LATIN AMERICA'S TRADE ISSUES AND PERSPECTIVES: A SKEPTICAL VIEW

REINALDO GONÇALVES

Remarkable changes have occurred in the foreign trade relations of Latin American and Caribbean countries in the last few years. Significant subregional, regional, and multilateral changes and negotiations have affected the future prospects for intra-regional trade. Most dramatic among these are the revitalization of subregional economic integration proposals and the Bush administration's "New Enterprise for the Americas Initiative" which would establish a new framework for regional trade negotiations. In addition, the current round of multilateral trade negotiations of the General Agreement on Tariffs and Trade (GATT) will significantly affect Latin American trade policies and agreements.

Any analysis of current Latin American trade issues must include an examination of the evolution of Latin American and Caribbean trading patterns as well as a study of the main determinants of the present and future economic integration processes. Since the United States is the most important trading partner for the region, the impact of the "New Enterprise for the Americas Initiative" and its prospects for spurring economic growth in the region must be scrutinized. Despite the current economic climate in which integration is seen as promoting economic stability and growth, it is arguably wise to proceed cautiously. Indeed, external economic crises and balance-of-payment constraints could significantly undermine the very process of Latin American integration.

The Process of Regional Economic Integration

In order to understand the current context of trade negotiations, it is important to examine the history of regional integration in Latin America. Four principal integration systems have set the framework for intra-regional trade in Latin America and the Caribbean: 1) the Latin American Integration Association (LAIA) which was founded in 1980 to replace the 1960 Latin American Free

Reinaldo Gonçalves is Professor of International Economic Relations at the Federal University of Rio de Janeiro. Previously he worked as an economist at the United Nations Conference on Trade and Development, Geneva.

Trade Association (LAFTA);[1] 2) the 1969 Cartagena Agreement creating the Andean Group;[2] 3) the 1960 Central American Common Market (CACM);[3] and 4) the 1973 Caribbean Community and Common Market (CARICOM) which replaced the Caribbean Free Trade Association (CARIFTA).[4]

During the last two years trade negotiations among Latin American and Caribbean countries have yielded at least sixteen new trade agreements related to the formation of free trade areas, customs unions, common markets, or monetary unions.[5] The result has been renewed interest in the existing formal frameworks—LAIA, Andean Group, CACM, and CARICOM—as well as the creation of new bilateral or subregional agreements. One such new agreement is the Southern Cone Common Market (MERCOSUR), a 1986 bilateral agreement between Brazil and Argentina which was extended in March 1991 to include Argentina, Brazil, Paraguay, and Uruguay.

These revitalized existing relationships and the new agreements share common mechanisms, features, and goals. One of the most striking is their adoption of ambitious time frames. Most of the agreements aim at forming free trade areas, customs unions, or common markets at the subregional level by 1995. For example, the CACM seeks a free trade area as early as 1992 while the Andean Group intends to establish a free trade area by the end of 1991, a customs union in 1995, as well as free mobility of capital and the harmonization of policies over the next five years. The CARICOM agreements will create a common external tariff in 1994, as well as a customs union and a monetary union in 1995. MERCOSUR proposes to achieve a customs union, free mobility of goods and factors at the subregional level, and increasing harmonization of policies by 1995.

At the same time, other countries within LAIA have formed separate bilateral and subregional trade agreements. For example, Chile has an agreement with Argentina to estalish a free trade area in 1995 and another with Venezuela to form a free trade area with full mobility of goods and factors in 1994. Chile is

1. Member countries are Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela.
2. Member countries are Bolivia, Colombia, Ecuador, Peru, and Venezuela.
3. Member countries are Costa Rica, El Salvador, Guatemala, and Nicaragua.
4. Member countries include the Bahamas, Barbados, Guyana, Jamaica, Trinidad and Tobago, Antigua, Belize, Dominica, Grenada, Montserrat, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent, and the Grenadines. See *Economic and Social Progress in Latin America: Economic Integration, Annual Report 1984*, (Washington D.C.: Inter-American Development Bank, 1984). For a recent evaluation of these agreements, see United Nations Economic Commission for Latin America and the Caribbean (ECLAC), *La Evolución Reciente de los Procesos de Integración en América Latina y el Caribe*, Document LC/R. 992 (Santiago: 15 April 1991); and, Centro Latinoamericano de Economía y Politica Internacional (CLEPI), *Informe sobre la Economía Mundial, 1990-91: Perspectiva Latinoamericana*, (Santiago, 1991), 168-171.
5. A free trade area differs from a customs union in that it does not involve the adoption of a common external tariff by its members and tariffs on trade between participating countries are abolished only for the products of member countries. See P. Robson, ed., *International Economic Integration: Selected Readings* (Harmondsworth: Penguin Books Ltd., 1972), 13. A common market involves a zero tariff among member countries, a common external tariff, and free mobility of goods and services. A monetary union requires a common currency and a single monetary authority.

