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BRAZIL V. ARGENTINA: DIFFERENT RESPONSES TO THE RISING FOOD COMMODITIES MARKET

David Gibson*

BRAZIL and Argentina have always been rivals in just about every category. From football to social policies, the two countries compete to try to be the most dominant in South America, despite their similar backgrounds. Both countries are world leaders in agriculture, most significantly in soy beans and grain. The World Bank has estimated that food prices have risen on average by eighty-three percent since 2005.¹ These high prices in recent years have prompted both countries to try to capitalize on this market upswing through their agricultural sectors. The influence of these factors, combined with a need to increase economic growth and fund social programs have led to a large amount of policy reform and new governmental actions by both countries. But their government's actions in trying to accomplish these goals have been markedly different and have produced drastically different results.

I. BRAZIL'S AGRICULTURAL BACKGROUND

Brazil, through its economic background, laid a foundation of liberal economic policies designed to maximize production. In the late 1980s, Brazil began to move toward a more laissez-faire and free market oriented policy for its economy, which has had a major impact on its agricultural sector.² The result of these changes is that the agricultural gross product for the country from the beginning of this policy-shift to present has more than doubled.³ Further, agricultural exports rose from thirteen billion dollars in 1990, to over thirty-two billion dollars in 2005, making it the world's third largest exporter of agricultural products.⁴ By 2004, the agricultural sector of Brazil's economy generated 183 billion dollars, roughly thirty percent of the country's GDP, employing thirty-five percent of the work-force, and accounting for forty percent of the year's total

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1. Jake Caldwell, *Food Crisis 101* (Center for American Progress, May 1, 2008), http://www.americanprogress.org/issues/2008/05/food_crisis.html.

2. Fabio R. Chaddad & Marcos S. Jank, *The Evolution of Agricultural Policies and Agribusiness Development in Brazil*, CHOICES, 2nd Quarter, 2006, at 85, available at <http://www.choicesmagazine.org/2006-2/tilling/2006-2-08.htm>.

3. *Id.*

4. *Id.*

exports from Brazil.⁵ Therefore, agriculture plays a major role in the livelihoods of many Brazilians, and its economy deeply depends on this sector.

There have been significant constraints, however, on this attempted development in the past. These constraints include trade barriers and government initiated subsidies by competing nations to their domestic producers and exporters.⁶ Past exchange rate instability, a considerable amount of confusion in defining property rights to land, and a relatively poor infrastructure caused logistical bottlenecks that limited the efficiency of the movement of products from the producers to market.⁷

The government of Brazil, starting with the Cardoso administration, fought these constraints by shifting priorities in agricultural policy to land reform in an effort to increase production and employ more of Brazil's available work force.⁸ Under Cardoso, 500,000 new family farms were created on land that had been prepared for cultivation under Cardoso's agrarian government spending programs.⁹ Further, under the program known as PRONAF, the government tried to help these family farmers by subsidizing credit lines, supporting new building projects, and by increasing agricultural research in an effort to boost the productivity of these farms.¹⁰ Brazil's spending on agrarian re-organization programs had enlarged to forty-five percent of total expenditures by the time of the Lula administration.¹¹ For instance, spending on land reform increased from "R\$1.84 billion in 2000, to R\$2.4 billion in 2004" and expenditures on support of family farming under PRONAF went from "R\$1.4 billion to R\$2.8 billion" during this same time frame.¹² Farming techniques also changed dramatically through the research and employment of modern planting practices that were encouraged through the rise in Brazil of larger agricultural operations.¹³

These economic reforms were aimed at reducing domestic taxes, export taxes, and restrictions on agricultural exports to try and promote a more free market system.¹⁴ The government also reduced a large amount of the state's interference with agricultural markets by privatizing state agricultural businesses.¹⁵ This was primarily achieved through the Real Eco-

5. *Id.*

6. *Id.*

7. Constanza Valdez, *Brazil's Booming Agriculture Faces Obstacles*, AMBER WAVES, Nov. 2006, available at <http://www.ers.usda.gov/AmberWaves/November06/Features/Brazil.htm>.

