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After Effects of the Brazilian Devaluation: Strains in Mercosur

The devaluation of the Brazilian currency early in the year has accelerated Brazil's economic recovery but has also led to strains within Mercosur. Brazilian manufacturers and service providers have benefited as the real has become cheaper against other major currencies. However, Argentina, one of Brazil's Mercosur trading partners, has seen its economy strained by the flood of cheap imports coming from Brazil. Agreements brokered by the private sector calmed the dispute for the short term, but a top Brazilian official said that bilateral accords are not conducive to developing a free trade zone within the region.

Argentina has also taken other steps to moderate the trade imbalance. In August, the country implemented stringent new proof-of-origin rules on goods from non-World Trade Organization countries, including Taiwan and the Republic of China. The new rule, Resolution 305, requires companies exporting into Argentina to provide an original certificate of origin for each of the parts. A number of computer manufacturers outsource the manufacturing of such items as motherboards and computer mice to a number of different companies in Taiwan and China. Obtaining original certificates from each of these manufacturers is a burdensome and time-consuming task that has had a serious impact on companies' ability to efficiently move goods into Argentina.

Resolution 305 further complicates the flow of goods when these products pass through ports in other countries on their way to Argentina. The original certificates of origin are often handed over to customs officials in these intermediate ports.

Inside This Issue:

Customs Automation in Latin America

A couple Latin American countries are taking the lead in customs automation. Chile and El Salvador are making their customs processes the standard by which their neighbors will have to measure themselves. Both have embarked on advanced automation projects that place them on the same playing field or even ahead of many developed countries.

El Salvador and Guatemala are unifying their customs systems. Yet this is only a part of El Salvador's overall customs modernization program. The country has simplified and streamlined its overall customs operations. Clearance procedures that previously required six signatures and 22 steps now

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INTERNET GROWTH IN LATIN AMERICA

Internet usage in Latin America is dramatically increasing. With a very low, but growing, rate of telephone penetration in the region, telecommunications companies have room to grow. As they do, the Internet will be right behind them. The number of Internet users in Latin America is approximately 6.1 million, a number which is expected to at least triple within the next five years.

Software and Internet Portal companies are aware of this fact and have seized opportunities to participate with Latin American telecommunications companies and Internet providers. For example, Microsoft currently has a partnership with Telmex (a Mexican telecommunications firm) to provide Spanish-speakers with email and online shopping; Lycos launched 12 sites in Brazil, Mexico, Argentina, Chile, Peru, and Venezuela; and Yahoo! has done similarly.

Despite the aid from multinational corporations (MNCs), Latin America will have to continue a certain degree of progress on its own. The cost to consumers for telecommunications services is still relatively expensive, a major cause for the low volume of users, compared to many developed countries. However, recent privatizations are increasing competition, lowering costs, and improving efficiency. Also, the increased competition throughout the region is decreasing the price of computers, allowing many low-to-middle income families access to the Internet.

If the trends hold true, they will have a substantial impact on trade in the Americas. Many experts project an increase of Internet access to over 30 million Latin Americans within a very short period of time. The United States has population of 30 million Spanish-speakers, with an estimated $383 billion in buying power. A study in Hispanic Market Weekly finds that 32 percent of PC-owning households in the United States are Latino.

Several Internet Portal companies are targeting Spanish-speaking people. One of these is StarMedia.

StarMedia

StarMedia is a pioneer of Latin American Internet growth. Because of their strategy, they attract many American retailers who seek greater sales volume to the Spanish-speaking populations of many nations.

StarMedia Network is a New York-based online service company that runs Web sites geared to the large Spanish and Portuguese-speaking markets of the Western Hemisphere. In its efforts to reach a growing Internet market, StarMedia has teamed up with AT&T, who will handle some technical aspects of StarMedia's expansion.

StarMedia is already in Brazil, and will gain access to Argentina, Chile, Colombia, and Mexico before the end of the year. Its Periscopio guide alone provides access to 24,000 Spanish-language sites. Also, by recently acquiring Webcast Solutions, Inc., StarMedia will be able to provide high quality audio and video services.

REVIEW OF MEXICAN TRADE AGREEMENTS

While many Americans still debate the benefits of free trade, Mexico continues to surge ahead. Besides NAFTA, Mexico has established trade agreements with many of its southern neighbors. A lesson that Mexico is teaching others is that free trade can be mutually beneficial.

