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THE ARGENTINE-BRAZILIAN INTEGRATION PROGRAM AN EARLY ASSESSMENT

Sebastao do Rego Barros, María Beatriz Nofal,
Mark Falcoff, Riordan Roett, Carlos Braga,
Egbert Gerken, Andrew Rudman

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PREFACE

Economic integration has been a goal of many Latin Americans since the time of independence. Integration is regarded as a route to economic prosperity for the region and the only program that can truly reduce the region's dependence on industrialized nations. The Argentine-Brazilian Integration Program (ABIP) has received particular attention due to the size of the economies involved, especially in relation to their South American neighbors. It is hoped that successful bilateral integration between the continent's economic giants will compel the other nations of the region to join the program. Thus ABIP can function as the engine of regional integration. Given the emphasis on ABIP, on Tuesday, 13 December 1988, the Wilson Center's Latin American Program presented a conference entitled "The Argentine-Brazilian Integration Program: An Early Assessment." The conference, sponsored by the Ford Foundation, the Inter-American Development Bank, and the World Bank, was part of the Program's Economic Issues Series. Its purpose was to analyze the progress made since 1986 and to discuss the prospects for the future, both on a bilateral and regional level.

Part One presents an overview of the historical antecedents of the Argentine-Brazilian Integration Program and the results of the program since its implementation in 1986. Written by Program Associate Andrew I. Rudman, its purpose is to acquaint the reader with the events leading up to the conference and serve as a point of reference for the following sections. Part Two, "The Integration Process: Achievements, Problems, and Prospects" presents papers by Ambassador Sebastião do Rego Barros, Undersecretary for Economic and Commercial Affairs, Brazilian Ministry of Foreign Relations, and Dra. Maria Beatriz Nofal, Undersecretary for Industrial Development, Argentine Ministry of Industry and Foreign Trade (a position she has since left). William P. Glade, Acting Secretary, Latin American Program, the Wilson Center, served as commentator and moderator for this introductory session. Both of the speakers were participants in the negotiation process and were therefore well qualified to present an in-depth review of the process that concluded in an integration agreement. A summary of the discussion session follows the papers by Rego Barros and Nofal.

Part Three, "Political Dynamics and Integration," is devoted to the political implications and considerations that have surrounded ABIP. Though promoted as a solution to some of the economic woes of both nations, the integration program is not without political implications. Argentina and Brazil are historic rivals and this has led to concern on both sides of the border regarding the wisdom of linking their two economies. For Argentina, the vastness of the Brazilian economy gives rise to fears of domination by its historic rival. The session featured Dr. Mark Falcoff, Resident Scholar, American Enterprise

Institute, who commented on the political implications for Argentina while Dr. Riordan Roett, Director of the Latin American Studies Program at Johns Hopkins School of Advanced International Studies, did the same for the Brazilian case. Commentary was provided by Dr. Richard Morse, Secretary, Latin American Program, The Wilson Center.

Part Four presents the papers and ensuing discussion from the final session of the conference, "Economic Dynamics and Integration." This session presented the economic benefits and drawbacks that would likely result from the current economic integration program. The panelists were Dr. Egbert Gerken, Senior Economist, the World Bank, who discussed the pros and cons of integration from the Argentine perspective and Dr. Carlos Braga, Johns Hopkins School of Advanced International Studies, who discussed the Brazilian case. The commentator for the final session was Dr. Claudio Frischtak, Senior Industrial Economist, the World Bank.

Part Five, the conclusion, is a brief review of the integration process since December 1988 written by Andrew Rudman, Program Associate. Its purpose is solely to complete the chronology of the Argentine-Brazilian Integration Program and does not necessarily reflect the views of the participants.

ARGENTINE-BRAZILIAN INTEGRATION: A BRIEF HISTORICAL OVERVIEW

ANDREW I. RUDMAN
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Latin American Integration: The Precedent

Latin American economic and political integration has been a dream of political leaders since the time of Simon Bolívar. Only through economic integration, it has been argued, can the region realize its potential. The benefits of economies of scale, production coordination and specialization, greater industrialization, and a reduction of dependence on the industrialized nations are all potential advantages to regional integration. The success of the European Community and the 1989 Canada-U.S. Free Trade Agreement have prompted concern in the hemisphere that Latin America will be shut out of the world market after 1992 and have rekindled integrationist passions. For many, the dream has become necessity. Despite the desire to achieve integration, the majority of all Latin American integration projects have not lived up to expectations. The current Argentine-Brazilian Integration Project (ABIP) began under this contradiction of desire and result. The task at hand for the leaders of these two nations is thus to identify the errors of previous projects and vow to avoid them.

Economic integration, though a goal of many of the region's leaders since independence, first received theoretical support in the 1950s. The United Nations Economic Commission on Latin America (ECLA), headed by Raul Prebisch, promoted economic integration as an alternative to orthodox liberal theories that, following David Ricardo, stated that the key to economic prosperity was the exploitation of comparative advantage. If each nation produced only the products in which it possessed a comparative advantage and imported all other products, national and world welfare levels would rise. Free trade was the key to prosperity.

Prebisch rejected the orthodox theory and argued that reliance on comparative advantage placed the less developed countries of Latin America at a disadvantage because the terms of trade were declining as industrial goods prices rose and primary product prices fell. Trade on a worldwide, free-market basis was simply exacerbating the center/periphery differences. The objective of economic integration was twofold: Integration ideally would help the nations increase the flow of foreign exchange and also reduce their vulnerability to market instability through the creation of larger economic units.

Import substitution and export promotion could be combined within a regional approach to improve the welfare of the entire region.¹

With the possible exception of the Caribbean Community (CARICOM), Latin American integration efforts to this point have largely been a failure. The dream of Bolívar and Prebisch remains unfulfilled for a number of reasons. These reasons have been taken into account by the Argentine and Brazilian negotiators in an effort to avoid their errors.

Regional integration programs have failed, in part, because the countries have entered these agreements to achieve greater national development. The development of the group as a whole never has been a priority. Additionally, there is always conflict within the group. More developed countries will, for example, advocate a low common tariff while the less developed members will usually support a high common tariff. Different levels of development within the group will create problems because the development goals of the members will not necessarily be compatible. The failures of the Central American Common Market (CACM) and the Andean Community (ANCOM) can both be attributed to these types of conflicts. The relatively less developed nations, El Salvador and Ecuador, had different goals than the more developed members such as Honduras and Colombia.

The questions of intent and conflict are largely based in the larger issue of political will. The leaders of the countries participating in integration programs have often found that it is much easier to support the accords through rhetoric than to make concrete sacrifices for the good of the program. Few are opposed to a project with the potential benefits of integration but many seem to lack the political will to make the proposal a reality. A related problem is personal rivalries among leaders and a desire of some to take a primary role in the project. National rivalries are another potential stumbling block to successful integration programs.

Alicia Puyana gives four additional reasons for the failure of the Latin American Free Trade Association (LAFTA) and CACM. These reasons could be used to explain other failures as well. First, the models were based on free trade rather than on stimulating new activities. Integration is ideally intended to promote development of new industries due to a larger, protected market. Instead, the groups merely produced more of the same products for the larger market. LAFTA countries began to show signs of stagnation and wavering commitment as a result. Second, there are inherent limitations to reciprocal concessions.

¹ Alicia Puyana de Palacios, Economic Integration among Unequal Partners: The Case of the Andean Group. New York: Pergamon Press, 1982, page 15.

Without new industry and innovation, there is a limit to what can be conceded. Certain markets, for reasons of national pride or security, will not be conceded to outside competition under any circumstances. Third, there was a general failure to bring national economic policies into line to prevent individual country actions from hindering the agreement. Differences in the economic policies of Chile and the rest of ANCOM contributed to the Chilean withdrawal from the community in 1976. And fourth, there was a lack of provisions favoring the less developed members of the groups to prevent or compensate for the effects of concentration.²

The reciprocal trade deterioration in recent years in these regional groups is due to shrinkage in overall demand and in import levels. The acute shortage of liquidity payment systems within the subregions has exacerbated this problem.³ More simply stated, the world economic recession and the debt crisis faced by Latin America have severely reduced the export earnings of the region and thus decreased intraregional trade. The over-riding explanation of the failure of the regional integration efforts, and one which no Latin American nation can prevent, is the economic crisis faced throughout the region. Therefore the Argentine-Brazilian Integration Program must be designed to maximize the benefits while recognizing that circumstances beyond either nation's control may defeat the program.

The Argentine-Brazilian Integration Program: The Latest Effort

The high degree of complementarity of the two newly industrialized economies and the extensive overland and water links between the countries make this a natural region for integration, especially since southern Brazil and Argentina (together with Uruguay) constitute one of the highest per-capita income regions in Latin America. The relatively complex industrial structures of the two countries add to the potential for productive complementarities. Since Argentina and Brazil are involved in over 70% of all trade within the Latin American Integration Association (LAIA), the commercial policies implemented in these two countries produce decisive consequences for the entire region. Thus integration would not constitute a movement toward bilateralism but would instead strengthen the

² Puyana, pages 16-17.

³ Anthony T. Bryan, "The Integration Movement in Latin America: Theory, Process, Trends and Options" in Anthony Bryan and Ludwik Dembinski, editors, Regionalism: Comparative Perspectives from Europe, Africa, and Latin America. Geneva: Graduate Institute of International Studies, forthcoming, page 11.

Latin American economy.⁴ The inability to realize the potential for integration has been, in part, a result of their historic rivalry. Divergent economic policies and a reversal in the roles of the two nations have also contributed to this unrealized potential. The Brazilian economy is nearly six times as large as the Argentine and thus Argentina plays an increasingly smaller role in Brazil's economy while the growth of Brazil has made its markets increasingly important for Argentina.

Despite differences in size, Brazil considers Argentina its most important Latin American trading partner and one of the few foreign policy partners with whom relations must be carefully managed.⁵ For relations to improve, Argentina must change its perception of Brazil's political goals. Brazil must convince Argentina that its intentions are peaceful to overcome Argentine suspicions of the "expansionist" Brazilians. Brazil also seeks to increase its influence over the buffer states of Paraguay, Bolivia, and Uruguay. Argentines see this as an attack on their destined Southern Cone hegemony, but irregular economic growth, political instability, and frequent changes in government policy have diverted Argentina's attention and allowed Brazil to assume a dominant position.⁶ The issues of territorial conflict and historic rivalry overhang the current warm relationship. These issues, though unresolved, have been bypassed in the interest of economic gain.

The Political Antecedents of the 1986 Agreements

The thaw in Brazilian-Argentine relations began with the signing of the Tripartite Accords of 1979 between Argentina, Brazil, and Paraguay. This agreement concerned the development of the Itaipú hydroelectric plant on the Paraná river between Brazil and Paraguay. Argentina had charged that the construction of the plant would adversely affect its own plans to develop a similar plant at Corpus, further downstream. The agreement regarding economic cooperation paved the way for the development

⁴ José Tavares de Araújo, Jr., "Os fundamentos econômicos do programa de integração Argentina-Brasil," Revista de Economia Política, 8(3), July/September 1988, page 42.

⁵ Wayne Selcher, "Brazilian-Argentine Relations in the 1980s: From Wary Rivalry to Friendly Competition," Journal of Interamerican Studies and World Affairs; 27(2), Summer 1985, page 28.

⁶ Carlos J. Moneta and Rolf Wichmann, "Brazil and the Southern Cone" in Wayne Selcher, editor, Brazil in the International System: The Rise of a Middle Power. Boulder, Colorado: Westview Press, 1981, page 145.

of both projects as well as the Argentine-Paraguayan project at Yacyretá. The agreement did not bring about an immediate change in the relationship but merely suggested that cooperation was possible when desired by both parties.⁷

The foreign policy of the Joao Figueiredo administration furthered the integration process. Figueiredo placed special priority on Brazilian relations with Latin America, with additional emphasis placed on improving relations with Argentina.⁸ The understanding and common philosophies shared by Figueiredo and Argentine President Jorge Videla prompted the reciprocal political opening of the two systems and gave rise to a brief period of improved understanding between the two nations.⁹ Figueiredo's May 1980 visit to Buenos Aires made him the first Brazilian chief executive to visit Argentina in forty-five years. While in the Argentine capital, the presidents signed a joint declaration for the "Development and Application of Nuclear Energy for Pacific Purposes" that included ten agreements concerning bilateral economic cooperation. The agreement provided for cooperation in hydroelectric power generation, science and technology, nuclear energy, and military equipment manufacture. Additionally, the agreement called for reciprocal political consultations and coordination of grain exports.¹⁰ Some of these provisions remain in place or have been incorporated into new treaties between the two countries whereas others have been impeded by the unequal growth rates of the two partners.

The War of the Malvinas and the subsequent rearmament of the Argentine armed forces had a strong political impact in Brazil. The war forced Brazil to reevaluate its relationship with Argentina. The Argentine military government had shown itself to

⁷ Monica Hirst, "Las relaciones Argentina-Brasil: de la asimetría al equilibrio," Integración latinoamericana, April 1987, page 36, and Moneta and Wichmann, page 152.

