

encourage direct investment, a key objective of the agreement. Argentina has special reason to focus on this issue. International investors concerned by continued instability in MERCOSUR may decide to avoid investing in Argentina as well as Brazil, despite Argentina's favourable domestic environment for foreign investment. A perception of regional instability and policy inconsistency, although caused in practice by Brazil, could end up tarnishing Argentina's efforts as well. For Argentina, problems with MERCOSUR could jeopardize not only its trading relationship with Brazil but also foreign participation in its economy more generally.

5. Brazil Tries Again - The Cardoso Presidency

Many Brazilian policy-makers recognize the need for serious reforms. The Brazilian Finance Minister Pedro Malan recently called for "urgent and lasting reforms in such areas as tax, social security and the civil service to end chronic inflation."⁵⁰ The question is not whether there is a recognition of the need for economic reforms in Brazil, but whether these reforms can be made quickly and comprehensively enough to overcome the threat that the economic differences between Argentina and Brazil pose to the success of MERCOSUR. In the words of Malan, the effort to reform Brazil's economy is not "just a marathon, but a marathon with obstacles".⁵¹ The question is whether Brazil can finish the marathon in time to avoid serious damage to MERCOSUR.

This is not to say that President Cardoso and his team are not moving in the right direction. Cardoso has been largely successful in getting his first round of constitutional reforms through the Brazilian Congress in the face of serious opposition. These reforms loosen the state's grip on the economy. As of mid August 1995, the Brazilian Senate had approved constitutional amendments that would end distinctions in the Constitution between foreign and domestic companies, allow private companies to distribute piped gas, permit cabotage of passengers (but not cargo) between Brazilian ports by foreign firms and end the monopoly of Telebras, the state telecommunications company, over the telecommunications sector. The Senate is still debating the approval of an amendment which would end the monopoly of

⁵⁰ "Brazil Economic Stability A Long-Term Job - Malan", Reuter News Service, 27 June 1995.

⁵¹ Ibid.