also engaged in negotiations to liberalize trade with both the United States and Mexico. Moreover, Colombia, Venezuela, and Mexico have an agreement to unite in a common market in 1995 while Mexico and the CACM have an arrangement to set up a free trade area in 1997. Mexico is also engaged in critical negotiations with the United States and Canada concerning rules of origin, dispute settlements procedures, and the timing of tariff reductions as part of the proposed North American free trade area.

Recent policy reforms seem to be a reaction following the line of least resistance, or "the fashionable model," rather than a conscious strategy of development.

The recent attempts at greater regional integration ambitiously involve not only trade liberalization, but also a whole set of complex issues, such as harmonization of macroeconomic policies and harmonization of policies aiming at a greater reliance on the free-market mechanism. Given that Latin American and Caribbean countries have participated in various, rather ineffective, integration exercises since the 1960s, the timing of adjustment agreed upon in recent arrangements is relatively short. In contrast, the October 1991 agreement of the Association of Southeast Asian Nations (ASEAN) has set a fifteen-year deadline to form the Asian Free Trade Area (AFTA) and an Asian common market. Indeed, experience has shown that the successful evolution of integration processes tends to be slow.[6]

Within the context of a rapid and generalized trade liberalization process among Latin American and Caribbean economies, preferential treatment is being given to intra-regional trade. This important feature illustrates an inclination in the new agreements toward more outward-oriented growth strategies. This is in direct contrast to previous integration mechanisms which were based largely on the import-substitution model of industrialization. The historical experience of LAIA (LAFTA), for example, shows that the existence of preferential tariff margins has been an important determinant for the expansion of intra-industrial trade.[7] Hence, as trade liberalization in Latin America occurs the impulse towards regional integration will be reduced. The secretary-general of the Argentine Chamber of Commerce noted this trend:

> It has taken years to negotiate the reduction of tariffs and non-tariff

6. The integration process in the CARICOM lends support to this argument. See Jean Crusol, "La Coopération dans la zone Caribe et la participation des DOM des Antilles et de la Guyane," *Problèmes Economiques* No. 2245 (16 October 1991): 30.
7. Diana Tussie, *The Less Developed Countries and the World Trading System* (London: Francis Printer Publishers, 1987).

measures in the context of the bilateral trade agreement between Argentina and Brazil. Suddenly, the advantages of integration disappear! For instance, Brazilian petrochemical products arrive in Argentina in similar conditions comparatively to the same products imported from Germany.[8]

The primary integration mechanisms used by the existing formal frameworks include the simplification of tariff schedules, the accelerated decrease of tariffs, the automatic and programmed mechanisms of tariff reduction, and the almost complete elimination of non-tariff barriers within the trade area. Furthermore, most of the agreements aim at reaching a relatively low common external tariff.[9] In general, Latin American economies tend to have high protectionist barriers because of the high degree of external vulnerability and, therefore, significant balance-of-payments constraints. The deep economic crisis which affects most countries in the region, combined with the design of unrealistic strategies and the acceptance of unfeasible goals related to foreign trade and integration, has created a climate of high risk and uncertainty. These factors may affect the credibility of the agreements and undermine future prospects for integration.

An additional trend in the recent integration process is the increasing subregional and bilateral nature of agreements.[10] The absence of trade relations among the different subregional arrangements tends to limit the chances for trade expansion in the region. While the trend toward bilateral agreements between countries which are members of different subregional trading groups may partially overcome this limitation, it still keeps the potential benefits and opportunities for trade expansion in the region within restrictive limits.[11]

With regard to the relative importance of integration agreements for individual participating countries, it is important to recognize the high degree of heterogeneity among Latin American and Caribbean economies, even at the subregional level. Also, as far as liberalization and external adjustment are concerned, the room for maneuvering differs from country to country. It is, therefore, important to note the role played by the largest economies within each of the formal agreements. Indeed, the degree of macroeconomic stability within the leading economies and the division of costs and benefits among the participating countries of the regional trading arrangements are key factors in the future prospects of these arrangements.