⁸ Monica Hirst and Miguel Lengyel, "Las relaciones con Argentina: primeros síntomas de un acercamiento estable." América Latina/Internacional, 2(6), October-December 1985, page 120.

⁹ Hirst 1987, page 36.

¹⁰ Helio Jaguaribe, "Brasil-Argentina. Breve analysis de las relaciones de conflicto y cooperación." Estudios Internacionales, 15(57), January-May 1982, page 19 (note 10) and Wayne Selcher, "Brazil in the World: Multipolarity as seen by a Peripheral ADC Power" in Elizabeth G. Ferris and Jennie K. Lincoln, editors, Latin American Foreign Policies: Global and Regional Dimensions. Boulder, Colorado: Westview Press, 1981, page 82.

be rash and reactionary in its policy toward Great Britain. The Brazilian military had to be prepared for any sudden change in Argentine policy toward Brazil. There were, however, positive political aspects of the crisis from an Argentine-Brazilian perspective. Brazil's support of Argentina's claim and their efforts to find a peaceful solution contributed to the dissipation of the traditional mistrust.¹¹ The war also had an economic impact on Brazil because at its end Argentina owed Brazilian exporters \$2 billion. The restriction of passage through the Straits of Magellan during the fighting virtually eliminated Brazilian access to Pacific ports in Chile and Perú. The war effort proved so expensive that Argentina reduced imports from Brazil by one-fourth. Argentina simply could not afford additional imports.¹² On the positive side, President Reynaldo Bignone wanted to restore Argentine credibility within Latin America to make amends for the Malvinas attack and was therefore amenable to a closer relationship with Brazil.

Although the Brazilians were undergoing a similar process of "abertura," the Argentine military's decision to return to the barracks probably came as a shock to their Brazilian counterparts. At the same time, the transition was seen as a model for Brazil's transition. When Raul Alfonsín became president, the Brazilian military became concerned about a return of Argentine "revanchismo" or aggressiveness.¹³ Though this suspicion was unfounded, relations were not significantly different under the democratic regime than they had been under the military dictatorship. The foreign policy objective of the Alfonsín administration was to rebuild Argentina's image and put an end to its political isolation. This reentry would occur in an international community highly sensitized to ethnic, moral, and social values. Alfonsín sought a coordinated effort to keep Latin America out of the East-West conflict. Brazil occupied a special place in this new foreign policy and Alfonsín identified six areas in which cooperation would be especially beneficial: expansion of trade with a view toward mutual economic development; debt policy; Brazilian support on the Malvinas issue and in helping free the South Atlantic from foreign influence; international forums; common independent nuclear policy; and

¹¹ Monica Hirst, "Contexto e estratégia do programa de integração Argentina-Brasil," Revista de Economia Política, 8(3), July/September, 1988, page 56.

¹² Hirst 1987, page 37.

¹³ Monica Hirst, "Balance y perspectivas de la política exterior brasileña," América Latina/Internacional, 1(1), July-September 1984, page 14.

consolidation of democracy with the elimination of geopolitical tensions.¹⁴

Misunderstandings between private sectors and the authorities, different tariffs, bureaucratic rivalry, and sectoral discord complicated bilateral negotiations in the early 1980s. President Figueiredo returned to Buenos Aires in 1984 where he and Alfonsín created an informal working group to negotiate a new agreement for tariff concessions.¹⁵ But Alfonsín's decision to prosecute those accused of political crimes during the military regime, along with the economic crisis of the period, prevented further negotiation between the two nations. When the Brazilian military returned to the barracks in 1985 bilateral trade between Argentina and Brazil had reached a low point.

When José Sarney took office, economic conditions prevented him from devoting any substantial amount of time to foreign policy. The result was greater continuity in policy than in the Argentine case as Sarney followed Figueiredo's emphasis on Latin America. The policy goals were to expand markets and coordinate policies in international forums and toward major powers. The political goals were the democratization of the Southern Cone and the economic recovery of Bolivia. Sarney's economic goal was integration with Argentina, which would help fill short-term gaps in production. The low-point in Argentine-Brazilian economic relations coincided with this reemphasis and led to an agreement to purchase Argentine wheat. Further efforts to improve relations included the Brazilian decision to join the Contadora Support Group and the Sarney-Alfonsín meetings in 1985.¹⁶ The stage was set for a broad integration agreement.

The Economic Antecedents to the 1986 Agreements

The Brazilian economy truly began to eclipse the Argentine economy in 1979 when the Argentine military government chose to open the domestic economy gradually through a reduction in protection. Tariffs, which had ranged from 30 to 80%, were reduced to under 30% by 1984 while tariffs in Brazil remained

¹⁴ Carlos Moneta, "The Argentine-Brazilian rapprochement: from tension and conflict to cooperative competition," Capítulos de SELA, 18, January/March 1988, page 48.

¹⁵ Hirst 1984, page 15.

¹⁶ Hirst and Lengyel, page 120.

high, averaging 28% and reaching 170% in some cases.¹⁷ The traditional Argentine trade surplus became a deficit as Brazilian goods began to appear in Argentina. Liberalization policies, including controlled devaluations and an opening of capital markets, prompted a flood of imports and a decline in Argentine industrial output. In fact, the cost in pesos of Argentine output tripled relative to imports.¹⁸ Furthermore, Brazil's own balance of payments difficulties required a reduction of imports.¹⁹ The roles in the economic relationship had gradually been reversed. Nevertheless, both countries remained committed to continued negotiations.

One of the objectives of integration, especially from the Argentine perspective, was coordination of the foreign policies of the two nations through bilateral consultations in order to increase their bargaining power in broader international arenas.²⁰ Brazil has not embraced the "debtors cartel" concept, preferring to remain independent in debt negotiations. The individual industrial policies advanced by the two nations from the early 1960s provided further impetus to integration. Both countries had pursued import substitution industrialization (ISI). Since the high levels of protection associated with ISI applied to both industrialized and nonindustrialized nations there was an incentive for direct investment in the export industries of the other nation to avoid these tariffs while gaining access to the foreign market.²¹ Integration of the two economies would allow for a free flow of capital between the nations as well as much greater industrial specialization, both interindustry and intraindustry.

One of the major concerns of any integration program is the unequal distribution of benefits. The issue is especially germane to the Argentine-Brazilian situation because Argentina

¹⁷ "Argentina-Brasil: la potencialidad de la cooperación bilateral," Integración latinoamericana, 6(54), January-February 1981, page 73.

¹⁸ Joseph Ramos, Neoconservative Economies in the Southern Cone of Latin America, 1973-1983. Baltimore: Johns Hopkins University Press, 1986, page 42.

¹⁹ Oscar Camilión, "Integración Argentina-Brasil: Realidades y proyecciones," Integración latinoamericana, 12(122), April 1987, page 11.

²⁰ Hirst 1984, page 15.

²¹ Eduardo White, "Cooperación empresarial entre países semiindustrializados: el caso Argentina-Brasil," Integración latinoamericana, 9(90), May 1984, page 26.

currently faces declining terms of trade and a growing trade deficit with Brazil. As an agricultural supplier, Argentina suffers from decreasing world prices whereas Brazil exports price-stable industrial products to Argentina. In the 1980-84 period, only 27.6% of Argentine exports to Brazil were industrial in nature as compared to 72.2% of Brazilian exports to Argentina.²² The growing trade deficit has made Argentina less willing to import Brazilian products and consequently Brazilians have reduced their purchases of Argentine goods. The trade deficit and the economic crisis of the early 1980s, which paralyzed the economies of both countries, combined to create a drop in the level of bilateral trade. The interstate commerce that had grown steadily from the 1960s onward began to diminish after hitting a high point in 1979-80.²³ The trade deficit points out significant differences between the two economies. Nearly 60% of Argentine export revenues from Brazil are from the ten most traded products while the Brazilian figure is roughly 38%.²⁴ Thus Argentina is more dependent on the whims of Brazilian consumers by having a significantly smaller base of traded goods.

The general objective of Argentine-Brazilian cooperation has been the occupation of niches or gaps in the economy of the other nation. Vertical integration implies that increases in the volume traded will result only from additional purchases of already traded goods through the improvement in the competitiveness of one nation's products.²⁵ The prospects for such growth are minimal at best. It is unlikely that Argentines will, for example, suddenly drink more coffee or that Brazilians will want more bread.

The 1986 Argentine-Brazilian Integration Agreement

The current integration agreement has its roots in the November 1985 meeting between presidents Sarney and Alfonsín in Foz de Iguaçu. This meeting, held symbolically on the border of the two countries, marks the beginning of an attempt to delineate the fundamental steps each nation would take in the future to further their economic linkage. The meeting also gave the tendencies already manifest in the reciprocal relationship between the two countries a directed push forward.²⁶ The

²² Hirst and Lengyel, page 120.

²³ White, page 20.

²⁴ Hirst and Lengyel, page 120.

²⁵ White, page 27.

²⁶ Hirst 1987, pages 39-40.

policies introduced by Figueiredo and followed by Sarney meshed with Alfonsín's need for rapid economic development. The goals of this new integration program were to revitalize cooperation in areas where relations had atrophied, such as transportation and wheat, and also to create new spaces for cooperation, such as industrial complementarity in the capital goods sector and laws for binational enterprises. Both Sarney and Alfonsín were sufficiently committed to the program that they agreed to meet semiannually to prevent the demise of the process due to a single incident or misunderstanding.

The integration process was greatly advanced in July 1986 when the presidents met in Buenos Aires to sign the Act for Argentine-Brazilian Integration. The act aims to encourage intrasectoral integration to avoid a pitfall of past integration accords, specialization of the economies. Neither government wishes to specialize to the point of eliminating the production of certain goods and becoming dependent on the other nation for its supply. It also proposes gradually to achieve a quantitative and qualitative equilibrium of trade. The act also supports technointustrial modernization and a more efficient allocation of resources in both economies.²⁷ The July agreement includes twelve protocols that are designed to move the integration process forward.

The first protocol, which has been the most fully implemented, deals with capital goods trade. In 1986, trade in capital goods between the two countries was valued at \$1.39 billion and the presidents agreed to reach a \$2 billion level by 1990. Each country prepared a list of products it was willing to treat as if they were domestic goods such that all products included on the common list can be exported and imported equally to prevent price wars. They also agreed to establish common tariffs on these products against third country exports. Typically the countries concede preferences on different products so there is limited, and in some cases, no competition with domestic industry. Products included are not bound by tariffs or nontariff barriers to trade (NTBs). However products eligible under the agreement can have parts and components imported from third countries amounting to no more than 20% of the product's value at international prices.²⁸ Similar policies in regard to protection and export promotion of common list goods are expected

²⁷ Moneta, page 53.

²⁸ Daniel Chudnovsky, "Economic Integration between Argentina and Brazil: Capital Goods as a Starting Point," Technological Transformation of the South, 4(7), December 1988, page 107.

and if one country adopts measures to improve its position, the other may impose policies of a similar nature.²⁹

In an effort to respond to the growing Argentine trade deficit, the agreement provides for a special trade deficit accounting mechanism. Every six months the trade balance is measured. If the deficit realized by one country exceeds 10% of the volume traded, new credit must be provided by the country with the surplus to the importers of that country and the country with the deficit must open additional lines of credit for exports to the surplus country. Should the deficit exceed 20%, support for commercial expansion will be provided from a \$400 million Special Investment Fund. The fund is intended to help the countries resist the traditional reaction to such a situation--trade restriction. The mechanism is designed to protect the 15% of the capital goods flow not financed by long-term mechanisms. Additionally, the deficit country has priority in selecting new products to add to the common list.³⁰ The agreement will face more conflict in the future as the number of common goods is increased as the agreement mandates. As the number of goods proposed by both countries to be included in the list of common goods decreases, further additions to the list will require compromise.

The current integration accords represent a marked improvement in the relationship between the two nations. Presidents Alfonsín and Sarney expressed strong commitments to improving relations and to the democratization of their countries. Because an economically strong nation is perceived as less susceptible to a military coup than a nation in economic turmoil, democracy and closer relations are intertwined. The need for economic growth serves as both a stimulus to integration and a threat to its success.

²⁹ "Argentina-Brasil: programa de integración y cooperación económica," El Proceso de integración en América Latina en 1986. Washington, D.C.:Inter-American Development Bank, Instituto para la Integración de América Latina (INTAL), 1987, page 36.

³⁰ Hirst 1988, page 66.