The following is a list of countries with whom Mexico has multi-lateral and bi-lateral trade agreements: Argentina, Bolivia, Brazil (currently negotiating), Colombia, Costa Rica, Chile, European Union (currently negotiating), Nicaragua, NAFTA, Uruguay, Venezuela.

Mexico is continuing negotiations with Central America, Ecuador, Peru, and the European Union. Mexican trade agreements also include links to several regional trade blocs such as Mercosur, the Andean Community, and the Central American Common Market.

AGREEMENTS IN BRIEF

Chile ~ Central America

Chile and a bloc of Central America countries signed a free trade agreement focused mainly on agricultural exports, sanitation, and intellectual property. The participating Central America countries are Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica. Belize, the Dominican Republic and Panama are observers to the treaty. Central America and Mexico have also been negotiating a free trade treaty, however talks have been bogged down in discussions over agricultural products. The difference in growing seasons facilitated the agreement between Central America and Chile.

Colombia ~ International Monetary Fund

Colombia floated its currency, the Colombian peso, after sealing an agreement with the International Monetary Fund (IMF). The aid package from the IMF will be worth $2.7 billion over the next three years. This money is in addition to a $4.2 billion package put together by the World Bank, the Inter-American Development Bank, the Corporación Andina de Fomento (CAF) and the Fondo Latinoamericano de Reservas (FLAR). The purpose of the aid package is to help Colombia bring an end to its worst recession in 60 years. As a condition of the World Bank funding, the Colombian government has agreed to expand its social spending by $900 million over the next three years. The move by Colombia to float the peso shortly followed Chile's decision to allow its currency to trade freely. The Colombian peso is currently trading close to the rate it closed at (1994.49/dollar) September 24, the last trading day before it floated.

Mexico ~ European Union

Delays in the process mean a free trade pact between Mexico and the European Union (EU) will most likely not be adopted this year. Mexico and the EU had hoped to finalize an agreement by the end of 1999, but with technical issues still under negotiation it is doubtful that a final proposal can be made before the end of the Mexican Senate's current session.

Of particular interest to US manufacturers with Mexican subsidiaries are the negotiations regarding rules of origin. Depending on the final language, the trade pact may be a back door for US companies to export goods into the EU market.

Other issues on the table include market access and zero-tariff schedules. Problematic for market access negotiations is the perennially sensitive discussion over agricultural products. Grains, dairy, sugar and meat have already been excluded from the trade agreement.

Mexico ~ United States

The Mexican Secretariat of Commerce and Industrial Development and the US Department of Commerce signed an agreement to strengthen efforts to foster the growth of electronic commerce. The initiative encourages the use of video conferencing, information technology and virtual trade shows between the two commerce departments of each of the countries. US Undersecretary David Aaron said at a recent conference that the private sector must lead in the development of e-commerce and he encouraged the Mexican government to join the US government in taking a back seat in the growth of the field.

El Salvador - Guatemala

A senior official from the El Salvadoran Customs Administration recently told a conference that El Salvador and Guatemala are working towards an integrated customs system. In August, the presidents of the two countries signed an accord to merge the border operations of the two countries. This step moves Guatemala and El Salvador a step ahead of the common customs code that the Central America region follows.

The unification of the two customs computer systems will speed passage across the borders, not only for carriers from the two countries, but for shippers coming from Mexico or the other Central American countries. The information collected by computer on one side of the border will automatically transfer information to the customs post on the other side. The software will make allowances for differences in valuation and tariff schedules.

CUSTOMS AUTOMATION

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require only one signature and six steps.

Once the Salvadoran Customs Administration has the necessary agreements in place with banking institutions, they will offer electronic duty payment to shippers and importers. Shippers and importers will also receive a new electronic communications software package in March 2000 to expedite communications with the Customs Administration.

Chile is another Latin American country that is looking to automation to increase the speed of customs clearance. Chile already uses electronic filing for preclearance. Now they are looking at modifying existing software systems to further increase their efficiencies. One of the possible software packages is Brazil's Blue Line program which is used by a number of US exporters. Chile wants to create an expedited clearance process for large volume shippers and then rely on post arrival audits for compliance purposes. Systems such as Blue Line would support large scale expediting. The Chilean Customs Administration is also proposing that in the future companies with good track records be allowed to move their goods into the country and then pay their customs fees in a lump sum at the end of the month.

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