agroindustrializados that presented a considerable decrease of 14,144 million dollars, to 5.9 million. The automobile industry is what represents higher levels of exports to the ALADI, in 2000 reached almost \$ 1.4 billion through the \$ 2.2 billion in 2005, almost twice that. Other sectors with significant growth were electronics, with \$ 1.34 billion in 2005, and mineral fuels with \$ 659915 million in 2005 (Secex, 2005).

Brazil, after the process of opening, a major increased its business relationship with almost all countries and in virtually all areas. Today is a country inserted in the international market, and therefore need guarantee its position in that market. The integration into a block should be part of the effectiveness of such integration. Although Mercosur has helped to compose this increase in trade relations, it is still not the balizador, nor is believed that is, the process of insertion of Brazil. Forward to build commercial potential while integrated block is a goal to be pursued, although this is not the main goal of the actors involved.

## **FINAL CONSIDERATIONS**

The Mercosur comes at the end of the 80 under the ideas to strengthen the region and make it able to eliminate, in the long run, the character of dependence that characterizes Latin America and their countries. The region is currently the Mercosur, a customs union, because there is free trade, and there is a common external tariff for goods coming from non-member countries. However, a customs union is not perfect. There is also a number of exceptions to the free movement of certain products, many tariffs are still in the process of reducing the common external tariff and there is a huge list of exceptions. Unlike the European Union, the bloc does not yet have a supranational body endowed with autonomy and to act from simple decision making procedures without the need of constant inter-governmental negotiations. It is a fact that there is really a desire to form a common market, there are issues that have to be addressed and involving the sovereignty of states-parties. These basically are the discussions about whether or not to adopt a character of supra-national bodies for common, namely the creation of a supranational court.

Making an analysis in relation to the Brazilian economy, in terms of foreign policy, repeatedly sought the country diversify its trading partners. In certain periods, particularly during the bipolar economy, South America was focused. This is one of the factors that led the South American countries represent, in the years 1999 and 2000, the equivalent of 20% of exports - having reached 24% in 1997/98 - and 19% of imports. In 1989, the participation of neighbouring countries in exports was only 9%. But now represented 17% in imports.

The participation of South American countries exceeded the strong growth of Brazilian exports. In 1993, Brazil exported 162% more than in 1989, and even then, South America more than doubled its share, from 9% to 21% in the period.

For imports, the South American countries achieved only little more than maintain its participation, following the Brazilian growth. Between the years 1989 and 1994, the volume imported grew by 90%.

In Mercosur, the biggest trading partner of Brazil is Argentina, which in 2000 was responsible for 80.5% of Brazilian exports to the bloc and 87.7% of imports.

The relationship with Mercosur in Brazil presents, in actuality, rather dynamism, but much should be allocated to the internal rules of the block, as in the first four years of union



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exports quadrupled, from \$ 1.3 billion (1990) for \$ 5.3 billion (1993). In the field of imports, though less significant, was recorded a variation of 46% in the same period. Due to internal crises in Argentina and Uruguay, from 1997 to 2003 there were falls in imports and exports to these countries of the bloc in 1997 as Brazil exported US \$ 9045 million and imported \$ 9.42 million participation of 17.07 % and 15.07% respectively. In 2003, after the crisis in Argentina and Uruguay, the trade flow for Mercosur returns to grow in 2005 as Brazil exported US \$ 11.72 million and imported \$ 7.05 million, participation of 9.51% and 9, 59% respectively.

Despite measures to open trade with the reduction of tariffs aduaneirasde had relevant reflection, the greatest impact on the Brazilian Trade Balance was perceived with the overvalued exchange rate, which occurred in the second half of 1994, in the adoption of the Plan Real.

While Brazil is the favored in trade with the Mercosur countries, the growth of the Brazilian economy over these 15 years of life of the unit should not be exclusively for Mercosur, but the set of all economic factors affecting this process with the global economy.

Trade with Mercosur grew according to obtain trading partners and ensure market with neighbouring countries, which was effective in the first years of implementation of the block, but with problems over time due to internal crises in each country.

One of the problems of Mercosur relates to the fact that member countries are not acting in pursuit of mutual competitiveness of a real integration of parks productive, a joint insertion and solid in the world market, but only seeking better markets for their own products. The regional dynamics, turned out and dependent not undergone any change of direction, though mild, with the development of relations of Mercosur.

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