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THE INTEGRATION PROCESS:
ACHIEVEMENTS, PROBLEMS, AND PROSPECTS

AMBASSADOR SEBASTIAO DO REGO BARROS
Brazilian Ministry of Foreign Relations

Introduction

Integration has been an ideal in Latin America since the independence of the Latin American states in the first decades of the nineteenth century. But the fact remains that the conversion of this ideal into reality has always faced numerous barriers, especially the idea that this would require the creation of ambitious schemes and structures to make governments commit themselves to necessary changes in regional trade and economic cooperation plans. The Latin American Free Trade Association (LAFTA), the Latin American Integration Association (LAIA), and the Andean Pact are examples of attempts to realize ambitious schemes and create complex institutions. Each has followed an individual path and has a specific role to play in the region's life. However, none of them achieved its goals. The objective of the new Brazilian-Argentine initiative in the Southern Cone is to reinvigorate and give new impetus to Latin American integration.

In recent years, Latin American as a whole has been facing a process of economic deterioration, partly as a result of the decreasing levels of economic activity in the world at large. The crisis of the 1970s and 1980s has led the region into a period of stagnation aggravated by the burden of foreign debt, which rose from \$100 billion in 1980 to \$414 billion in 1987. The need to face up to the most severe crisis in their histories, the desire to build a common economic space, and the emergence of democratic governments in Brazil and Argentina contributed to the decision by both countries to deploy new and decisive efforts toward integration.

The Integration Agreements

Presidents José Sarney and Raul Alfonsín took the bold step of initiating a bilateral integration program as the only way to speed up regional integration. The watershed of those new efforts was the Foz de Iguazú presidential meeting in November 1985. A high-level commission was established under the coordination of the foreign ministries of both countries and given the task of examining programs, projects, and other alternative means of economic integration. In July 1986 a new presidential meeting was held and a program of integration and economic cooperation was launched. One of the main features of the program, which distinguishes it from previous integration initiatives, is the pragmatic nature of its conception. Certain

basic principles were identified to guide the integration process.

The first of these is a sense of realism--that is the implementation of activities compatible with the actual economic, political, and social possibilities of each country. Second, the program calls for gradualism--progressive measures providing economic agents with the necessary time to adjust to the new situation engendered by the integration. The third principle is flexibility, which opens the possibility for a revision of targets as well as of the scope of the initiatives. The final principle is equilibrium of benefits and advantages for both partners. These principles were incorporated into a treaty of integration and cooperation concluded on 29 November 1988. They have been fundamental in motivating internal private sectors by presenting them with a picture of how the governments view the process.

The integration program has an evident bearing on the political life of Brazil and Argentina, both internally and externally. An initiative of this nature, between countries in a process of change, with a past history of understanding mingled with mutual suspicion or rivalry, presupposes a new approach to bilateral relations. Even the idea of national interest deserves certain qualifications, for what is involved is not the establishment of a temporary alliance but the strengthening of links such that breaking those links would present a risk of serious losses to both countries, if they could be broken at all. The integration program was initiated in a moment of political transition in both countries and has a special role to play in the maintenance of the democratic stability of both nations.

In practice, the program has already stimulated closer and more frequent contacts between the presidents as well as between civilian and military high officials than at any time in history. Governors of states in southern Brazil and in border provinces in Argentina have also been meeting regularly. During these meetings, discussions on broad topics have led to specific programs and cooperation mechanisms in local frontier communities to correct small but long-standing problems. A special protocol on frontier cooperation was concluded that grants local communities the right to participate in activities touching on their specific interests. The national legislatures are also involved in the process. According to the 29 November 1988 treaty, a joint parliamentary integration commission composed of 24 congressmen (12 on each side) will be created with a mandate to examine the complementarity agreements needed to reinforce the integration process and to propose recommendations. The national congresses, in approving each specific agreement, will confer lasting political support.

The program will have a strong impact on the international relations of both countries. Both must relinquish all remaining resentments of the other while creating entirely new conditions for dialogue. This new attitude between the two largest South American countries and the areas in which this openness is already applied, such as nuclear cooperation, mutual assistance in the case of nuclear accidents, aeronautics, food provision and situations of shortages, and energy supply, cannot fail to have a direct bearing on the whole region.

Preventive diplomacy, the establishment of conditions conducive to the elimination of situations of tension, is not usually found on the international scene. The international system built in the last forty years emphasizes the elimination of threats to international peace and security. It does not attach the same value to the positive behavior required for the establishment of an environment of harmony among nations. In other words, it is a measure of avoiding rather than promoting. Strictly speaking, the general obligation to cooperate has never been established in international law. It is purely an act of will. The tendency has been to select certain areas of possible international action and provide rules of conduct for those areas with a special emphasis on prohibitions instead of emphasizing the creation of conditions that would prevent the prohibited acts from taking place. From the strictly political point of view, cooperation on the lines of that being carried out between Brazil and Argentina will have a great impact on the political maturity of both countries. It also represents a positive contribution to the peace and stability of Latin America as a whole.

It was clear from the beginning that the misgivings that existed between Brazil and Argentina had to be removed before nuclear cooperation could be considered. Brazil and Argentina are not parties to the Non-Proliferation Treaty and even though one is a signatory to the Tlateloco Treaty, this regional instrument is not in force for either of the two countries, for reasons that are well known. Moreover both countries carry out important autonomous nuclear development programs and do not accept the concept of full-scope safeguards. These circumstances, combined with the existence in the past of military rule in both these countries, made Brazil and Argentina favorite targets of international suspicion despite the legal, political, and economic considerations in which Brazil and Argentina as well as other nonsignatories of the nonproliferation treaties based their case. In the late 1970s, for example, it was widely accepted that Brazil and Argentina were engulfed in a nuclear weapons race. Trying to tone down the suspicions and also sincerely interested in obtaining information, experience, and materials, a nuclear cooperation agreement was signed in 1982. There were some exchanges between the two countries, the most important of them being the supply of Argentine zircaloy

tubes to Brazil and the construction in Brazil of a reactive vessel for one of the Argentine nuclear plants. This agreement, however, was not sufficient to appease the criticism of some internal and international sectors in regard to the nuclear policies of Brazil and Argentina. Nor was it enough to create an environment of full and mature cooperation between the two countries.

At the 1985 Iguazu meeting, a joint commission composed of the chanceries and the national nuclear commissions of the two countries was created to monitor nuclear cooperation with a view to enhancing the relationship between both countries while promoting technological development. The joint commission is to meet every 120 days or so and seven meetings had been held as of December 1988. Cooperation has extended into the fields of resurgent power reactor technology, nuclear fuel cycles, and industrial production of materials and equipment, among others. This cooperation program allows an almost complete reciprocal knowledge of respective nuclear activities and was complemented by the Brazilian presidential visit to the nuclear installations at Pilcaneyu, Argentina. President Sarney also visited a radio-chemical process laboratory and both presidents inaugurated a nuclear plant in Brazil. Those visits in which the presidents were accompanied by very high level experts demonstrate the significant political will of the two governments to cooperate and to make their respective nuclear activities increasingly known to each other.

Trade

Trade is, of course, a key element in the integration process. The development of balanced and expanding commercial relations, combined with the establishment of an enlarged market, allow Brazil and Argentina to reach much more comfortable levels of economic security and dynamism than could otherwise be reached individually. Enlarged markets are conducive to more advanced production scales, cost reductions, better allocation of productive factors, and, in some market structures, reduction of prices. Furthermore, they make investments possible in sectors requiring large amounts of capital, such as those involving new technologies.

There has been an evident deterioration of economic performance of both the countries with a clear impact on the performance of Latin America as a whole. The 1988 UNCTAD Trade and Development Report indicates that GDP growth in Latin America fell from 3.7% in 1986 to 2.2% in 1987, mainly because of much lower growth rates in Brazil and Argentina. This is the prime result of the significant contraction of both domestic and foreign investments, modest growth of productive capacities, and a limited shift into productive structure. Limited access to foreign markets has imposed severe restrictions on both

countries. Even more debilitating than these constraints is the need for modernization of the industrial process. With modernization a certain level of specialization of the economies and, hopefully, considerable investments will be possible. The goal of the integration program is the elimination of all tariff and nontariff obstacles in a ten-year period together with the harmonization of policies in all fields beginning with customs, trade, and transportation, and ultimately covering a whole range of economic activities.

Achievements in the Area of Trade

All items traded between Brazil and Argentina benefit from tariff reduction. An actual common market has been established for an important number of capital goods and processed food products. The list of capital goods already benefitting from the elimination of trade barriers extends to almost 700 items. Capital goods in Brazil and Argentina receive the same treatment as products produced locally. As a result trade has seen an increase of 500% in the last two years. The list of food industry products, finalized in mid-1988, includes around 150 items and will be revised every six months. None of the items included in the agreed list can be withdrawn. This no small feat when one considers the traditional protection of agricultural interests worldwide. Negotiations are now underway for the establishment of a common market in the automotive sector. The starting point is a modest one. It is expected that only 5,000 vehicles will be traded duty free in 1989; reaching 10,000 in 1990 plus spare parts and components. It is worth mentioning that automobile imports have been prohibited in Brazil since the establishment of the first factories in the 1950s. A \$200 million binational investment fund will provide the necessary resource for balanced increases in trade and for the implementation of specific projects.

Trade in agricultural products is a strategic aspect of the integration process. The present low levels of per-capita food consumption in Brazil and the potential markets that exist demonstrate the significance of agricultural trade. Its importance will be even more obvious as the accumulation of agricultural surpluses in industrialized countries turns traditional importers of commodities into new exporters. The application of voluntary restrictions to trade may result, hurting efficient exporters like Argentina. The supply of Argentine wheat to Brazil has always been regarded as an important element in the integration program and the attainment of an optimal level of balanced and bilateral trade negotiations. Wheat sales for 1989 were concluded on the basis of previously established targets.

A point that must be stressed in connection with trade is the participation of LAIA in the integration process. The

expansion of commerce in the context of integration fully conforms to the mechanisms established in the 1980 Treaty of Montevideo that permits specific bilateral agreements. All tariff concessions between Brazil and Argentina are incorporated into agreements complying with the Treaty of Montevideo and therefore they also conform to the General Agreement on Tariffs and Trade (GATT) regulations.

Trade deficits

The commercial deficit accumulated by Argentina with Brazil is a very serious condition that cannot and should not be minimized. The deficit does not, however, derive from the establishment of the common markets. On the contrary, Argentina has accumulated surpluses in the trade of capital goods. It is the belief of both parties that unbalanced trade is not healthy for the integration process. Constant deficits create a movement of public opinion against cooperation. Both governments have this in mind and are trying to remedy the situation. The question has been carefully considered and the spirit with which both parties seek a solution could be summarized in the maxim by Benjamin Constance that "the idea of commerce would never occur to a man who would always be the strongest." In reality integration as conceived by Brazil and Argentina requires an equilibrium in all fields and the rejection of the accumulation of advantages in trade or in any other area.

Representatives from the trade policy bodies of both countries have been meeting regularly to follow trade patterns and trends in detail. They also consider possible future trends. Some new initiatives providing for the supply of Argentine goods and services to Brazil were already adopted or are now under study. Argentina has benefitted from the structure of trade promotion available in Brazil to explore new possibilities of reducing or eliminating its trade deficit.

Progress in Other Areas

Improvements in the field of trade were paralleled in a number of other areas. In the areas of land transportation for example, where problems and disputes were frequent in the past, a whole new environment was created. Procedures were simplified considerably and efforts towards establishing uniform rules yielded very positive results. In the energy field, cooperation includes joint projects in oil drilling and petrochemicals. The supply of Argentine gas to the southern states of Brazil and the possible participation of the enterprises of one country in the construction of hydroelectric plants in the other country is also under consideration. Those who followed the controversy between Brazil and Argentina on the right to utilization of the potential of international waterways, the Rio Paraná in particular, can grasp the significance of the steps taken by each country in

accepting the participation of the other in the construction of a dam. The simple fact that conversations are held in this area, not to mention the reality of joint economic activities, is, by itself, outstanding.

Aeronautics is one of the most complex high-tech industries. It implies the mobilization of a large number of qualified technicians and workers from project development to actual production. The military implications of the aeronautical industry are obvious. Since December 1986 the two countries have been engaged in technical and industrial cooperation in aeronautics. An agreement was concluded with the objective of producing parts for Brazilian-made aircraft in Argentina, promoting the utilization by the air forces of both countries of jointly produced aircraft, and improving cooperation in outer space activities. The Argentine Air Force concluded a purchase contract of the Brazilian training model known as Tucano. The contract envisions the training of pilots in Brazil, the effect of which would be altogether inconceivable. Both countries are developing a new model CPA 123, a B-2 aircraft. Forty Argentine experts worked in Brazil in the first phase of the project, which is already concluded. Production of the model will begin in 1991.

There is no future for countries that are not able to develop new technologies and therefore new products. A realistic integration program between countries with the level of development of Brazil and Argentina could not leave aside the question of science and technology. Two areas have been emphasized: informatics, for its obvious strategic implications, and biotechnology, a vital area for developing countries in view of the radical advances it brings to the fields of health, agriculture, and energy. In both cases, new bilateral institutions were created--the Informatics School, the Biotechnology School and the Biotechnology Center--in an effort to coordinate research programs, to reduce costs, and maximize the utilization of scarce resources.

