

possible circumvention might demand a rule of origin (in this case, a good exported from Argentina to Brazil would have to demonstrate that it was substantially transformed within the MERCOSUR area before entering Brazil duty free - otherwise, Brazil could charge the full CET).

But the fact is that the products where the greatest Brazilian sensitivity lies with regard to North American competition are by and large those products where the CET still does not apply (e.g., capital goods, telecommunications and infomatics products). Consequently, each MERCOSUR member retains its own individual duty level on third country imports of these goods for the time being. Thus intra-area trade in these products is already subject to a rule of origin with its added transaction costs and inconvenience for the private sector. If Argentina were to join NAFTA, there might be pressure to create MERCOSUR rules of origin for a few additional product groups, but the most likely candidates (again, reflecting Brazilian sensitivities about North American competition) are precisely those already caught in the CET transitional process. An entirely new régime would not have to be constructed - there already is a rule of origin requirement, even if some fine-tuning might be sought following Argentine accession to the NAFTA.

Moreover, if Brazil sticks to its Miami Summit commitment of hemispheric free trade by 2005 then this issue should be relevant only for a limited time, as hemispheric free trade must mean that the MERCOSUR CET would not apply in any event to imports into any MERCOSUR country from the NAFTA countries. Consequently rules of origin within MERCOSUR would not be required on internal trade because all members would be charging the same import duty at their respective borders (the CET on non-hemispheric goods; a zero duty for imports from each other and the rest of the hemisphere including North America).

#### 8.4 Quid Pro Quo

On acceding to NAFTA, Argentina might be expected by Brazil to extend a number of trade and investment liberalizing measures to its MERCOSUR partners. It is unlikely that Argentina would be willing to provide liberalizing measures without receiving something in return from its MERCOSUR partners. There is a strong argument for reciprocity in practice. Reciprocal adoption of these measures would be in the interest of the MERCOSUR parties because it would help ensure the success of the agreement by creating stronger disciplines in a number of areas. Southern Cone integration would benefit from such deeper reciprocal commitment. Also, a convergence of the NAFTA and MERCOSUR to a high common standard in the liberalization of merchandise trade and investment would represent important steps