8. Rex A. Hudson, *Brazil: A Country Study, Agriculture*, WASHINGTON: GPO FOR THE LIBRARY OF CONGRESS (1997), available at <http://countrystudies.us/brazil/71.htm>.

9. Favio R. Chaddad, *supra* note 2.

10. *Id.*

11. *Id.*

12. *Id.*

13. *Id.*

14. Valdez, *supra* note 7.

15. *Id.*

conomic Stabilization Plan.¹⁶ This economic plan also had the goal of trying to reduce inflation, and it was able to do this by around five percent per year through implementing a floating exchange rate.¹⁷ Reduced inflation caused the currency to depreciate, but it also resulted in lower supply cost for agricultural products. This low cost, combined with new opening markets created by the privatization of many agricultural businesses, created a major stimulus in many agricultural sectors, most notably in soybean production.¹⁸

These policies since the 1980s resulted in an increase in the average laborer's income, a reduction in Brazil's poverty level, and a major increase in food consumption by the average Brazilian.¹⁹ Most importantly, these policies laid the foundation for more recent governmental policies. These policies are now designed to take advantage of the world's increasingly larger and more expensive food commodities market by trying to further increase production, further combat poverty, further increase Brazilian's wages, and decrease unemployment levels.

II. BRAZIL'S RESPONSE

Since 2000, the value of Brazilian agricultural exports has grown at an average rate of 20 percent per year.²⁰ Brazil, in response to the current rise in the prices offered for agricultural products on the international food commodities market, has attempted to increase production and increase global competitiveness in an attempt to try and increase their export levels.²¹ Brazil implemented laws that increased the amount of credit available to farmers, and has continued the shift from the traditional economic model that it followed before the Cardoso administration to a more global industrial model for its agriculture.²² The increase in capital has led to more direct investment by large agricultural companies in Brazil.²³ This has displaced many domestic and foreign competitors and increased agricultural industry concentration.²⁴ But this has also eliminated many medium and small agricultural companies in Brazil.²⁵ The agricultural production in Brazil, through these recent policy shifts, is also modernizing and becoming increasingly capital intensive, which has led to the need for more available credit.²⁶ Further, the need for integrated upstream and downstream supply chain participants with these

16. *Id.*

17. *Id.*

18. *Id.*

19. Marcus Vinicius Pratini De Moraes, *Livestock and Food Supply of the Federal Republic of Brazil*, World Food Summit, 1996, <http://www.fao.org/DOCREP/005/Y4172M/rep2/brazil.htm>.

20. Valdez, *supra* note 7.

21. *Id.*

22. Chaddad, *supra* note 2.

23. *Id.*

24. *Id.*

25. *Id.*

26. Valdez, *supra* note 7.

large agricultural operations has created new industries and new jobs associated with agricultural supply.²⁷ Soaring demand and foreign investment in the form of investment capital from countries such as China and India has also helped boost Brazil's export growth through the rise of these large agricultural companies.²⁸

The government, in an attempt to maximize this growth and capitalize on the increased demand; has set preferential credit to the agricultural sector; implemented many tax exemptions to businesses in the agricultural sector; financed agricultural research, marketing, and infrastructure improvements; and has implemented a large amount of federal, state, and local subsidies.²⁹ This has resulted in expanded resources and capital for agricultural production, making it easier to expand production by increasing the amount of area that is being used for agriculture, and making the land that is being used already to produce more.³⁰ Also, the government has implemented a record amount of farm credits in 2008 (a form of indirect subsidy) to try and further promote an increase in production while the price of exports is still high.³¹ In addition, the government has also implemented a new R\$49 billion credit line for farmers both large and small, up twelve percent from the 2007 total.³² This credit line should allow farmers to have more resources to buy necessary supplies and equipment to promote production. Most of this credit also comes with reduced interests rates and longer payoff periods than in previous years.³³ Further, wages in Brazil have not risen sharply but remained on a steady slow climb; the money supply, through the above stated efforts, has expanded by seventeen percent, opening up even more available capital to farmers by keeping their cost of operations low.³⁴