Conclusion

The last few decades have witnessed fundamental changes in the world economy with far-reaching effects. One of the characteristics of the new era is the creation of large economic spaces, the European Community, the Canada-U.S. Free Trade Agreement, and greater commercial ties between Japan and the Asian Newly Industrializing Countries (NICs). Countries such as Brazil and Argentina that years ago were able to follow the major trends and be associated with world trade developments have not yet defined their role in the newly emerging order. Argentina is the natural partner of Brazil. The efforts now underway imply the recognition of this fact. They also reflect the common understanding that integration is a viable and wise path and will

help prevent the possible marginalization of their economies in the world scene.

The task however is not a simple one. At the end of the 1980s these countries are far from recovering from the crisis in which they have been immersed. The debt burden has made them exporters of capital, which has dramatically reduced investment in their own economies. Despite this scenario, the results so far achieved by the integration program encourage us to move on. Integration between Brazil and Argentina represents a movement toward the speedy integration of the whole region through specific agreements on a steady and progressive basis. Uruguay has already been participating in initiatives in the field of land transportation. The three countries, Brazil, Argentina, and Uruguay, are also considering common action in the areas of telecommunication, biotechnology, and public administration. Brazil has a far-reaching trade agreement with Uruguay by which more than two thousand products enter Brazil duty-free. In turn, Brazilian products enjoy preferences in the Uruguayan market. Argentina has a similar trade agreement with Uruguay by which Uruguayan exports enter free of tariffs into Argentina up to a certain percentage of Argentine production. In practice, the objective of a common market between Brazil and Uruguay and between Uruguay and Argentina is much closer to completion. The dynamics of the relationships among Brazil and Argentina and Uruguay demand specific trilateral agreements for individual sectors that would respect the asymmetries of the levels of development and therefore respect reality. In the ceremony of the signing of the treaty of integration and cooperation that took place in Buenos Aires, President Raúl Alfonsín noted that Brazil and Argentina were creating an economic space that goes practically from the equator to the South Pole. On the same occasion President Sarney said Latin America is "our point of reference, our common space, it is our point of departure, and our destiny."

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Introduction

The economic integration and cooperation program between Argentina and Brazil is a strategic option adopted to advance the process of growth recovery and modernization of their economies in the face of binding external financial constraints.

It is important to distinguish the status of the program in the short term and how it may change in the medium and long term. In the short term, the program consists of several trade liberalization schemes; some are sectoral and others are of an across-the-board nature. The aim is to reduce tariff and nontariff barriers to promote a sustained expansion of bilateral trade in a balanced form and to facilitate the development of an intraindustrial trade pattern. The long-run objective is to construct a common market that will include not only Brazil and Argentina but will extend to the whole region, starting with Uruguay. In the medium term there is an agreement that calls for the removal of all tariff and nontariff barriers between Argentina and Brazil within a ten-year period. Both the long-term objective and the medium-term format were codified in the Economic Integration Treaty signed by presidents Alfonsín and Sarney in Buenos Aires on 29 November 1988. The integration treaty was recently approved and sanctioned by the congresses of both Argentina and Brazil in August 1989.

The overriding principle governing this integration effort is to achieve dynamic quantitative and qualitative balanced trade over time with a relatively equal pattern of exchange in terms of both value and composition.

Likely Patterns of Trade and Investment

It is likely that as a result of the integration agreements the trade in manufactures between Argentina and Brazil will grow and a pattern of intraindustrial trade result. It is unlikely that the agreements will simply result in a Ricardian intersectoral trade pattern commonly called the "exchange of Argentine wheat for Brazilian machines."

Classical/neoclassical theory of international trade teaches that countries specialize as a function of relative comparative advantage and predicts a pattern of inter-sectoral trade given the assumption of increasing costs. The theory states that countries will export only the products in which they are better endowed and will import all the other products produced in countries better endowed for those activities. But the greatest volume of trade, trade between developed countries or North-North

trade, does not conform to the predictions of neoclassical theory. North-North trade does not follow a pattern of intersectoral or interindustrial specialization with each country specializing in terms of resource endowment in one particular industry. Specialization through trade is intraindustrial and intrasectoral, precisely given the existence of industries subject to economies of scale, which leads to decreasing costs. This fact was completely assumed away in neoclassical trade theory.

Argentina and Brazil, as in the case of northern trading partners, are countries with similar resource endowments, similar per-capita income levels, and therefore similar demand patterns. Given the existence of industries subject to economies of scale, the dismantling of reciprocal trade barriers is likely to generate a pattern of intraindustrial or intrasectoral trade. That is, specialization will not take place at the industry or sector level but at the firm and product variety level. Each country will simultaneously export and import products of the same industry or sector. The potential gains to be derived from economies of scale or decreasing costs will motivate producers in each country to specialize in only some product varieties. Competition will force firms to invest profits in technological advances to reduce costs or improve quality. Consumer welfare will increase since consumers will have access to a greater variety of products at lower prices and higher quality.

In a nutshell, the program of economic integration between Argentina and Brazil will strengthen the possibility of improved growth in these economies not only based on potential increased exports but also based on potential real income gains through productivity improvements.

The question of growth recovery in these countries encompasses the question about the way in which the country is going to grow. The export-led strategy has been put forward as the model of growth for developing countries, due to the success of newly industrializing countries in recent years. The economic success of Korea, Taiwan, and even Japan, a fully industrialized country, was based on the coincidence of export-led growth with real income gains obtained from structural improvements in productivity and competitiveness in industrial sectors. This implied investment.

Latin America has seen a tremendous increase in exports. Brazil, for example, in 1988, realized the largest trade surplus in its history. Does this mean that Latin America in the 1990s will be more competitive than Latin America in the 1960s? Not necessarily. The large increase in exports in Latin America has been accompanied by a huge decline in investment. Investment rates in Brazil have gone from over 24% of GNP in the 1960s to 16% of GNP in the 1980s while in Argentina they have fallen from

over 20% of GNP in the 1960's to 12% of GNP in the 1980's. Debt servicing has produced a cut in investment and a cut in real wages in Argentina and Brazil. So these countries are not necessarily more competitive since they are engaged in exports only to service their debt. There has been no export-led growth in these countries in the past few years.

In a macroeconomic context marked by debt-adjustment, high interest rates, and prospects of slow-growth, the Argentine-Brazilian integration program provides an effective incentive to stimulate the entrepreneurial decision to invest--something that economists could not design through economic instruments. The size of the unified market, which will be an economic unit of 170 million inhabitants, and perhaps nearly 200 million by the year 2000, is a very significant incentive to invest.

Economic Rationale

The integration effort is not simply guided by the potential to increase exports and to promote the growth of bilateral trade. The integration agreements provide a trade-liberalization framework that can strengthen the competitiveness and efficiency of both economies through decreasing costs and increasing productivity in industries subject to economies of scale and through the exploitation of comparative advantages. In addition, the integration process, through the trade amplification effect, will permit improvements in utilization of productive capacity and increased output. Improvements will also be seen in the capital/output ratio and in resource allocation that are critical for efficient investment. Greater competition will improve the price-formation process in the domestic market. A relaxation of the binding foreign exchange constraint on the level of economic activity may be obtained by allowing partial substitution of necessary imports from foreign countries for reciprocal imports.

The Integration Agreements

The Argentine-Brazilian integration program comprises twenty-three protocols that include agreements on trade, finance, transportation and cooperation in technology, among others. In terms of trade, from the perspective of economic growth and structural change, the most important protocols are the three industrial sectoral trade liberalization agreements. They cover capital goods, (Protocol #1) the core of the integration effort at its implementation, the food industry agreement (Protocol #22), and the Auto Industry agreement (Protocol #21) which by October 1989 was not yet implemented. In addition, there is a preferential tariff scheme, the trade expansion agreement (Protocol #4), that establishes across-the-board tariff reductions on more than three thousand different items.

The capital goods agreement (Protocol #1) constitutes a sort of sectoral free-trade scheme. It sets out a framework for the gradual liberalization of bilateral trade on capital goods, granting them the elimination of all tariff barriers (i.e. zero tariffs) and nontariff barriers (NTBs). Gradualism is not associated with the gradual lowering of tariffs but with the progressive incorporation of different types of capital goods into the bilateral sectoral free trade-scheme.

The capital goods that can benefit from the removal of trade barriers are selected by each country from a "universe" of capital goods established in Annex I of Protocol #1 and are placed, through bilateral negotiations, in a "common list" of freely traded capital goods. There is a built-in restriction in the agreement that only allows the "Common list" to expand. A four-year target is set, at which point 50% of capital goods included in the universe must be traded under conditions of free trade.

The design of the capital goods protocol is important both because it represented a new departure in terms of the integration efforts in the region and because it was a key factor in the success of the agreement, setting the path for the food industry and the automotive agreements. On the one hand, the reciprocal elimination of tariffs and NTBs on the same product allows for direct competition of manufacturing imports in the domestic market. This signals the end of high domestic market protection implemented under import-substitution industrialization policies in the 1950s that were not disrupted by the previous regional integration schemes.

On the other hand, the design of the agreement (or its modus operandi) allowed it to overcome internal business resistance to trade liberalization and to expand bilateral trade of capital goods, with a significant trade "creation" effect. Products are placed on the common list of freely traded goods only after consultation with the business communities of both countries. Consultation helped overcome initial resistance because it gave businessmen confidence since they could choose the goods in which they were most competitive. Businessmen felt that they could immediately derive the benefits from expanded trade and also have the opportunity to invest and specialize over time. The four-year target to place 50% of the capital goods universe under conditions of free-trade, however, gave a clear sign that the free-trade agreement will expand over time and, therefore, it allows businessmen to anticipate any future competitive or adjustment problems. In sum, business and the economy could first experience the benefits of free expanded trade while the adjustment problems would be confronted at a later stage.

Post-Integration Trade Patterns

The most significant outcome of the integration program has been the rapid growth in trade of manufactured goods between Argentina and Brazil. In particular, Argentine exports of manufactured goods have grown very rapidly, partly because Brazil's domestic market was traditionally more closed to such imports than the Argentine market. A pattern of intraindustrial trade has been generated under the sectoral free-trade agreements of capital goods and food manufactures. As a result, total bilateral trade between Argentina and Brazil has recovered. In 1988 bilateral trade reached a total of \$1.579 billion, a level slightly higher than that achieved in 1979, representing the second highest level of bilateral trade in the history of Argentine-Brazilian exchange (see Table 1). In fact, the dismantling of reciprocal trade barriers has resulted in the expansion of trade of manufactured goods and has generated a pattern of intraindustrial or intrasectoral trade, rather than a Ricardian intersectoral trade pattern.

Historically, Argentine exports to Brazil were mainly concentrated in primary products and manufactured goods of agricultural origin (representing about 80% of total Argentine exports to Brazil since the end of the 1970s), while Argentine imports from Brazil were mainly manufactured goods of industrial origin (representing about 80% of total imports since the end of the 1970s). It is important to highlight that since 1987, when the integration program was implemented, the relative share of Argentine exports of industrial manufactured goods (excluding fuels) in total exports has grown from about 20% to 38.5% in 1987 and to a relative share of 49.3% of total exports in 1988 (see Table 2). This qualitative change in the composition of Argentine exports is even more noticeable in absolute trade values. Argentine exports of manufactures of industrial origin to Brazil increased from \$108.9 million in 1985 to \$150.3 million in 1986 and \$207.8 million in 1987, reaching a value of \$299.1 million in 1988 (see Table 2). Consequently, the accumulated growth rate of Argentine exports of industrial products to Brazil during 1986-88 was 82%. This growth rate is even more significant since Argentine exports of primary and agricultural products declined 33.2% and 54.8%, respectively, due to the slack in the Brazilian economy.

The trade outcome of the capital goods protocol shows similar performance. The value of Argentine exports of capital goods in the common list increased from \$2.1 million in 1986 to \$17.8 million in 1987, the first year of operation of this Protocol, and reached \$35.5 million in 1988 (see Table 3). On the other hand, Argentine imports from Brazil of capital goods on the common list also increased but at a slower rate than Argentine exports (rising from \$14.5 in 1986 to \$25.2 in 1987 and to \$33.1 million in 1988. see Table 3). In sum, the outcome of

the capital goods protocol was to promote a balanced expansion of trade in the sector and to facilitate "trade creation".

Problems

One major problem for the credibility of the integration program has been Argentina's trade deficit with Brazil in 1987 and 1988. The trade deficit did not originate in the agreements, however. On the contrary, Argentina mainly exports goods that are negotiated through the agreements (63% of total exports in 1988) but about 50% of total imports from Brazil in 1987 and 1988 were goods not negotiated in the agreements. Thus, most of the trade deficit is explained by historic trade patterns and not by the tariff concessions. This is important because Argentina has had a trade deficit with Brazil of between \$200 and \$300 million for much of the past decade. The exception was in 1986 when bilateral trade increased to a level of \$1.6 billion and the trade balance between Argentina and Brazil finished in a state of relative equilibrium (with a very small surplus for Argentina). The integration efforts created a trade framework for Argentina to supply part of Brazil's sudden expansion of domestic demand as a result of the Cruzado Plan. The trade surplus of 1986, however, became a \$280 million deficit in 1987 and in 1988 the trade deficit reached \$363.7 million.

