

authority to block profit repatriation if international reserves drop and to tax foreign investment if it is seen as causing "undue" inflationary pressures.²⁸

Both Argentina and Brazil have made significant progress in liberalizing their trade regimes since the 1980s by reducing both tariff rates and non-tariff barriers.²⁹ The most important element of both the Brazilian and Argentine trade policy regimes is, of course, the MERCOSUR agreement which establishes a common external tariff (CET), ranging between 0 and 20%, for most imports from non-members by 2001 and all imports by 2006. As of January 1995, 85% of tariff items were covered by the CET. Both Brazil and Argentina have a list of national exceptions to the common external tariff. There are also general exceptions for the capital goods, telecommunications and infomatics sectors.³⁰ These exceptions are scheduled to be phased-out until complete CET coverage is achieved. Brazil's list of exceptions to the common external tariff, as of May 1995, included 93 tariff lines at 70%.

Both Argentina and Brazil also maintain non-tariff barriers to imports of goods and services. Brazil's barriers to trade are arguably much greater because they include strong "Buy Brazilian" provisions governing procurement by federal, state and municipal governments and by state-owned corporations. As these entities form a large part of the Brazilian economy, government procurement policy is a significant barrier to imports of goods and services.³¹

4. The Impact on MERCOSUR

As this survey shows, Argentina's economy has progressed further towards the free market goal than Brazil's. The results are commensurate with this progress. Since 1991, growth of real GDP per capita has been significantly higher in Argentina

²⁸ Patricia Saldanha, "Brazil Won't Use Tax Mechanism on Foreign Investment Right Away", *Journal of Commerce*, 8 March, 1994, p. 4A.

²⁹ See Chapter 1 of *Progress in Structural Reform, An Overview*, (OECD: Paris 1992).

³⁰ In addition, automotive sector trade between Argentina and Brazil is managed and thus constitutes an exception to the CET.

³¹ For a recent survey of Argentine and Brazilian barriers to trade, see United States Trade Representative, *1995 National Trade Estimate Report on Foreign Trade Barriers*, (Washington D.C. 1995).