The rise of protectionism and Argentina’s nationalization of the YPF oil company illustrates how bankrupt the Mercosur project has become. Brazil can only lose by being identified as belonging to the same group as Argentina. It is being harmed from an economic point of view, and recent events are being used to strengthen the position of sectors that do not consider regional integration to be relevant.

On April 16, 2012, the Argentine government announced the expropriation of 51% of the shares in oil company YPF held by the Spanish company Repsol, which was YPF’s main shareholder. The justification claimed was that a lack of investment had brought about a trade energy deficit that started in 2010. (Critics of nationalization instead blame the government’s policy since 2003 of controlling oil prices, which inhibited YPF’s plans to expand production.) Another view sees the expropriation as a nationalist strategy to ensure the development of Argentina’s strategic reserves, one that parallels increasing protectionist measures since 2008.

The nationalist bias of Argentine politics seems to stem from both political and economic assessments. Some nationalist
symbols (the Falkland/Malvinas Islands and the YPF nationalization) are politically popular with some sectors of society. The economic issue relates to constraints on the country’s stable development.

Growth
After defaulting on its external debt and seeing GDP fall by 10%, Argentina in 2003 entered a period of high economic growth that coincided with the election of President Nestor Kirchner. The winds stayed favorable due to high commodity prices, despite the shock of the global crisis of 2008–09. However, underlying restrictions on sustained growth in Argentina came to the forefront after the crisis as President Cristina Kirchner reaped the legacy of the 2002 default and Argentina found it difficult to obtain financing in international capital markets.

In 2011, uncertainties again dominated the international scene. World trade had grown by 14% in 2010 but fell to 5% in 2011, and the World Trade Organization (WTO) expects growth of only 3% in 2012. At the same time, Argentina started recording deficits in the oil and current account balance of payments. A tax imposed on soybean exports later had to be lifted; private pension funds were nationalized; and central bank international reserves were used to finance government. Meanwhile, the Kirchner administration sought to address the current account deficits with protectionist measures that have been widely criticized.

At the March 30 meeting of the Council for Trade in Goods of the World Trade Organization (WTO), the United States submitted a statement, with which at least 11 countries and the European Union concurred officially, that expressed concern about Argentina’s protectionist trade practices. According to the WTO, among countries that did not sign the declaration but did express support were Mexico, China, Colombia, Peru, Singapore, and Malaysia. Thus the countries unhappy with Argentine practices account for almost 50% of Argentine exports. Argentina’s principal trade partner, Brazil (market for 20% of Argentine exports), remained silent.

Exports
In 2011 Argentina was the third largest market for Brazilian exports (8.9%), after China (16.5%) and the United States (12%). In early 2012, new Argentine rules for imports steeply suppressed Brazil’s exports to Argentina. Though total Brazilian exports increased by 7.5% in the first quarter of 2012 year-on-year, exports to Argentina fell by 4.4%; exports of Brazilian manufactured goods fell 2.4%. Argentina buys 20% to 25% of Brazilian manufacturing exports. Reports of Brazilian trucks stuck at the Argentine border waiting for release of their loads have become frequent. (Though about 50% of trade between Argentina and Brazil is automotive-related, that trade is still protected from these measures.)

In addition to the possible losses to exporters, the irritation caused by Argentinean protectionism further worsens the fragile discipline of Mercosur. Speaking to the World Economic Forum on Latin America in April in Puerto Villarta, Mexico, The president of Spain, Mariano Rayo, has said that the Argentine decision to nationalize the YPF is damaging to all Latin America.
We do not believe that Brazil’s image has been contaminated by the Argentine government’s policy choices. However, they have damaged small and medium-sized Brazilian companies.

the president of Spain, Mariano Rayo, said the Argentine decision to nationalize YPF is damaging to all Latin America. The decision creates a precedent that investors fear could be repeated elsewhere the region, at a time when recovery of the world economy is still uncertain. As a result, we should expect less European investment. Countries in the region should understand that Europeans need regional leaders to work to curb protectionist actions of their neighbors. If the European Union supports Spain, Brazil could promote debate in Mercosur on how to minimize conflict. After all, strengthening Mercosur requires that the whole region be economically stable. The problem here is that for some time national interests have outweighed the Mercosur union.

Caution
What is the impact for Brazil? The Brazilian oil company, Petrobras, has announced that its investments in Argentina’s energy sector will continue to be guided by criteria that ensure continuing profitability. Brazilian companies established in or intending to invest in Argentina are on hold, but Argentina is an important step toward internationalization of Brazilian companies.

So far as trade relations go, agreement between Mercosur and the European Union seems ever more distant. Those who advocate a Brazilian trade agenda of agreements independent of Argentina see recent events as arguments in defense of their positions. Argentina’s protectionist measures also stimulate demands that Brazil retaliate.

We do not believe that Brazil’s image has been contaminated by the policy choices of the Argentine government. However, they have damaged small and medium-sized Brazilian companies that in general have more difficulties in overcoming bureaucratic hurdles and diverting their production to other markets.

Recent events in the region, not only Argentina’s protectionism but also nationalization of foreign companies in Bolivia as well as Argentina, retard the consolidation of Mercosur, which was intended to raise the region’s competitiveness and improve its people’s welfare. This has happened before. Mercosur negotiations stopped in the late 1990s and did not resume until 2003. Since then, as the largest economy in Mercosur, Brazil has been active in promoting investments in the region and pays most of the joint project costs. This new Brazilian attitude, however, has been accompanied by a relaxation and virtual abandonment of any discipline Mercosur created over the years. Countries’ claims have been accommodated by making exceptions to the common external tariff (customs union, if any, is not likely before 2018) and free intra-regional trade. Recent events only reinforce this trend.

In addition to the possible losses to exporters, the irritation caused by Argentina’s bureaucratic protectionism further worsens the fragile discipline of Mercosur.