The increased export and sale of these agricultural products has directly led to increased rural investments and has generated income and rural jobs that seem to be on a sustainable basis.³⁵ In 2008, the soy bean harvest set a record for Brazil, and another record harvest is also expected for corn, which is being grown in the same fields.³⁶ Agricultural income in Brazil should total around R\$156.7 billion in 2008, approxi-

27. *Id.*

28. *Id.*

29. *Id.*

30. *Id.*

31. Andrew Downie, *Two Approaches to Exploiting Higher Food Prices*, INT'L HERALD TRIB., Aug. 27, 2008, available at <http://www.iht.com/articles/2008/08/27/business/farm.php> (on file with author if the NY Times who has bought out IHT does not end up adding this file to the new database).

32. *Id.*

33. *Id.*

34. Byron Wein, *Weep for Argentina; Cheer for Brazil* (Pequot Capital Management, Inc, August 2008), available at www.newyorkhedgefundroundtable.org/documents/BW%20August%202008.pdf (on file with author).

35. De Moraes, *supra* note 19.

36. Thomas Omestad, *Brazil's Rising Food Power in a Hungry World*, U.S. News, May 8, 2008, available at <http://www.usnews.com/articles/news/world/2008/05/08/brazils-rising-food-power-in-a-hungry-world.html>.

mately seventeen percent more than 2007.³⁷ The Real has risen twenty-five percent against the U.S. dollar since 2007, and Brazilian stocks have been on a steady rise since 2003 with only a few severe corrections.³⁸ This economic growth and large amount of agricultural production at a time when food prices on the international commodities market are high must be attributed to the policies implemented by Brazil's government.

Brazil's future outlook is very promising despite the recent global recession. Brazil is already the number one exporter in the world for beef, chicken, soy, sugar, orange juice, and coffee, and these products' production levels should continue to increase through these policies implemented by the government.³⁹ In addition, there are still over 220 million unused acres of land in Brazil available for farming.⁴⁰ This has made investors more optimistic about Brazil than in the past due to its huge potential for increased production.⁴¹ Further, Brazil is a major consumer and producer of ethanol, and as the world's demand for alternative fuels rises despite the recent drop in oil and gas prices, so does the demand for Brazilian agricultural products.⁴²

But there are some constraints that could have the potential to slow Brazil's agricultural growth in the future. First, the current level of indebtedness by farmers in Brazil could constrain the amount of credit available in the future.⁴³ Also, the amount of credit that will become available, due to recent financial collapses and turmoil, will most likely have a much higher interest rate than before, despite the government subsidies available.⁴⁴ Additionally, due to the indebtedness of the farmers, any subsequent loans will be considered a higher risk than the previous loans, making these loans potentially less available.⁴⁵ Second, land expansion will most likely slow as the expansion begins to creep more into the Amazon and Cerrados.⁴⁶ International environmental concerns combined with technological difficulties in growing in these areas will most likely hamper the ability to sustain the recent large amount of expansion in the agricultural sector.⁴⁷ Third, Brazil's development of its infrastructure and transportation network will most likely not be able to keep up with this recent rapid expansion of the agricultural sector.⁴⁸ Therefore, there will most likely be bottlenecks surrounding the transportation of getting these products to international markets, creating the po-

37. Flávia Albuquerque, *Better Wages in Food Industry in Brazil Grow 21% this Year*, BRAZIL MAGAZINE, Aug. 18, 2008, available at <http://www.brazzilmag.com/content/view/9780/>.

38. Wein, *supra* note 34.

39. Omestad, *supra* note 36.

40. Downie, *supra* note 31.

41. Wein, *supra* note 34.

42. *Id.*

43. Valdez, *supra* note 7.

44. *Id.*

45. *Id.*

46. *Id.*

47. Omestad, *supra* note 36.

48. *Id.*

tential for dead loss and slowing growth.⁴⁹ Fourth, fluctuations in fuel and fertilizer prices due to the increased demand for these products as a result of varying oil and gas prices will also decrease the amount of capital available to farmers for expansion.⁵⁰

Despite these drawbacks, Brazil remains in a position for continued growth and an increase in production for its already formidable agricultural sector. This growth, as marked already by the record harvests of soy and predicted record harvest for corn, will enable Brazil to take in a large amount of taxes, thus further enabling it to fund other sectors and priorities of its government. Therefore, Brazil has put itself in a position to maximize its agricultural output and cash in on the ever increasingly global food commodities market. This in turn, should lead to increased revenues for the government, more jobs for the Brazilian people, and less poverty.

