THE MERCOSUR, AGRIBUSINESS AND THE NEW MILLENNIUM

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MERCOSUR is an ambitious project of social, economic and cultural integration among six Latin American countries (Argentina, Brazil, Paraguay, Uruguay and, more recently, Bolivia and Chile). Established in 1991, it succeeds previous attempts at integration, such as ALALC (Latin American Free Trade Association) and ALADI (Latin American Association for Integration) and has shown some promising results in promoting regional trade and development.

International trade between member countries and between MERCOSUR and the rest of the world is limited to a relatively small group of commodities. There are also differences in size, population, market structure and stage of development among the members, suggesting that Argentina, Brazil and probably Chile will tend to play a leading role in the integration process, while Uruguay, Paraguay and Bolivia will lag behind. In this context, the search for adjustment and for equivalent and consistent macroeconomic policies is crucial for the eventual consolidation of MERCOSUR.

A paper from Paulo Araujo (written with G.E. Schuh and Alexandre C. Nicolella) provided macroeconomic data to illustrate the diversity of the economies in the region and considered some general characteristics of agriculture, with emphasis on Argentina and Brazil, which had the largest sectors. A major underlying theme of the paper is that agriculture may be a strategic sector for the consolidation and success of the MERCOSUR agreement. But stress was caused two years ago by the sudden devaluation of the Brazilian currency (the 'real'). Argentina has had an overvalued currency for a number of years owing to the linkage of the peso to the United States dollar and the attempt to 'dollarize' its economy. Fear of inflation has led to the continued use of this mechanism to force efficiency into the domestic economy, leading to political difficulties and painful adjustment problems for the labour force. The problems were exacerbated when Brazil devalued its currency by approximately 50 per cent, thus making the economy much more competitive relative to that of Argentina. The car industry became the centre of controversy, but Brazil's growing competitive edge in the international market for beef can be cited as another area of tension.

On the surface there appears to be ample room for a division of labour and specialization among the member countries of MERCOSUR. It is interesting to guess what trade patterns there would be if the members were pursuing flexible exchange rates. Argentina, for example, could become a substantial exporter of maize to Brazil. But Brazil should have a competitive edge in tropical crops, and possibly soybeans and livestock, while Argentina and Uruguay should have an advantage in temperate zone crops such as wheat, fruits and vegetables, and livestock. In fact, the emerging trade flows are consistent with these relative comparative advantages. Externally, there will be competition for third country markets for beef. All in all, the agricultural sectors of the member countries will have an important role to play in fostering the success of MERCOSUR. There should be widespread gains since all of them have some comparative advantage in the various primary crops, in livestock production and in processing. This remains the case despite the structural and institutional problems of the individual sectors.

Argentina has on several occasions suggested the dollarization of all the countries in the agreement, or the creation of an independent common currency. Although that might alleviate some of Argentina's adjustment problems in the short term, it is not likely to be a successful policy in the longer run. There are huge regional disparities in per capita incomes and in level of development within the countries of the region. Without flexible currencies to facilitate the adjustment process, internal political problems can hardly be avoided. The management of currencies is a hotly debated subject, evidenced by the lively exchanges in the symposium meetings.

The other factor that shapes competitiveness in the international agricultural economy, investment in research, is difficult to analyse without more primary data. Both Argentina and Brazil have vital agricultural research systems, and although support for both has declined in recent years, both are still very productive. Brazil, unlike Argentina, Paraguay, Bolivia and Uruguay, has the advantage of having vital PhD programmes to train its own agricultural scientists. That could eventually give Brazil a sustainable competitive edge, unless there is extensive investment in agricultural research by the private sector or a flow of new technology into the other countries from abroad.

Erly Cardoso Teixeira briefly described the results of a general equilibrium model for Argentina, Brazil and Chile. Lack of data resulted in the exclusion of Bolivia, Paraguay and Uruguay. The major conclusions of the study were that Brazil would experience a moderate rate of economic growth and might face a deficit in agricultural commodities markets such as wheat and maize.