The deficits in 1987 and 1988 were caused by two factors. One was the contraction of primary exports from Argentina to Brazil. The other was that Argentina has traditionally exported fuel to Brazil but in 1987 and 1988 had to import fuel due to production problems. However, trade in manufactures and exports of manufactures from Argentina to Brazil have started to grow since the agreements were implemented. This is also important because over time Brazilian exports have been more stable than Argentine exports. This is precisely because Brazilian exports have been largely manufactured goods and Argentine exports have been largely comprised of primary goods. Increased stability for Argentine exports might result from increased exports of manufactured goods.

The greatest economic difficulties for the evolution of the integration program come from the severe economic constraints or imbalances that are derived from the large external debt and the burden of servicing it. There is not just a burden on the foreign exchange reserves but on public sector finances as well, because in the early 1980s private foreign debt was transferred to the public sector. These external sector and fiscal problems may lead to instability, and in unstable countries it is difficult to proceed apace with integration efforts. It is precisely because of this macroeconomic environment that the Economic Integration Treaty clearly states the need to coordinate macroeconomic policies. Foreign exchange rates are one of the most important instruments to be coordinated.

On the political side the main danger or the main risk to the program is democratic instability, especially in the current period of transition. Moreover, it is difficult to advance in terms of democratic stability when people are extremely dissatisfied because of income adjustment associated with debt-servicing.

The integration effort between Argentina and Brazil is going to be a long haul, just as it was in the case of the European Community. Internal resistance, particularly resistance from business, will have to be overcome. Both countries have led an industrialization strategy over the past forty years that relied on exclusive protection of the internal markets so competition in the domestic market is new to industrialists in both countries. Argentine industrialists are fearful because Brazil's industrial product is about four times larger than Argentina's. In developing industries, such as the auto or capital goods industry, the Brazilian sector is about five or six times larger than its Argentine counterpart. Brazil has also had very successful industrial export performance for almost a decade while Argentine industrial exports only started to grow in 1987.

The way in which the agreements are designed is not inimical to the effort of overcoming internal resistance. The fact that the business community was able to participate in the formation of the common list of capital goods and of the food industry agreements was important in overcoming resistance. The fact that the Economic Integration Treaty approved by the congresses of Argentina and Brazil contemplates a ten-year time span for the removal of tariffs and NTBs, giving business time to adjust, may also calm internal resistance.

There is also external concern to be overcome, mainly from companies that have invested in Brazil and Argentina. These international companies are interested in the possibilities of a wider market because it allows for potential gains from economies of scale and/or economies of specialization. There is, however, some external concern that can be read in statements at international forums. Argentina and Brazil are important countries in the Latin American region and their coming together may strengthen their position in the international economy. There have been important shifts in terms of the positions of countries in the international economy since the mid 1970s, and this has prompted difficult adjustment and restructuring processes in the industrialized economies to retain competitiveness. Undoubtedly, if Argentina and Brazil effectively join into a single market, the international economy will, as well, have to adjust.

Prospects

Latin American countries first promoted integration in the 1960s just as the industrialization process began. Their main concern was to encourage a broad industrial base and, therefore, they engaged in the import substitution strategy. The objective was to rapidly occupy the different cells that were empty in the industrial matrix of each country. Isolation of the domestic market from competing imports was seen as a necessary instrument to achieve that industrialization objective. In the 1980s, Latin America is in a situation of extreme resource scarcity and countries such as Argentina and Brazil are facing a strong net transfer of capital because of debt adjustment. The main concern is to be as efficient and as productive as possible with existing resources. The emphasis is not on rapid growth, nor with accelerated and diversified industrialization. The emphasis is on modern, competitive, and efficient industrialization.

The importance of the integration program in this context is precisely that it provides a new framework of trade relations that can strengthen the productivity of the industrial sector and overall economic efficiency. Integration will create the necessary conditions for real income gains. In sum, a timely integration program with an economic rationale that fits the development objectives and needs of the time may, in the 1990s, have better prospects for succeeding than previous integration efforts.

TABLE 1
ARGENTINE TRADE WITH BRAZIL
(in millions of US\$)

Year	Exports (X) FOB	Imports (M)		Argentine Trade Balance	
		FOB	CIF	X-M(FOB)	X-M(CIF)
1978	576.8		340.5		236.3
1979	885.6		657.0		228.6
1980	765.0		1073.3		-308.8
1981	595.1		893.3		-298.2
1982	567.7		687.7		-120.0
1983	358.4		666.8		-308.4
1984	478.2		831.2		-353.0
1985	496.0	557.7	611.7	-61.7	-115.7
1986	698.1	631.3	690.0	66.8	8.1
1987	539.3	752.9	819.3	-213.6	-280.0
1988	607.7	891.0	971.4	-283.3	-363.7
1988*	272.0	459.9	501.1	-187.9	-229.1
1989*	370.1	327.6	359.8	42.5	10.3

* figures for January-June only

Year	Total Bilateral Trade	
	FOB+FOB	FOB+CIF
1978		917.3
1979		1542.6
1980		1838.3
1981		1488.4
1982		1255.4
1983		1025.2
1984		1309.4
1985	1053.7	1107.7
1986	1329.4	1388.1
1987	1292.2	1358.6
1988	1498.7	1579.1

Source: Instituto Nacional de Estadística y Censos (INDEC), Argentina.

TABLE 2
COMPOSITION OF ARGENTINE EXPORTS TO BRAZIL

(in millions of US\$)

	1984	1985	1986	1987	1988
Primary Products	223.6	176.6	315.3	218.1	210.6
Manufactures of Agricult. Origin	149.2	146.9	206.7	113.1	93.4
Fuels	20.4	63.4	23.3	0.1	3.9
Manufactures of Industrial Origin	85.0	108.9	150.3	207.8	299.1
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	478.2	496.0	696.0	539.0	607.0

(in %)

	1984	1985	1986	1987	1988
Primary Products	46.8	35.6	45.3	40.4	34.7
Manufactures of Agricult. Origin	31.2	29.7	29.7	20.9	15.4
Fuels	4.3	12.7	3.3	0.0	0.6
Manufactures of Industrial Origin	17.7	21.9	21.6	38.5	49.3
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL	100.0	100.0	100.0	100.0	100.0

Source: Dirección Nacional de Investigaciones Sectoriales, Secretaría de Industria y Comercio Exterior, based on data from INDEC, Argentina.

TABLE 3
TRADE WITH BRAZIL UNDER PROTOCOL #1 OF "CAPITAL GOODS"

A) COMMON LIST (FREE-TRADED GOODS) (in millions of US\$)

Year	Arg.Exports	Arg.Imports	Balance	Total trade
1986	2.1	14.5	-12.4	16.6
1987	17.8	25.2	-7.3	43.0
1988	35.5	33.1	2.4	68.6

B) UNIVERSE

Year	Arg.Exports	Arg.Imports	Balance(1)	Total trade(2)
1986	17.7	45.0	-27.3	62.7
1987	37.0	86.7	-49.7	123.7
1988	51.0	83.5	-32.5	134.5

C) RELATIVE IMPORTANCE OF TRADE UNDER THE COMMON LIST(C: A/B)

Year	Arg.Exports	Arg.Imports	Balance	Total trade
1986	12%	32%	--	26%
1987	48%	29%	--	35%
1988	69%	40%	--	51%

D) EVOLUTION OF ARGENTINE TRADE DEFICIT IN TOTAL TRADE OF THE UNIVERSE OF CAPITAL GOODS (D: B(1)/B(2))

1986:	43.6%
1987:	40.1%
1988:	24.1%

Source: Dirección Nacional de Negociaciones Económicas y Comerciales, Secretaría de Industria y Comercio Exterior, based on data from INDEC, Argentina.

DISCUSSION

Jon Rosenbaum, the Assistant U.S. Trade Representative, spoke on behalf of the U.S. government. He first responded to Nofal's comments about the fears expressed by third countries. While the U.S. applauds the recent agreements, it fears a backlash against third-country trade. He refers specifically to U.S. concerns about the Brazilian market being opened exclusively to Argentina.

The integration agreement is, according to Nofal, outward looking and does not imply further trade restrictions. Lower tariffs and NTBs and the economic success (with the support of the business community) have allowed for more open trade policies. Nofal calls this a mutually reinforcing effect, meaning that more open trade leads to greater economic success and thus the impetus to further reduce trade barriers.

Rosenbaum also expressed interest in the emphasis on balanced trade between the two nations. Trying too hard to maintain a balance, he suggested, would be an impediment to further growth of bilateral trade. If all bilateral trade had to be equal, there would be no trade.

Nofal said that balance is important to Argentina because it ensures that both countries will continue to benefit from the agreement. This is especially important because it lends credibility to the agreement. Balance is most significant in the beginning. The current bilateral trade level is small so a \$300 million deficit (out of a total trade level of \$1.5 billion) is very significant. Rego Barros added that balanced trade is more important as a political issue than as an economic concern.

The issue of popular support and opposition within both countries was also of great interest to the participants in the session. Ugo Volpati of IBM Latin America asked if the consensus and popular support for integration existed despite the possibility of a crisis--economic or political. Cole Blasier, Hispanic Division, Library of Congress, asked specifically what groups in Brazil opposed the agreements.

Rego Barros replied that Argentina and Brazil have many similarities, both culturally and geographically--that is, each has large unexplored areas within its national territory. The complementarity of the economies and the above factors provide ample opportunity for cooperation. Any difficulties encountered would be the small problems that face any two nations engaged in trade. In regard to the opposition in Brazil, Rego Barros said it is insignificant. The agriculture sector was unhappy with the accords because Brazil had become self-sufficient in food production through extensive subsidies that would be lost through trade with Argentina. The military also expressed some concern

in the areas of aeronautic and nuclear cooperation. There is no important industrial opposition. The southern states will be the first to feel the impact of the agreements and, despite agrarian concerns, the potential for energy cooperation outweighs these fears.

Nofal added that integration is a stepping stone to a stronger position in the world economy for Brazil and Argentina, not an effort to isolate the countries. Certain sectors will have special provisions as in all trade agreements. There will be less reliance on the state and a greater reliance on the world economy as a result of the integration agreements.

There were a number of questions related to the economic position of the two nations and the possibility for greater macrocoordination of economic policy as a result of the agreements. Hugh Schwartz, of the IDB, asked about the potential for new capital investment and about the likelihood of a repatriation of the Argentine capital lost through capital flight. Nofal responded that it is difficult to determine whether integration will prompt a return of expatriated capital or to measure such a return if it does occur. There are new binational ventures in the steel and petrochemical industries but it is unclear whether they are being funded through savings or new investment. A recent resurgence of European investment in Argentina suggests that integration is important to investors and that the process is credible. Joint ventures with foreign firms may entice a return of domestic capital to Argentina.

Outward growth, suggested Carlos Braga of SAIS, clearly requires investment which cannot occur without some form of debt relief. He asked the panel if Argentina and Brazil would begin to coordinate their debt policies. Nofal suggested that increased coordination in several areas, including the debt crisis, would be a result of greater contact between officials of the two nations. Whether a coordinated debt policy would be the result of increased contact remains to be seen.

Lincoln Gordon, a former U. S. Ambassador to Brazil, raised the issue of financial cooperation between the two countries. He noted that exchange rate policy would be an especially important variable. The chronic high inflation which each country faces means that frequent devaluations are necessary. Entrepreneurs who are considering exploiting the other market may base investment decisions on the fluctuations of the exchange rates. The political importance of the trade balance makes exchange-rate policy especially relevant.

Nofal agreed that Gordon had touched upon a crucial issue. Macroeconomic coordination is essential because the capital goods agreement ensures that parity will be maintained. A policy of devaluations exists in the European Community (EC) and France,

for example, was forced to devalue in the 1970s. This mechanism was not incorporated into the Argentine-Brazilian accords for two reasons. First, Argentina has had a more stable exchange rate in the past fifteen years than ever before. Brazil has an especially stable rate for a country of its development level. Second, both countries need to generate trade surpluses, which indicates that exchange rates will probably remain undervalued and stable. Whereas an inward looking economic policy would likely lead to an overvalued exchange rate, both Argentina and Brazil are pursuing outward looking strategies. The need for policy coordination is recognized by both countries yet no formal cooperation agreement exists. Rego Barros explained that trade levels are currently too low to warrant further policy coordination.

Implicit in the presentation by each of the speakers, as well as the discussion that followed was the issue of credibility and flexibility of policy. Felix Peña, of the IDB, asked what guarantees existed within the program that future governments would not make drastic changes in the accords. He suggested that without strong guarantees, investors would remain skeptical of the integration program and its future.