III. ARGENTINA'S AGRICULTURAL BACKGROUND

Argentina, in contrast, has taken very different steps in response to the rising global food commodities market. These steps are partially a result of the economic and agricultural background of Argentina. Since the 1970s oil shock, Argentina has gone through numerous periods of economic crisis and government coups. In addition, the failed invasion of the Falkland Islands also had a major impact on the country's economy, most notably in its GDP. From 1981-1982 the GDP shrank by twelve percent through a marked economic crisis.⁵¹ Further, the Central Bank of Argentina implemented a policy known as "Circular 1050", which tied adjustable loan rates to the relative value of the US Dollar.⁵² This caused interest rates to rise sharply during this period and directly led to a drop in fixed investment in Argentina through foreign countries by forty percent.⁵³ Later policies by the elected democratic government helped create a twenty billion dollar trade surplus, but tax evasion and the further loss of foreign investment capital during this period forced the Central Bank to print money to cover Argentina's foreign debt.⁵⁴ In addition, the United States recalled a \$350 million loan package that also sent the Argentine Austral into a sharp decline in value.⁵⁵ From 1975-1988, inflation averaged over 200 percent per year and peaked at 5000 percent in 1989.⁵⁶

49. *Id.*

50. *Id.*

51. David Rock, *Racking Argentina*, NEW LEFT REVIEW, Sept. 7, 2002, at 10, available at <http://www.newleftreview.org/?view=2410>.

52. *Id.*

53. *The Statistical Abstract of Latin America*, University of California, Los Angeles, *Argentina: From Insolvency to Growth*, 187-192, World Bank, 1993, available at http://www-wds.worldbank.org/servlet/main?menuPK=64187510&pagePK=64193027&piPK=64187937&theSitePK=523679&entityID=000009265_3970716142407 (World Bank).

54. *Id.*

55. *Id.*

56. *Id.*

To fight this crisis, the Argentine government shifted policies toward more trade liberalization, deregulation, and privatization, similar to its Brazilian rivals. In an effort to bring in more foreign trade and increase the level of foreign investment, the government privatized most of the state-controlled businesses.⁵⁷ Inflation fell significantly in the early 1990s and the GDP grew at an average of 5.5 percent between 1990 and 1998.⁵⁸ But the strengthening of the currency markets in Argentina led to a boom in imports as their price on averaged dropped and again left a large trade deficit of twenty-two billion dollars by 1999.⁵⁹ This trade deficit coupled with further tax evasion created a large amount of debt for Argentina, and in 2001, it officially defaulted on ninety-three billion dollars of its debt.⁶⁰

This economic turmoil has not had as much of an effect on the agricultural sector as would be expected with this kind of market and currency uncertainty. Argentina's agricultural exports accounted for twenty percent of their total exports in 2007, but—fifty-five percent of its total exports are agricultural in origin.⁶¹ In 2007, its agriculture accounted for 9.4 percent of the GDP, producing 1515.8 million metric tons of agricultural products.⁶² Further, throughout this period since the 1970s, Argentina has maintained its spot as one of the world's top four exporters of soybeans, corn, wheat, and beef.⁶³ It is also a major producer of grains.⁶⁴ Therefore, Argentina has a very strong agricultural background, similar to that of Brazil's, with the capacity to produce many crops, most notably the ability to produce a large amount of wheat and soybeans.

But the policy background of its government has been very different from that of Brazil with Argentina looking more towards taxing its agricultural sector in order to either float other economic sectors that are failing or to fund social programs in an effort to reduce poverty. In addition, Argentina is sharply contrasted with Brazil by the lack of policies designed to promote agriculture. This could be attributed to the relatively little available land for expanding farm sizes in Argentina, as compared against Brazil, but is most likely the result of a lack of available funds for these types of programs due to the above stated financial turmoil.