---

8. Mañuel Herrera, "Unión Industrial Argentina," *Gazeta Mercantil* (Sao Paulo), 10 October 1991, 2.
9. See ECLAC, United Nations Economic Commission for Latin America and the Caribbean, *La Integración Económica en los Años Noventa: Perspectivas y Opciones, Document LC/R.1042* (Santiago: 29 August 1991), 24.
10. However, it is worth noting that trade among the main formal schemes (LAIA, Andean Group and CARICOM) accounted for 16.5 percent of the total intra-regional trade of Latin America in 1988. (Source: *Ibid.*, 10.)
11. *Ibid.*, 12. The increasing cooperation between the European Free Trade Association and the EC is a good example of the benefits of greater inter-regional or inter-groupings cooperation.

In the early 1980s the renewed interest in economic integration stemmed from the failure of the liberalization adjustment process. According to Mario I. Blejer, integration was a reaction to the fact that "most of the countries were forced to abandon the reform packages that included the opening up of their economies as a centerpiece."[12] Notwithstanding the role played by generalized and non-selective exercises of trade liberalization, the intensification of integration efforts in the early 1980s was to a large extent a reaction to deepening external and internal crises of most Latin American countries.[13]

It is difficult to neglect Latin America's high degree of vulnerability in its external economic relations in terms of trade, production, technology, and financial flows. The outward-oriented models of adjustment and growth which have been adopted in the region may increase this external vulnerability.

The failure of the present adjustment process in the context of comprehensive outward-oriented policies, combined with the deepening of the economic crisis, may signal a significant reduction of the potential benefits associated with integration and may slow the process. Specifically, the evolution of integration will be adversely affected by the interplay of two factors: the sharp decline of the margins of preference and the sluggish intra-regional demand for imports caused by domestic recession and an increasing balance-of-payments disequilibrium. The benefits from integration in Latin America will partially depend on the difference between the growth rates of the demand for intra-groupings imports versus the demand for total imports primarily from the United States and the European Economic Community.

Latin American and Caribbean countries have traditionally undertaken separate and distinct processes of economic integration at the subregional level, yet all these arrangements are similarly unstable and unfruitful. For example, the failure of existing formal arrangements since the late 1970s is largely due to the increasing deterioration of balance of payments and a growing external vulnerability of Latin American and Caribbean countries. This continues to plague

12. Mario I. Blejer, "Economic Integration: An Analytical Overview," in *Economic and Social Progress in Latin America: Economic Integration, Annual Report 1984* (Washington, D.C.: Inter-American Development Bank, 1984), 29. For a recent critique of macroeconomic stabilization programs in Latin America during the 1980s, see Pierre Salama and Jacques Valier, *L'Économie Gangrenée* (Paris: La Découverte, 1990).

13. The main reason the 1980s is considered a period of slowdown of the Latin American integration process is that the negative influence of external factors was greater than the will to preserve results already achieved in the past. See ECLAC, *La Evolución Reciente*, 2.

recent efforts.[14] In essence, attempts at subregional integration are a reaction to crises of international economic relations on a multilateral basis and are seen as an instrument for coping with external disequilibrium.[15] Yet, rather than solving the regional economic difficulties, the deepening crises actually tend to dilute efforts toward integration because domestic absorption through consumption and investment are significantly affected by the high external vulnerability of Latin American and Caribbean economies. Thus, the recent external crisis is largely a function of rising protectionism in the industrialized countries, the deterioration of the terms of trade, and the external debt crisis.

A particularly sensitive issue is that some Latin American governments may lack the appropriate political and ideological profile consistent with the movement toward liberalization.

Although this politically and ideologically motivated movement toward liberalization has resulted in a greater external openness of Latin American and Caribbean economies, macroeconomic instability in the form of balance-of-payments disequilibrium influences the degree to which countries can adhere to the integration agreements. A conflict between Argentina and Brazil illustrates this problem. In June 1991, less than three months after the signing of the Treaty of Asunción which launched MERCOSUR, the Argentine government forcefully complained that the Brazilian government was buying subsidized wheat from the United States. A few months later, in October 1991, the Brazilian government required Argentina to provide information about the purchase of subsidized milk powder from the European Community, Finland, and Sweden. In this regard, both Argentina and Brazil failed to comply with Article 4 (Chapter I) of the Treaty of Asunción, which requires that importers be subject to countervailing duty measures. Given the gravity of the balance-of-payments situation of Argentina and Brazil, at issue is the extent to which integration efforts will be weakened further by the need to economize on foreign exchange.