Rego Barros replied that flexibility should be seen against a background of Latin American cooperation. Previous initiatives in Latin America were surrounded by complex machinery. This is a feature of the Latin American culture that the current agreements hope to avoid. Rather than making impressive declarations, the governments want to create an integration program that will work. Since the potential for problems does exist, guarantees cannot be made. However, even a rigid system would not be a guarantee against future changes, especially in a region such as Latin America and within two countries not known for stability.

Flexibility was desired, according to Nofal, because unlike traditional trade agreements, which revolve around preferential treatment of different goods, the new agreement created a free trade zone with competition in the same goods. Thus flexibility refers to adjustments that may be necessary, not to a reversal of the process if one country experiences adjustment problems.

The geography of the problem and the relationship of Uruguay to the agreements was also a topic of discussion. The activities chosen to begin the integration scheme--food, capital goods, and automotive components, take place in southeastern Brazil and northeastern Argentina. Thus those regions will be most directly affected by the agreements. The geographic position of Uruguay and the relative size of its markets and industry are important factors in the future expansion of the agreements.

Both presidents Alfonsín and Sarney favor the incorporation of Uruguay into the current bilateral integration program. Nofal

stressed that it is the Uruguayan government's decision whether or not to join the program and to what extent. At present, Uruguay has chosen to become involved only in regard to land transportation and technology while postponing a decision on capital goods. She suggested that Uruguay may not want to give up the advantageous bilateral agreements it now has with Argentina and Brazil. The potential for cooperation in food-stuffs is greatest and might well lead to the integration of all regional economies. The agreements will ultimately extend to all regions of all three countries. In the Argentine province of Mendoza, for example, 60% of its exports (primarily wine) are to Brazil. The food agreements are thus of special interest.

Wanda Barquin of Georgetown University asked Rego Barros about the potential for free movement of labor along the lines of the EC. He replied that although this was a possibility in the long run, it was unlikely in the short run. Labor movement is always a problem, he added.

One final issue raised by Ugo Volpati was the possible inclusion of informatics into the free trade agreements. Rego Barros believes that the economic situation requires a more open policy toward trade and investment. The capital goods policies differ. Brazilians say Argentines have an advantage because they can import informatics while Brazilians have to purchase more expensive domestically produced products. A harmonization of policies is inevitable.

POLITICAL DYNAMICS AND INTEGRATION

MARK FALCOFF

American Enterprise Institute

Consideration of the political dynamics of Brazilian/Argentine integration, as seen from an Argentine perspective, brings to mind five issues for discussion.

The first issue relates to the cultural assumptions held by Argentines about Brazil and about themselves. Twenty years ago, Argentines were, as a whole, Eurocentric to the point of having almost no knowledge of Latin America. Brazil was perceived of as an underdeveloped African state with extremely close ties to the United States. Brazil, it was believed, had sold out to the Allies during World War Two while Argentina remained neutral, and therefore independent. Brazil was, of course, more developed and more independent than Argentines believed. The Malvinas War provoked a change in this attitude. Argentina received support not from Europe but from Latin America. The question now raised is whether Argentina will abandon its historic cultural assumptions regarding Europe and take on a more Latin American identity. The cultural assumptions maintained may be functional or dysfunctional to its international role and to its relationship with its neighbors.

The extent to which political institutions may have an impact on the integration process remains unclear. Their convergence may be an issue as well. Over the past fifty years the political institutions of the two countries have paralleled each other with remarkable continuity. The populist leaders, Perón and Vargas, were followed by military interventions and now by fledgling democratization efforts. This parallel may not be a necessary precondition for integration since Argentina has concluded integration agreements with as yet undemocratic Chile.

Differing levels of technological development are another area of potential conflict. Brazil is technologically more developed than Argentina in all areas except nuclear technology. Argentina's troubled education system suggests that this gap will not soon be closed. Simply stated, Brazil generates new technology while Argentina does not.

Argentine nationalism and the resurgence of Peronism are a fourth area of concern. Some Peronist legislators opposed the integration accords with Chile. A Peronist majority in Congress and a Peronist president could dramatically alter the immigration process. How would a Peronist president respond to potentially closer ties to Brazil?

The impact of European union on Brazilian/Argentine integration remains uncertain. A further closing of the European

market will not necessarily awaken Latin American passion for regional integration. Argentina and Brazil could find themselves shut out of the European market and unable to attain all the elements needed for full complementarity in their own region. There is a reluctance to shut oneself up in one's own region. How this might have an impact on Brazilian/Argentine integration remains to be seen.

RIORDAN ROETT

Johns Hopkins School of Advanced International Studies

The Brazilian perspective on economic integration with Argentina can be characterized by five issues of concern. First of all, any consideration of the process must occur within the context of the realities of the electoral and political dynamics of the country. The integration agreements were negotiated by lame-duck presidents whose successors may be less enthusiastic about integration. Additionally, the popularity of Alfonsín and Sarney, the negotiators of the agreements, has declined sharply. In one case, the leader has lost his legitimacy. Potentially serious ideological differences of the successors may have medium-term and long-term implications. The depth of the integration process within the political dynamic of both societies will be of great significance.

The politics of macroeconomic strategy and micro policy is a second area of interest in Brazil. Macroeconomic coordination (as occurred with the Austral and Cruzado plans) is fundamental to the success of the integration process. Currently the politics of microeconomic strategy in both countries is a shambles and the politics of stagnation is a way of daily life. Both nations need to improve the policymaking process on both macro and micro levels.

Societal dynamics comprise the third area of concern. This multifaceted category perhaps most clearly presents the differences between the two nations. Integration has, thus far, been an elite phenomenon but issues specifically related to the poor and middle classes are being raised. The social agendas in the two countries are dramatically different. Brazil faces a greater challenge in terms of basic human needs, marginalization, and AIDS, to name only a few areas of concern. Fundamental decisions must be made about the nation of Brazil. What impact will these decisions have on macro level education policy? Labor structures vary between the two nations. Peronism is not replicable or has yet to be replicated in Brazil. The different relationship of unions to parties and the state in each country will have an impact on labor exchanges. While in Argentina organized labor plays a critical role in determining some policy options, in Brazil a labor-based movement is in the formative stages. This movement may one day influence the integration

process. The citizens of both countries have expectations and assumptions that could have an impact on the integration process. The middle classes have not yet reacted to integration due to the critical nature of the current crisis. Questions may arise if and when the crisis abates. Cultural assumptions run from an out-of-date view of Brazil by Argentines to ambivalence on the part of Brazilians for Argentina. Skillful leadership will be needed to manipulate expectations.

Systemic stability, the role of the military, and competing geopolitical concerns and expectations are a fourth issue of concern. The style of government (democracy or dictatorship) may be of less importance than the opinion of integration held by the military establishments. The Brazilian military has expressed concern about nuclear policy and the aerodynamics industry. The Argentine military might also react to issues surrounding integration. The systemic instability of both countries means that the role of the military in regard to resource allocation and setting limits on the integration process is unclear. The National Security Doctrine remains a vital part of the military establishment. A macroeconomic collapse could bring these concerns to the forefront. The geopolitical concerns of each country for the 1990s are different. Issues such as the Treaty on Antarctica, the Malvinas/Falklands, and the future of the South Atlantic as Cuban troops return from Africa all may play a role in Argentine-Brazilian relations. Differing views on the future of the South Atlantic may relate to economic options that make integration more or less attractive to each country.

Global economic integration is the fifth characteristic that will impinge on the integration process. The general worldwide perception is that South America does not fit into the global integration scheme. While Mexico and the Caribbean are likely to enter any North American free trade area and Chile may be attracted to South-East Asia, Argentina and Brazil (and the rest of South America) fit into neither group. The options for South America are not clear, but if the nations of the continent do not define their goals quickly, 1992 may leave them still fewer options.

Brazilian/Argentine integration represents the best of what could be expected given the problems faced by each nation. Questions about its future, however, remain. Will the process continue after each country's elections are held? The accomplishments of the past are not necessarily transferable. Policies pursued by new leadership will reflect the peculiarities of these new leaders and may be a dramatic change from the past.

Will economic policy improve? Can social agendas be aligned with integration? Although the history of Latin American integration does not give rise for optimism, strong leadership and some economic growth may help resolve these questions. The

longer term concerns--systemic stability, the role of political parties, the military and broader global issues--comprise a daunting agenda to be addressed.

DISCUSSION

Mark Falcoff began the discussion by responding to Roett. The concept of insertion into the world economy has obsessed Argentine political scientists since 1945 yet by the 1990s Argentina may find, along with the rest of Latin America, that it is in limbo between Europe and the U.S.-led inter-American system. Additionally, since integration is always an elite phenomenon, the Argentine/Brazilian case is not atypical.

The middle class, says Falcoff, has a tendency to place their hopes in huge projects destined to fail rather than in smaller projects that might come to fruition. Falcoff also notes that the Argentine military left power under very different conditions than their Brazilian counterparts. Finally, Falcoff suggests that Chile was drawn toward South-East Asia in search of trading partners who would not comment on their human rights record. With redemocratization, Chile will be pulled away from the Pacific basin and will join the Southern Cone in a political sense.

The discussion was then opened to the audience. Ambassador Lincoln Gordon noted that Brazil is five times larger than Argentina and the U.S. and Europe much larger than Brazil. There is, therefore, a question of magnitudes. Latin American economies are small and in disarray and thus not compatible with other blocs. Brazil should try to make regional groups outward looking instead of fortresses. He asks if "fortress Europe" is built, could Brazil get into a North American free trade area?

Carlos Braga, a participant in the third panel, followed up on the comments of Gordon. The issue of South America's position in the world economy is of importance in regard to block formation. The success of the multilateral system and the Uruguay Round is in danger due to the attitude of First World countries not due to Brazilian/Argentine integration. A South American-U.S. association could be formed only following an indication of U.S. interest in such an association, which has thus far not been given.

The major issue, in Roett's opinion, was whether South America would fit into an inter-American free trade scheme with the U.S. The sentiment in Latin America regarding the Montreal talks of the Uruguay Round is that the tide is against them. Reintegration into a hemispheric scheme is attractive but would require sacrifices the U.S. may not be willing to make.

Argentines may not understand the deliberations regarding Brazil's new Constitution. The Brazilian government will have a high social cost if it wants to have any congruence between society and state. The incongruity, which has been possible in the past, may no longer be possible in the 1990s. Integration has moved quickly because it has not had to be linked to broader social questions such as the dynamics of poverty. Brazilian/Argentine integration is not like Europe and may not be enough to solve the crisis. But what else is there?

The role of Brazilian labor in the future was of interest to another participant. Roett responded that the expectations of the working class may prevent integration from being an elite phenomenon. Lula has promised that if elected, he will impose a debt moratorium. This promise means nothing much except to demonstrate that the Worker's Party is the only programmatic party in Brazil. It does, however, underline the potential for change after the elections.

Hugh Schwartz of the IDB asked about the education systems in both nations. The Argentine strength of the 1960s and 1970s reflected high levels of education that are no longer present. The Brazilian system is also in poor condition. The problems facing the countries are generally blamed on the macroeconomic collapse. Schwartz agreed with Falcoff, who had suggested that some minor micro problems become more serious by being overlooked in efforts to address macro problems. The education system may need remedial attention as Japan and Korea gave their systems during their growth periods. If the micro issues are not addressed, even when macro conditions improve, the overall results of integration will be poor.

Falcoff responded that primary and secondary education is better in Argentina than in the U.S. He acknowledged Argentina's advantage over Brazil in this area but asks whether education will receive the remedial attention it deserves. Education is not a glamor issue in Latin America. Roett concurred that mass education, worker training, and primary education all present challenges to Brazil.

The interest and involvement of both the private sector and pressure groups in the integration process was raised by Ugo Volpati of IBM. Roett responded that the Brazilian business community has expressed strong support for the integration process. They have tried to take a role in micromanagement to influence the government. The business community does not fear integration and does not seem to understand Argentina's fears. More extensive contact between the business communities of both countries is necessary.

Surprisingly, the Argentine business community has still not determined what its relationship to government should be.

Falcoff suggests that integration complicates their good relationship and may in fact have a negative impact on it. Roett remarked that there is a feeling, in the Argentine business community, that Argentina will be the loser in the integration process. Business has a protected, comfortable relationship with the government that could be upset by competition. Their concern may become more apparent in the medium and long terms.

Rego Barros addressed the issue of insertion. He believes that Brazil or Argentina will be alone and out of the regional integration scheme or together and out. Multilateral trade negotiations, he suggested, are necessary to avoid compartmentalized trade. Both Alfonsín and Sarney want to sign the treaty before they leave office since, although this is not a guarantee, it will demonstrate national approval. Latin American integration is also an article of the Brazilian Constitution. One problem that remains is the difficulty of integrating Brazilian society.