57. Carlos Augusto Maranhão, *Brazilian Foreign Trade and its Role in International Competitiveness*, Institute of Brazilian Issues, The George Washington University, 1998, available at <http://www.gwu.edu/~ibi/minerva/Fall1998/Carlos.Maranhao.html>.

58. World Bank, *supra* note 53.

59. *Id.*

60. *Id.*

61. *Id.*

62. *Id.*

63. Nicholas Kuznetz, Senate Knocks Down Argentine Leader on Grain Tax, ASSOCIATED PRESS, July 17, 2008, available at <http://abcnews.go.com/International/wireStory?id=5394815>.

64. *Argentine Senate Rejects Farm Tax*, BBC NEWS, July 17, 2008, available at <http://newsvote.bbc.co.uk/mpapps/pagetools/print/news.bbc.co.uk/2/hi/americas/7511111.stm>. (Argentine Senate Rejects Farm Tax).

IV. ARGENTINA'S RESPONSE

With this background in mind, Argentina's response to the rising food commodities market is not surprising. With the recent rise of China and India, and their increasing demand for agricultural products, there has been a great opportunity for Argentina to cash in on the commodities market by producing more. But instead of embarking on a path to promote farming production growth, the Argentine Government has implemented various tax schemes. These new, increased taxes had the opposite effect of Brazil's policies, and have actually created an antagonistic relationship between the farmers of Argentina and their government.

In March of 2002, the Argentine Economy Minister announced a ten percent tax on primary agricultural exports and a five percent tax on processed agricultural products before the food commodities market began to rise.⁶⁵ These new taxes were on top of already existing export taxes including a 3.5 percent export tax for soybeans.⁶⁶ For oilseeds, one of Argentina's most notable secondary agricultural exports, the taxes increased overall export taxes on soybeans and sunflower seed to 13.5 percent.⁶⁷ Many attributed these taxes to be in response to the default of Argentina's debt in 2001.⁶⁸ The government, however, stated that these export taxes were put in place to temporarily create funding for its social programs. But they have not yet been abolished.⁶⁹ In addition to these export taxes, which now hover around thirty-five percent, the government implemented a policy of retention of these food products by artificially setting the price of food products to keep them affordable.⁷⁰

In March of 2008, President Cristina Fernandez increased taxes again on farmers by decree.⁷¹ These new taxes increased export taxes on soy, sunflower, and grains by more than ten percent.⁷² The new taxes also changed the fixed rate import tax on agricultural products to a floating export tax that rises as global food prices rise.⁷³ The tax on soy alone increased to more than-forty-four percent under this tax scheme.⁷⁴ Under this tax system, as the price of this crop increases, the tax on the

65. Paul Provance, *Argentina: Changing Policies Increases Uncertainty for Soybean and Corn Producers*, FAS ONLINE, Sept. 5, 2008, <http://www.fas.usda.gov/pecad2/highlights/2002/03/ardeval/index.htm>.

66. *Id.*

67. *Id.*

68. *Id.*

69. *Id.*

70. Maxilliano Borches, *Argentina: It's Time to Stop the Aggressions*, Safe Democracy Foundation, July 3, 2008, <http://english.safe-democracy.org/2008/07/03/argentina-its-time-to-stop-the-aggressions/>.

71. Kuznet, *supra* note 63.

72. *Id.*

73. Alexi Barrieonuevo, *Argentina Blocks Farm Export Tax*, LATIN AMERICAN POST, 2008, available at <http://www.latinamericanpost.com/index.php?mod=seccion&secc=1&conn=5333>.