The impact of the political initiatives and ideological perspectives that clearly underlie the recent revitalization of subregional integration arrangements should not be underestimated. A particularly sensitive issue is that some Latin American governments may lack the appropriate political and ideological profile consistent with the movement toward liberalization. In some cases, recent policy reforms seem to be a reaction following the line of least resistance,

14. Inter-American Development Bank, 26-32.
15. Unfavorable conditions in the international market gave impulse to intra-regional trade relations in Latin America in the 1930s and late 1950s. See Tussie, 132.

or "the fashionable model," rather than a conscious strategy of development. Nor can it be ignored that the re-democratization of several countries in the region has been accompanied by a certain degree of political instability. These new governments inherited huge social and economic problems from the various military regimes, and have proven themselves incapable of implementing deep structural changes.[16]

Moreover, according to certain economic scholars, a review of actual experiences with integration shows that "some form of sectoral planning and allocation seems to be an essential prerequisite to a successful integration programme."[17] This conflicts sharply with the most common governmental approach in Latin America of uncritical adherence to the free-market "get-the-prices-right-and-development-will-follow" principle. As a result, integration efforts can prove misleading since governments may forego using essential instruments of industrial policy and planning in favor of free-market mechanisms.

Without doubt the revitalization process of subregional integration arrangements has stemmed from government initiatives, while the private sector generally has been absent from this process.[18] Although political support is a positive and necessary ingredient for economic integration, political voluntarism, by itself, will not be a solid foundation. The ability of these political initiatives to mobilize entire societies will determine their regional impact; the private sector is particularly important in this regard. However, it is important to note that the sharp deterioration of preferential tariff and non-tariff margins and the lack of effective mechanisms for industrial cooperation have already created mixed feelings within the private sector toward the integration process.

Thus, recent initiatives toward a process of subregional integration should be viewed with great care. At issue are the extent to which the scope, speed, depth, and sustainablity of the integration process will be affected by political factors, the external crisis, and macroeconomic stabilization factors as has happened in the past. Valuable policy changes have promoted greater liberalization. However, evidence is insufficient to support the view that a more outward-oriented model brings balance-of-payments equilibrium and economic growth.[19] Moreover, it is difficult to neglect Latin America's high degree of vulnerability in its external economic relations in terms of trade, production,

16. This is precisely the case of Brazil, whose political process in the recent past has been characterized by the so-called "Collor Trinomial." That is, the administration of President Fernando Collor is characterized by; 1) lack of political and ideological consistency, 2) persistent fall of credibility, and 3) permanent risk of non-governance.

17. Alastair Macbean and Nicholas Snowden, *International Institutions in Trade and Finance* (London: George Allen & Unwin, 1981), 193.

18. The role played by the private sector in bilateral agreements varies widely. For a comparative analysis of this issue (the bilateral agreement between Brazil and Argentina versus the U.S.-Canada Free-Trade Agreement), see José Tavares de Araújo Jr., "Integraçao Econômica e Harmonizaçao de Políticas na América do Norte e no Cone Sul," *Revista de Economia Política* Vol. 11, No. 2 (April-June 1991).

19. Reinaldo Gonçalves and Jurgen Richtering, "Intercountry Comparison of Export Performance and Output Growth," *The Developing Economies* Vol. 25, No. 1 (March 1987).

technology, and financial flows. The outward-oriented models of adjustment and growth which have been adopted in the region may increase this external vulnerability, particularly if there are neither significant structural adjustments nor substantive changes in policies and strategies which deal with the enormous rigidities in internal supply and demand.[20] Given these difficulties, it is hardly possible to escape from a skeptical view about the prospects for successful Latin American economic integration.

Latin America and the Bush Initiative

Latin American and Caribbean countries reacted favorably to the announcement of "The New Enterprise for the Americas Initiative," also known as the Bush Initiative. While the Initiative is thought to have a long-run bias toward the formation of a free trade area, the consensus is that the elements in the proposal are actually very modest, in view of the problems of external debt, the environment, and foreign investment.[21] The core element of the Bush Initiative is the definition of a general framework for trade negotiations within the terms of the comprehensive approach as codified in the 1988 Omnibus Trade and Competitiveness Act.