The panelists then responded to the likelihood of the ratification of the integration accords. Roett said that no one is against integration in the Brazilian Congress so ratification was quite certain. As for Argentina, Roett wondered whether the treaty would be approved since Alfonsín lacks a majority in Congress and there might be some reluctance to give him one final victory. Falcoff suggested that the issue will come up in the next administration. Carlos Menem, the likely victor, is not attuned to the integration agenda. Brazil, he continued, is future oriented while Argentina is nostalgic. When the average Argentine describes his or her idea of a good future they often evoke memories of 1938. Roett picked up on this point and observed that Brazil is currently adrift because there is no project to move the country forward although there is a sense that a project will appear. Argentina is also adrift but no one talks of new projects.

Peru, commented Hugh Schwartz, is a prerevolutionary country. In the near future either a Marxist or a military government could come into power. Assuming such a drastic alternative does happen before the Brazilian elections, what reaction would there be? How would it affect Brazilian/Argentine integration?

Falcoff believes that the results in Peru cannot be predicted. There is a general opinion that it is Peru's problem to resolve in any case. Argentina does not perceive a link to Peru. Roett suggested that Peru is an isolated case and that potential changes in Colombia would be more important though still unlikely to have an impact on the integration process. Uruguay and Paraguay are natural extensions of this process but the inclusion of the countries across the Andes requires a leap of faith.

The final question, from Melissa Birch of the University of Virginia, dealt with the potential inclusion of Paraguay into the process. Perón, she said, had a vision of integration that included Chile and Paraguay. Menem, though not sharing Perón's dream of integration, has ties to General Stroessner. Birch asked the panel for their thoughts on these connections.

Falcoff responded that Perón's dream came during a period when Argentina held a very different economic position than it does today. Brazil is now the economic power of the region. Roett noted that integration is taking place under a democratic framework. Democracy in Paraguay might lead to broader integration.

ECONOMIC DYNAMICS AND INTEGRATION

CARLOS A.P. BRAGA

Johns Hopkins School of Advanced International Studies

Was the meeting held in November 1988 in Buenos Aires a kind of last samba in Buenos Aires or will there be a last tango in Brasilia next June? The political will to proceed in both societies seems to be quite independent of personalities. The program will therefore continue after the elections in both nations.

Current economic results do not seem to endanger the continuity of the Argentine-Brazilian Integration Program (ABIP). But there are some problems in the project including the growing Brazilian surplus and the possibility of imbalances; the possibility of growing economic inefficiency (which many analysts have put forward as one of the major problems with the integration project); and the possibility of chaos.

Before discussing these problems, it's necessary to ask if the basic motivations or the initial conditions for the project have changed since its inception. Presidents Sarney and Alfonsín had a very important role in beginning the process. But it was geopolitical concerns that made Brazil and Argentina change the focus of their relationship from rivalry to cooperation. Regardless of the outcome of the presidential elections, this trend toward cooperation will be a fixture in Argentine-Brazilian relations. Although personal priorities are not very important, there are two lame-duck administrations, so additional progress will not be made until after the elections in Brazil and Argentina.

Pressure from organized interest groups remains important. The role of the private sector has come under close scrutiny. (Braga bases his analysis on conversations he has had with private interest groups in Brazil and most extensively in Argentina--Ed.) In 1986-87, when the program was being drafted, the Brazilian private sector didn't place a high priority on the program. The private sector in Argentina, particularly export-oriented firms, have a major interest because the Brazilian market is an area of potential expansion. The Brazilian private sector is now slightly more enthusiastic about the potential benefits of the program, but this is based not on the program itself, but on the situation of the economies, particularly the Brazilian economy. There are other kinds of pressure groups, particularly in terms of the strategic alliances, on the state-owned enterprise level that will give a new impulse to the whole project. The best example is the proposal for an iron ore pellets plant in Argentina. Brazil will provide the iron ore and an Argentine consortium of companies will provide natural gas to

fuel the plant. This shows how binational companies can provide new sources of strategic alliances and thus new sources of pressure in favor of the program.

Those sectors that will be affected negatively by the program cannot be ignored. These will include labor related interests, particularly in Argentina. Overall, pressure groups and private interest groups favor the project. With respect to this aspect, negative change is unlikely.

The first attempts at Latin American integration were made under the auspices of LAFTA in 1960. Underlying the whole process was export pessimism. This was the theory that supported the import substitution industrialization process that ECLA economists were "selling" all over Latin America. But Raúl Prebisch, the leading proponent of these ideas, also began to rethink the whole idea of import substitution. He recognized that the domestic markets of Latin America were not big enough to accommodate those products where economies of scale had a very important role. The first wave of export pessimism (the idea that Latin American countries could not be successful in the international economy because of a circular decline in the terms of trade) was behind import substitution, and import substitution problems were behind the first Latin American integration efforts.

Now Latin America faces a second wave of export pessimism, which is different in attitude because it is more closely related to man-made barriers to integration. It is a product of the problems created by the new protectionism in the First World. The second wave of export pessimism is a product of the search for different perspectives on market access through Latin American economic integration. Another important point is the crisis of the multilateral trade system. All over the world there is a growing movement toward the creation of free trade areas and customs unions. If there is any hope for global economic growth, the multilateral trade system must be preserved. The reality is that block formation is a major issue all over the world including Europe 1992, the Canada-U.S. Free Trade Agreement, U.S. talks with Mexico, and the proposals for integration in the Pacific basin. This "bad" example from the First World raises the question of where Latin America, more particularly, South America, will fit. This generates external incentives for regional integration. The external incentives were present in 1985-86 and are even stronger today because of the possibility of failure of the Uruguay Round and because of the realities in terms of block formation all over the world. Most of the initial conditions favorable to integration still exist. Those that do not are no longer significant to the continuation of the process.

There is one issue that is no longer present that is crucial to the whole enterprise--synchronicity. When the process began there were two concepts of synchronicity, of parallelism, in force. One was the idea that both countries, involved in the democratization process, would be more likely to discuss trade policies. This still exists despite all the problems that Argentina and Brazil are facing in the political arena. But the second synchronicity "thought to be present" in 1985-86 with the Austral and Cruzado plans is no longer present.

A major problem for the integration program in the short run is that both orthodox experiments were failures. Initial impressions of similarity between the programs gave way to a recognition of major differences, particularly in terms of the timing of their impact in the economy. Along with parallelism, in terms of economic situations in both economies, comes a very difficult situation--the particularly worrisome short-run stability of the Brazilian position. There are no major problems in the long run with respect to the political will to proceed but major problems in the short run may come from a lack of synchronicity, a lack of macroeconomic coordination that is apparent in terms of exchange rates. It is not visible in official exchange rates but is obvious in the parallel markets in Brazil and Argentina. Major instabilities have been built into the whole system that could destroy the incentives for closer trade policies for both countries. The success of the program in the short run depends very much on how the Brazilian economy evolves in 1989.

There are three scenarios that cover the whole spectrum of possibilities. The first is the "wishful thinking" scenario. This suggests that the Sarney administration, in its remaining months, will be able to implement a successful stabilization program. Successful stabilization is a necessary precondition for success of the economic integration program in a more meaningful way. The program is a success as a limited customs union, or more exactly, as a limited free trade area, since equality of external tariffs has not yet been achieved. But achieving greater success in the form of a common market will hinge very much on the macroeconomic stability of both countries. This scenario assumes that Argentine stability will be achieved and thus Brazilian stability presents the greatest challenge. So, under the "wishful thinking" scenario the short-run problems will be solved; President Sarney will put together a stabilization program that will, of course, have adjustment phases, but can establish the basis for a more meaningful integration in the long run. The probability assigned to this scenario is, even optimistically, very close to zero.

The most probable scenario is called MOSS--more of the same stuff. This implies a situation of prolonged agony for the Brazilian economy. In other words, a continuation of this

instability that while not necessarily implying hyperinflation, suggests some price-freeze programs. Under this scenario long-run incentives for a more meaningful integration will not occur. This scenario will have an impact on that more optimistic perspective presented above. It is, however, the most likely scenario given the current Brazilian economic situation.

The third scenario is the chaos scenario. The probability of hyperinflation in Brazil is increasing. It is not a foregone conclusion, but at every moment that the right decisions, for political or economic reasons, are not made, the country is closer to a major economic disruption. This would have a major impact in terms of institutions, which could have a severe, yet uncertain, impact on the Argentine-Brazilian Integration Program.

Even under MOSS, there are doubts about the success of the program. This is one of the areas many analysts focussed on when the regional approach was initially considered. It was suggested that trade creation would probably be dominated by trade distortion in the context of a regional integration program like ABIP. The analysts agree that the dynamics of a process of negotiation based on partial agreements typically leads to trade diversion dominating trade creation. The result is inward oriented development instead of a trade-created outward oriented development.

Although a limited program like ABIP has the potential for trade distortion, in the case of Brazil and Argentina we have to qualify the impact of trade diversion. First of all, both countries have very high levels of protection, so even with trade diversion a less distorted pattern of consumption is possible. From the consumption side, it is possible to attain benefits that outweigh the distortions that will appear on the supply side. For example, Brazilian producers now will sell Argentines a product that before ABIP Argentina purchased from a more efficient producer, such as Europe. This is, of course, a trade diversion situation. But it is possible, because of the high levels of protection in Argentina, that from a world economic perspective they are losing efficiency. But Argentine consumers are better off because the level of protection with respect to the most efficient producers was very high. So the fact that they now buy from Brazilian producers who are not as efficient does not mean they are going to pay a higher price.

If macroeconomic instability is not achieved in both countries, the hope for this program to evolve into a more significant program for the region as a whole will be very fragile. The best way to understand that is that the program is a liberalization program. Any liberalization program entails adjustment costs. The political will to make the liberalization program work is like the rope that tied Ulysses to the mast of

the ship to avoid the singing of the sirens. When countries face macroeconomic instability the rope, in the case of Brazil at least, is at best a string. And of course we don't know, as the adjustment costs grow, if the political will to maintain the right course exists.

EGBERT GERKEN
The World Bank

The Argentine-Brazilian Integration Program (ABIP) currently consists of a preferential tariff agreement (PTA) for a list of goods containing steel, natural fibers, and selected processed food items and capital goods. The PTA is to grow into a full-sized customs union or free trade area within ten years, and a common market thereafter. Does it make economic sense for Argentina? As always in economics, the answer depends on the alternatives. Without ABIP, would Argentina return to the old import substitution model or would it liberalize trade more decisively? How would ABIP fit into the government's general trade liberalization program?

The advantages of ABIP would clearly dominate disadvantages if the alternative were to be a return to the obsolete national import substitution model. After all, ABIP means that each of the two governments invites the industrialists of the other country to share in the protection granted to domestic producers, thus expanding the size of their respective market. As a consequence, there will be: (a) more specialization according to comparative advantage, i.e., some market swapping between the two countries; (b) a greater variety of goods in both countries, which tends to be highly valued by consumers and industrial users, i.e., there will not be full specialization but more intraindustry trade; (c) cost reductions in both countries on behalf of scale economies; and (d) more competition, which tends to drive the search for innovations and resource-use efficiency on the firm level. The only disadvantage would be a trade diversion effect as certain products, formerly imported from the U.S. or Europe, would now come from Brazil, lowering the government's tariff revenue without necessarily lowering the domestic user price.

The balance of advantages and disadvantages is less obvious when we assume that the stated Argentine policy of a progressive "insertion into the world economy," i.e., general trade liberalization, will continue. Consider the case of a product that is highly protected but, due to scale economies, is only produced in Brazil, the larger market. From the Argentine industrialist's point of view, the PTA increases the market for this product fourfold, i.e., it creates an incentive to produce this product also in Argentina. A new industry will be created that, however, will depend on the protection granted in both countries. If general trade liberalization later on removes the

protection, the industry would again disappear--clearly a wasteful process. The point is that a PTA is based on the idea that the common protection against third country imports will continue. Pursuing both ABIP and the insertion into the world economy, the government appears to send mixed signals to Argentine industrialists. One might even say that protected industries have an incentive to be included in the PTA, so as to defend their protection against the government's plan of opening the economy.

Signals would be clarified and the apparent conflict between regional and world integration removed if the two governments were soon to agree on a low common external tariff for the customs union ten years hence. That would leave no doubt about the positive welfare effect of ABIP. Such agreement, unfortunately, appears unlikely. Brazil's tariffs and non-tariff barriers are higher than Argentina's, and the same applies to export subsidies. A common external tariff would rather be a compromise--given the relative size of the two economies, the compromise would bear more resemblance to Brazil's level and structure of protection. This, however, would be inconsistent with Argentina's trade liberalization program, which has made substantive progress in 1987 and 1988.

The two governments prefer to talk about a free trade area rather than a custom's union, thus avoiding the issue of a common external tariff. A free trade area between countries, however, would be difficult to manage. Imports, for example, would tend to move through low protection Argentina into high protection Brazil, superficially transformed into Argentine products so as to avoid certificate-of-origin requirements. The issue of the common external tariff should not be postponed as it creates uncertainty among Argentina's industrialists about what the government really has in mind. The danger is that the uncertainty will kill the momentum of both regional and world integration.