74. *Id.*

crop increases.⁷⁵

President Fernandez explained that these taxes are an attempt to keep Argentine foods cheap for the Argentine people by making them expensive abroad and forcing farmers to sell to local markets first.⁷⁶ Further, her government said that because farmers are making more on their products, they could afford to pay more.⁷⁷ This in turn would keep the price low for agricultural products in local markets and combat rising inflation.⁷⁸ However, many of her critics said that these taxes were put in place to fund higher spending for social programs, most notably to try and create more energy subsidies.⁷⁹

In addition to the taxes, farmers will now have to officially register their total product capacity for the year under this policy.⁸⁰ The farmers will then be authorized to export twenty-five percent of that amount; the rest will have to go to the domestic market.⁸¹ Of the thirty million metric tons of grain already declared for export under this new policy in 2008, twenty four million tons of it had not been previously purchased and would have to bear the higher tax rate.⁸²

These tax measures reduced farmers' incentive to produce more crops due to uncertainty in the price of their products because of these export taxes.⁸³ In addition, rising costs for farming supplies such as fertilizer combined with lower prices of their products at market significantly lowered most Argentine farmers' profit margins.⁸⁴ Therefore, going into the recent period of high prices for food commodities, Argentina has done little historically to try and increase their production in order to capitalize on this market. This further led to a heightened state of antagonism between the government and the nation's farmers even before the recent food commodities price increase.⁸⁵ This sudden increase in taxes prompted farmers all over the country, in both cities and rural areas, to take four month long protest measures.⁸⁶ In Palermo alone, more than 230,000 people attended a pro-farmer rally.⁸⁷ Farmers also went on strike and set up roadblocks to prevent trucks, loaded with farm goods, to get to

75. *Argentina Export Tax Clears a Hurdle*, Market Watch, <http://www.marketwatch.com/story/argentinas-new-crop-exporttax-cleared-lower-house>.

76. Kusnetz, *supra* note 63.

77. Argentine Senate Rejects Farm Tax, *supra* note 75.

78. Kusnetz, *supra* note 63.

79. *Argentine Leader Backs Down, Drops Farm Tax*, FRANCE 24 INT'L NEWS, July 19, 2008, available at <http://www.france24.com/en/20080719-argentine-leader-repeals-drops-farm-tax-argentina-soy-tax>. (Argentine Leader Backs Down).

80. Shane Romig, *Argentina's Farming Conflict Cools, but Continues to Simmer*, DOW JONES NEWSWIRES, 2008, available at http://www.agnetwork.com/South_America_Content.asp?ContentID=240529.

81. *Id.*

82. *Id.*

83. Provance, *supra* note 65.

84. *Id.*

85. *Id.*

86. Kusnetz, *supra* note 63.

87. Barrieonuevo, *supra* note 73.

market.⁸⁸ In addition, as a partial result of this turmoil, President Fernandez's popularity plummeted by twenty percent in June of 2008 alone.⁸⁹

These tax hikes have had such a negative response that the Argentine Senate, despite having a majority with Fernandez's party, formally rejected the new measure on July 18 of 2008.⁹⁰ After almost eighteen hours of debate, the Senate voted thirty seven to thirty six, with the Vice-President as the deciding vote, against the floating-rate export tax system put in place by President Fernandez which was originally imposed without consulting Congress.⁹¹ However, the country is still deeply divided over the measures as evidenced by a 100,000 strong pro-government rally outside of Congress on the day of the Senate vote.⁹² These supporters and the pro-Fernandez Senators have taken the position that higher taxes for farmers are needed to redistribute income from the windfall that farmers had received through the increase in food prices.⁹³

Despite the repeal of the floating-rate agricultural tax policies, a large amount of antagonism still remains between the farmers and the Argentine government. Argentine Rural Society Vice President Hugo Biolcati stated that despite the repeal "the policies haven't changed" and that there has not been a change in attitude despite changing officials.⁹⁴ Farmers still oppose the existing fixed level of export taxes on their products as being too oppressive because it distorts the agricultural market and leads to decreased production.⁹⁵ The government, despite the recent tax repeal, still defends the existing fixed export tax rate as necessary to ensure domestic supply and to shield the Argentine people from rising global food prices.⁹⁶

Through these taxes and the turmoil associated with it, it seems as if Argentina is losing a historic opportunity to cash in on its significant agricultural presence in the global market. Instead of trying to capitalize on increased demand for agricultural products and agricultural production, Argentina has simply taxed them more as the global food prices rise and actually limited their farmers exposure to the international marketplace. The soy market in Argentina, Argentina's top crop, significantly stalled due to the temporary tax increase and the protests surrounding it.⁹⁷ Further, the relatively high amount of export tax imposed on these products, as compared with Brazil, combined with lower local prices leave farmers with little to reinvest.⁹⁸ This also increases the amount of financial risk