Several reasons have been advanced to explain the June 1990 Bush administration proposal for a framework agreement. However, the principle motivation behind this initiative can only be understood in the context of general trends in recent US trade policies. The scope of US trade policy has been broadened to include key domestic laws and regulations of trading partners regarding intellectual property rights, foreign direct investment, and trade in services. The United States has also demonstrated an increasing reliance on unilateral action, including threats or effective retaliatory measures; and continuing use of non-tariff measures have influenced US trade policies.[22] The desire to regulate these areas was certainly a motivating factor behind this initiative.

Latin America, in contrast, generally sees the Bush Initiative as an opportunity to improve its access to the US market. The Initiative provides a mechanism for negotiating the use of non-tariff measures on Latin American exports and facilitating access to US technology. Thus, the new framework agreement provides an institutional mechanism whereby these countries can settle their trade disputes with the United States more efficiently. According to the man-

---

20. Reinaldo Gonçalves, "Export Expansion, Import Liberalization and Economic Growth in Latin America," *The Indian Journal of Economics* Vol. 68, Part 2, No. 269 (October 1987).
21. Carlos Perez del Castillo, "La Iniciativa para las Américas en el Contexto de las Relaciones de América Latina y el Caribe con los Estados Unidos," *Instituto Latinoamericano y del Caribe de Planificación Económica y Social (ILPES), Document NTI/DPC/1,* (Santiago: 15 April 1991), 37. See also CLEPI, 163-168.
22. United Nations Conference on Trade and Development, UNCTAD, *Trade and Development Report, 1990,* (Geneva: 1990), 87-89. For a useful summary of the main features of US trade policy, see General Agreement on Tariffs and Trade, GATT Council, *Trade Policy Review Mechanism, The United States of America. Minutes of Meeting, GATT Document C/RM/M/3,* (Geneva: 20 March 1990).

date of Section 301 of the Trade Act of 1984, which was stengthened by the Trade Act of 1988 ("Special 301"), the US Trade Representative (USTR) can start investigations, take legal actions, and provide for retaliation against countries which carry out unfair trading practices. In May 1990, one out of the four countries on the "priority watch list" of the USTR was from Latin America (Brazil), and three out of nineteen countries on the "watch list" were also from the region (Argentina, Chile, and Colombia).[23] Under the Initiative, instead of being subject to unilateral action from the United States, Latin America countries would have a forum for the equitable settlement of trade disputes.

Latin America generally sees the Bush Initiative as an opportunity to improve its access to the US market. The Initiative provides a mechanism for negotiating the use of non-tariff measures on Latin American exports and facilitating access to US technology.

From the US point of view, the Initiative can be seen as a reaction to growing Latin American demand for bilateral free trade agreements. Besides Honduras and Costa Rica, several Latin American countries have already signed or are negotiating trade agreements with the United States including Mexico, Colombia, Chile, Ecuador, Venezuela, and Peru. The participating countries of MERCOSUR signed an agreement with the United States in June 1991 to establish a Consultative Council on Trade and Investment as well as an initial agenda for future negotiations.

For the United States, the Initiative is also a way of dealing with the "uncontrolled" process of subregional trade groupings and special arrangements in Latin America, which could harm US interests in the region despite the general trend toward liberalization. Hence, this new proposal has two advantages for the United States. First, the United States can have preferential treatment and maintain more control over their exports of technology-intensive goods and services to the region thereby giving US firms a competitive advantage over Japanese and European companies.[24] Second, the Bush Inititative is also seen as an institutional "umbrella," involving principles and restrictions which the US government conditionality defines beforehand. Certainly, the Bush Initiative could become a powerful economic instrument of US foreign policy relations with Latin America and the Caribbean.