DISCUSSION

Gerken's presentation was of greatest interest during the discussion period, especially in regard to his comments about protection. Hugh Schwartz of the IDB asked if Gerken would be more supportive of the agreement if a provision were included that required all protected industries to begin exporting to third countries within a certain time frame as was done in South Korea. He also asked for Gerken's opinion if the data demonstrated that the increase in exports to Brazil had come from protected industry. Ambassador Lincoln Gordon pointed out that Gerken's criticism of protection did not allow for the infant industry argument. Brazil, Gordon said, is competitive in the world market because it had a large protected market to which

Argentina will now gain access. Why shouldn't Argentina be able to do the same with an even larger combined market?

Gerken responded that Argentina had a protected market for a long period but was unable to compete internationally. The agreement, in Gerken's opinion, gives new impetus to ISI and will merely prolong the resolution of the current situation for ten years. The inefficiencies present today will only be exacerbated ten years from now. He also doubts the success of an export-oriented policy like that used by South Korea. A trade liberalization policy of the sort now being implemented by Argentina is more beneficial because it forces industry to compete immediately.

Gerken was then asked whether his opinion would change if Brazil removed all protection and NTBs. He replied that if the details of the customs union are clearly spelled out and the common tariff is set at or below the Argentine levels, he would support the plan. World and regional integration would occur simultaneously. If tariff levels were, as he suspects, closer to Brazilian levels, the plan would have a negative result for Argentina. The agreement is a loss as long as the ground rules of the common market remain vague. The signals sent to Argentine industrialists are unclear and thus they cannot act rationally..

Carlos Braga added that he, too, ultimately favors multilateral trade liberalization but believes that there will be a welfare improvement resultant from the regional agreement. The program requires both governments to accept that ISI is no longer a viable strategy. He opposes the infant industry argument because the protected industries have become "geriatric industries." Argentina and Brazil have begun a bilateral liberalization program because both governments believe it can be accomplished. The challenge now is to design a welfare improving, trade liberalizing program to meet these expectations.

To a larger degree for Brazil than perhaps for Argentina, suggests Claudio Frischtak, the process of integration into the world economy is essential. The Brazilian export boom demonstrates not industrial strength but excess capacity. Brazil must integrate so that the economy can compete in the 1990s against the strong East Asian economies, "fortress Europe" and a potential North American common market. The open question to be answered by Brazil is whether Argentine-Brazilian integration is a stepping stone to world integration or an inhibitor. Argentine industrialists take the process much more seriously than do their Brazilian counterparts, probably because it is a bigger step for them. Brazilians are still very parochial, says Frischtak. The tremendous state benefits of the past forty years are not easily withdrawn. Yet the key to economic survival is to make industry independent so that resources can be channeled toward the truly needy.

Beatriz Nofal also chose to respond to Gerken's comments. Liberalization with Brazil, she says, helped Argentina's world liberalization process, not vice-versa. The export boom, as in Brazil, is a product of excess capacity as a result of a domestic recession. She points out that while domestic demand for machine tools has fallen 60%, total exports to Brazil have grown 450%. Clearly the agreement has been of benefit. The South-East Asian export boom was accompanied by positive rates of investment. This has not been the case in Brazil and Argentina. The core goal of the integration agreements is to strengthen the efficiency and competitiveness of industry and to provide investment incentives not found in world integration schemes.

Multilateral tariff reductions do not automatically increase market access but bilateral reductions do. Capital goods producers in Argentina will invest as a result of the agreement. As an example, Nofal notes that greater exports to Brazil have led to exports to the U.S. and to joint ventures with European firms. This increase in Argentine exports has promoted new investment.

The greatest fear expressed by Argentine industrialists is competition from Brazil, not world competition. Uncertainty over interest and exchange rates are additional issues of importance to Argentine industrialists. A potential rise in populism in Argentina, which would make the nation more inward looking, is of a greater threat to economic stability than is Argentine-Brazilian integration, concluded Nofal.

Another issue area that prompted a spirited discussion was the Argentine trade deficit with Brazil. Ugo Volpati of IBM-Latin America asked if the deficit was the result of the Brazilian recession, a short-term problem, or a systematic crisis that will stimulate further opposition to the agreements.

The program is doing well in terms of balance within the agreement but many items are traded outside the parameters of the agreement. Braga explained that Brazil has had a trade surplus with Argentina every year since 1979 with the exception of 1986. This is because the adjustment process in Brazil has been much more mercantilist and has granted more export-based incentives than has Argentina. These incentives and the economic cycles of the two neighbors explain the imbalance. The potential for a better trade balance does exist but there is no economic reason to promote such a balance. The real concern is that there will be an imbalance in the global trade of both nations because of the program. This would give ABIP a bad reputation abroad. There are however, many ways to avoid this.

Argentine exports are largely agricultural, noted Paul Trafficault of the USDA. This has given Argentina a large trade

surplus due to the U.S. drought but also suggests a future problem. Argentina's greatest resource is its agricultural production potential. How might agricultural trade integration be accomplished? Gerken responded that the growth of Argentine exports has actually been in non-food based industrial products, which have grown 50 percent in the past year. The increased share of non-agro-based exports indicates a structural change within the Argentine economy.

Trafficault also expressed concern about the potential for increased investment given the political instability, fluctuating interest rates, and lack of information about future policy. Gerken agreed that there will be no long-term credit in Argentina in the near future. Private investment has begun to recover, however. Firms are financing domestic investment through foreign holdings. Furthermore, high inflation does not have to deter investment. Trafficault said that in his experience people will sell assets and resort to speculation in financial markets in periods of high inflation.

All three of the panelists responded to this aspect of the question. Gerken noted that with lower inflation there might be higher rates of investment, but there was private investment in Argentina. Frischtak pointed out that financial markets can be risky. In Brazil, investors have begun to withdraw assets from financial markets in order to invest in real assets. Braga pointed out that it is not high inflation rates but instability that creates investment problems. Companies could make forecasts and invest accordingly if there were better indexation. In Argentina, some individual companies benefitted from capital flight and the same may occur in Brazil. Though the social cost is high, the industrial companies are more secure when their assets are held abroad. The program itself depends on the success of the economic stabilization programs in both countries.

Integration will not necessarily make trade liberalization an easier process, noted Enrique Kazov of the World Bank. The program does change the attitudes of policymakers since it is no longer a taboo subject. On a larger scale, negotiation is helpful but there is no direct link to multilateral liberalization.

Gerken acknowledged that the current macro situation puts a shadow over the process. No one knows what inflation will be so no firm, long-term plans can be made with any degree of certainty. Integration is a marginal process that continues under the assumption that the current situation will not deteriorate.

Gerken also responded to some of Nofal's earlier comments. He acknowledged that increasing returns to scale will mean increased welfare, a very strong point in favor of integration.

He questions the targets of the program. Will the result be a customs union with tariff levels at the Argentine level? If so, the program should be pursued as it will be welfare creating. But he doubts the feasibility of such a common market without guarantees. With respect to investment, he asserts that it is unclear whether new investment is a result of exports to Brazil, exports in general, or the result of non-export factors.

Nofal responded that some but not all of the investment decisions are based on integration. The proximity of the Brazilian market is an incentive to invest, not for domestic purposes but for export.

The final question was in regard to the new Brazilian Constitution and the provision that requires all new mining projects be Brazilian owned with only minority participation by foreign companies. According to the investment protocol, would Argentine investment be considered domestic?

Braga said that the new constitution has many contradictions in terms of the integration program. The Constitution reflects the character of the country--many conflicts, he added. Some sort of compromise in defining the procedure for joint ventures is necessary. Making constitutional provisions a reality will require political ingenuity. Rego Barros agreed that the problem must be resolved. The Brazilian economic tendency, he added, is for greater openness.

Nofal concluded the program by saying that only in the area of capital goods is there any mention of common tariffs. The ten-year goal of the agreement is the elimination of bilateral tariffs and NTBs. Overall it is a very general statement since the difficulties in making firm commitments was recognized by both countries. A free trade union is more likely than a customs union.

A REVIEW OF THE PROCESS: DECEMBER 1988 TO THE PRESENT

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Since the conference was held (December 1988), the Argentine-Brazilian Integration Program has remained in a state of pause. Both nations face deepening economic crises and a degree of political uncertainty, if not instability. There is a new president in Argentina and an election campaign in Brazil that suggests that no new developments are likely before Brazil's March 1990 inauguration. This neutral view has been expressed by policy analysts, academics, and representatives of the governments of Argentina, Brazil, and the United States. ABIP is in a holding pattern until next March.

There are a number of explanations for this lack of movement since December 1988. In his final year in office, President Alfonsín was reluctant to begin any new negotiations since there was no guarantee that they would continue when his term expired or that new agreements, not yet ratified by Congress, would be ratified. (It is important to remember that Alfonsín's mandate was not to have ended until December 1988 but was curtailed through an agreement with his successor, Carlos Menem--Ed.) There was, furthermore, no incentive for Congress to give Alfonsín a final victory before his term ended. As a result, the Argentine political system was in a somewhat suspended state after December 1988.

Brazilian president José Sarney is now in a similar position to that faced by Alfonsín. With his mandate about to expire and his legitimacy called into question, it was impossible to introduce new initiatives. The agreements were largely a result of the political strategies of the two presidents and were accomplished largely because of the political capital each president held. With their terms of office ending, neither had the necessary capital to overcome congressional resistance. Neither president was willing to jeopardize his position or the agreements by seeking further measures unless the chances of success were reasonably high, as they had been earlier.

The continuing surplus realized by Brazil has resulted in further additions to the common list of goods traded without tariffs or NTBs. The current surplus does place constraints on the program because of the political implications such surpluses have on Argentine public opinion. The overall economic situation faced by both countries does not favor further steps toward integration either. Only if the economic interests in each country support the process will it be propelled forward.

The Menem government has promised that "new efforts" will be made to stress Latin American integration, the third main

objective of the Menem administration after national unity and the productive revolution. Efforts will also be made to create a regional common market, without disregarding existing bilateral agreements.¹ To this end, Menem and Sarney met from 22-24 August in Uruguaiana and Sao Paulo, Brazil, following the approval of the integration treaty by the Argentine and Brazilian senates. Food sales and gas supply were to be the topics of discussion. "The political will of the two countries will be reflected by Argentine participation in the construction of a railway line between San Luis and Teresinha, 'turnkey' hospitals, and gas sales."²

The new Brazilian president, whomever that may be, will support the integration process, perhaps with a more personal mark. The positive aspects of the program are clear, regardless of the initial sponsors. Thus there may be some changes based on political differences but no new president is likely to scrap the program. Nevertheless, the continuing trade surplus is a constraint on further developments.³

There are four main obstacles to Latin American integration that should be kept in mind by the governments of Argentina and Brazil and by analysts of the program. They include: variability of levels of subregional development, extreme nationalism, non-existence of effective supranational mechanisms to follow up and enforce treaty provisions (or the lack of political will to do so), and political-ideological heterogeneity.⁴ Success or failure of the Argentine-Brazilian Integration Program probably hinges most on the potential rise of nationalism in either country (perhaps Argentina if the trade deficit continues) or the absence of enforcement mechanisms. The latter factor seems to be tied into a lack of political will by the successors to Alfonsín or Sarney. Past efforts to achieve integration in Latin America

¹ "Foreign Minister-Designate Grants News Conference," Foreign Broadcast Information Service (FBIS), LAT-89-129, 7 July, 1989, page 44.

² "Official on Integration with Brazil, Bolivia," Foreign Broadcast Information Service (FBIS), LAT-89-153, 10 August, 1989, page 34.

³ Based on conversations with officials at the Brazilian Embassy, Washington, D.C., and the U.S. Department of State, Office of Brazilian Affairs.

⁴ Anthony T. Bryan, "The Integration Movement in Latin America: Theory, Process, Trends and Options" in Anthony T. Bryan and Ludwik Dembinski, editors, Regionalism: Comparative Perspectives from Europe, Africa, and Latin America. Geneva: Graduate Institute of International Studies, forthcoming.

have failed for similar reasons. ABIP will need to avoid these pitfalls if it is to succeed where other programs have failed.

In conclusion, ABIP must ultimately wait for the March 1990 inauguration of a successor to President Sarney before any further developments can take place. The program is currently stable and there are no indications that it will destabilize in the near future. However, economic conditions will ultimately determine the fate of the program. The Brazilian trade surplus is of major political importance to Argentina and it will have to be addressed by the new Brazilian president before further developments can occur. Until then, the Argentine-Brazilian Integration Program will remain in limbo, neither progressing nor regressing. Given the history of previous Latin American integration efforts, this may not be such a terrible fate.

Argentine-Brazilian Integration Program: An Early Assessment

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