88. Kusnetz, *supra* note 63.

89. *Id.*

90. Argentine Leader Backs Down, *supra* note 79.

91. Barrieonuevo, *supra* note 73.

92. *Id.*

93. Romig, *supra* note 80.

94. *Id.*

95. *Id.*

96. *Id.*

97. Kusnetz, *supra* note 63.

98. *Id.*

associated with farming because uncertainty in the level of export prices created by the recent financial crisis could mean a lack of profit for farmers.⁹⁹

An economic atmosphere of low profit margins, high risk of investment, and an unstable labor force due to recent protests does not make a good investment opportunity. With these factors present alongside a global recession, large foreign investment in Argentina's agricultural sector does not seem likely. In addition, with the historic lack of agricultural programs or investment by the Argentine Government, farmers seem to be left with little available capital to try and increase production. Therefore, Argentina has not put itself in a position to maximize the amount of benefit that it could receive through its agricultural production on the booming global food commodities market.

V. MODERN TRENDS

Brazil took very aggressive steps to try and accomplish its goal of cashing in on the rising global commodities market. It extended a large amount of new credit to its farmers allowing them to invest more back into their farms or to invest into increasing the size of their farms and cope with rising farming supplies cost. In addition, increases in government spending on programs geared toward research and development also helped Brazilian farmers increase production by implementing modern technologies and techniques for farming. Further, the privatization of almost all agricultural business in Brazil combined with a steady currency rate and cheap labor promoted the growth of large agricultural companies in Brazil and dramatically increased the level of foreign investment in Brazilian agriculture. These factors, combined with a large amount of available space for expanding agricultural operations in Brazil bode well for its future production levels.

Argentina took very different steps in an effort to bring in more revenue surrounding the high prices offered on the global food commodities market. Instead of implementing programs or increasing investment in agriculture as Brazil did, Argentina levied increasingly large amounts of export taxes on its agricultural products. The most recent being those implemented by President Fernandez based on a floating export tax rate designed to force farmers to sell to local markets first in an effort to keep food prices and inflation in Argentina low and to fund other social projects. These efforts are founded in the hope of spreading wealth and reducing poverty. But this new tax caused massive protests, significantly stalled the agricultural market and had the effect of increasing inflation. These taxes were later rejected by the Argentine Senate but a large amount of antagonism remains between the government and the farmers. Further, a high amount of fixed export taxes still remains.

99. Provance, *supra* note 65.

These taxes on exports, combined with the rising price of fuel and farming supplies such as fertilizer, are decreasing the profit margins of farmers in Argentina. Further, volatility in local markets for agricultural prices due to subsidies and the risk of even more export taxes increases the economic risk for farmers in planting their crops. In addition, political turmoil, an all too present factor in Argentina's history, is again coming to the surface surrounding the large protests against these taxes. This does not create a good investment opportunity for foreign companies and Argentine farmers are left stranded with an inadequate amount of capital. Therefore, Argentine farmers have little opportunity or incentive to increase their production despite the high prices being offered for agricultural products on the global food commodities market.

VI. SUMMARY

In today's global economic world, and its dynamic state, a country must take every opportunity it has to try and open up new markets for its citizens and promote its already established economy. Brazil and Argentina, both countries with a large agricultural base in their economies, stand to benefit from the world's rising food commodities market. This market, partially driven by China and India's emergence on the world markets and the increased demand on everything associated with them, does not seem to be slowing anytime soon despite the global recession. China still stands to have sustained growth of six percent in 2009.¹⁰⁰ Both countries can significantly benefit from this by attempting to increase their agricultural production to satisfy this increase in demand. Only time will tell if Argentina can grow to their potential as Brazil seems to be on its way to doing so.

100. Alan Wheatley, *UPDATE: 1-OECD sees China growth at 6-7 pct in 2009*, REUTERS, Mar. 20, 2009, available at <http://www.forbes.com/feeds/afx/2009/03/20/afx6192277.html>.