

about deep economic reform to achieve policy symmetry quickly, it is likely that confrontations similar to the auto import dispute will continue to plague MERCOSUR.

Another major challenge to MERCOSUR is the threat of low-cost Brazilian exports to Argentina causing severe damage to Argentine industry. The early 1990s saw "a flood of cheap imports entering Argentina from Brazil."⁴⁶ Many in Argentina thought that Brazilian exporters to Argentina were able to undercut the prices of their Argentine competitors because of the high rate of inflation in Brazil and the consequent impact on the peso-real exchange rate. The President of the Unión Industrial Argentina complained in a 1993 letter to Argentina's Minister of the Economy that "Brazil's industrial sector . . . was using four-digit annual inflation to its advantage by keeping price hikes above those for salaries, and using a virtually worthless cruzeiro currency to underprice producers here [*in Argentina*]."⁴⁷ As a countermeasure to the resulting erosion of its trade balance, Argentina adopted at that time a series of temporary actions against Brazilian imports.⁴⁸ Although the Real Plan has brought down the rate of inflation, some argue that there is a real possibility that, without major reforms to the Brazilian fiscal system, inflation will flare up again in Brazil. If a surge in Brazilian exports to Argentina were again to be the result, this would seriously strain Argentina's relationship with Brazil.⁴⁹

The most probable danger is that recurring crises will create a climate of uncertainty for business within MERCOSUR as a whole. Without stable rules to create a climate of certainty for business planning, both domestic and international companies will be discouraged from making investments. Therefore, any degree of serious instability in MERCOSUR is likely to undermine the region's ability to

⁴⁶ R. G. Dearden, R. J. Hofley and J. Lagos, "The Mercosur Integrates South American Economies", *NAFTA Watch*, 16 March 1994, p.7.

⁴⁷ Richard Kessler, "Argentine Industry Seeking Delay in South America Free Trade", *Journal of Commerce*, 2 December 1993, p. 4A.

⁴⁸ Dearden, Hofley and Lagos, "The Mercosur", p.7.

⁴⁹ Failure to live up to its MERCOSUR obligations has not been entirely a Brazilian fault. In March 1995, "Argentina reintroduced their 'statistics tax' at the 3 percent level on all third country imports, except for breeding stock, seeds, mineral fuels, paper, books and newspapers, capital goods and computer and telecommunications equipment, where the tax is zero (currently there is no commitment to phase out this tax). This effectively means ... that Argentina is opting-out of the CET (i.e., total import taxes per tariff item will be 3 percent above the CET), except where the "statistics tax" is zero." C. William Robinson, *Mercosul What It Is, What It Does*, (Canadian Embassy Brasilia, 6 April 1995), p. 15.