The Bush Initiative also has been defined in a manner fully consistent with

23. UNCTAD, 88.

24. Lia V. Pereira, "Consideraçoes Preliminares sobre a Iniciativa para as Américas," ILPES, 129-170.

the general legal guidelines of US trade policy. Although the Initiative is still in an embryonic stage, it suggests a strategic shift toward bilateral relations. A recent Economic Commission of Latin America and the Caribbean (ECLAC) document argues:

> During the 1980s the United States changed significantly its trade policy towards an aggressive strategy of bilateral agreements so as to protect its domestic interests and its specific objectives of regional policy. The key element of this strategy is the use of threat to restrict the access of foreign goods to its domestic market as an instrument of pressure to open up foreign markets for North American products.[25]

The basic questions that must be addressed are under what conditions and to what extent these institutional arrangements will allow the United States to pursue "reciprocity" negotiations or "tit-for-tat strategies" using the threat of retaliation over a range of issues such as trade, foreign investment, intellectual property, and services. To this end, UNCTAD's *1990 Trade and Development Report* states:

> If unilateralism and forced negotiations under the threat of retaliation were to become the established norm of US trade policy, this would have very adverse consequences for developing countries, which do not have sufficient leverage to dissuade a powerful trading partner from such practices.

This evident asymmetry in Latin American-United States trade relations undoubtedly will affect the success of the Initiative. Although Latin American markets accounted for only 9.2 percent of total exports from the United States in 1989, the share of the North American market in total Latin American exports was 36.7 percent.[26] During the 1980s the dependence of Latin American exports on the US market increased.[27] Since 1982, Latin America has accumulated a trade deficit of more than US $100 billion in its bilateral trade relations with the United States. Despite Latin America's enormous balance-of-payments problems related to the external debt crisis and trade imbalances, the United States has threatened to forcibly open up Latin American markets and has used non-tariff measures to protect its own domestic market.[28] Latin American countries are

---

25. United Nations Economic Commission for Latin America and the Caribbean, ECLAC, "Internacionalización y Regionalización de la Economía Mundial: Sus Consecuencias para América Latina," ECLAC Document LC/R.644 (Santiago: 23 September 1991), 42.
26. CLEPI, 166-168.
27. To illustrate, the share of the US market in total exports from Brazil increased from 15.4 percent in 1975 to 17.4 percent in 1980, 28.2 percent in 1986, and 24.4 percent in 1989. See Pereira, 143.
28. The available evidence shows that non-tariff measures affected 18.9 percent of total exports from Latin America to the United States in 1986. See Reinaldo Gonçalves and Juan de Castro, "El Proeteccionismo de los Países Industrializados y las Exportaciones de América Latina," *El*

showing increasing external vulnerability, and as a consequence, the countries of the region have become increasingly exposed to North American pressures to open their domestic markets. Therefore, it is indeed possible to view the Bush Initiative as a subtle institutional mechanism of promoting US economic interests in Latin America.

The framework agreement proposed by the Bush administration to Latin American nations is in fact a mechanism for the exercise of "reward power" or "positive sanctions." This mode of power has been defined as "the influence based on A's promise of some sort of goal gratification to B *on condition* that B will supply something of value to A."[29] Assigning the United States the role of country A in this model and individual countries or subregional groupings in Latin America the role of B, the Bush Initiative contains a coercive potential which cannot be ignored. Two facts lend support to this hypothesis. First, the United States can use coercive power against Latin America due to enormous economic asymmetry. Second, another source of coercive power is Latin America's vulnerability to external shocks as it undergoes an unprecedented crisis of structural adjustment, macroeconomic stabilization, and re-orientation of economic policies.

Conclusions

Several arguments support the strategy of building stronger links among Latin American and Caribbean countries through subregional integration efforts. Economic integration can bring about not only increasing trade flows but can also promote capital accumulation and technical progress due to increasing economies of scale, reduction of market segmentation, and the relaxation of the balance-of-payments constraint. However, because of the high degree of heterogeneity of Latin American and Caribbean countries, the degree to which each country is affected by integration differs. Smaller economies of the region rely on the dynamic role played by integration as an engine of growth; whereas for the larger economies, economic integration is just a handmaiden of adjustment and growth. While the governments of large economies are not expected to neglect the subregional integration arrangements in the future, integration may become a low priority on their economic policy agenda as a result of increasing external and internal disequilibria.[30]

Clearly, recent political initiatives toward subregional integration must be analyzed with caution. By and large, Latin American and Caribbean economies

Trimestre Económico Vol. 16, No. 222 (April-June 1989), 443-469.

29. Klaus Knorr, *Power and Wealth, The Political Economy of International Power* (New York: Basic Books, 1973), 9.

30. In the diplomatic circles of MERCOSUR there is a permanent fear that the economic, political, and social crisis of Brazil may adversely affect the evolution of negotiations on the formation of a subregional free trade area between this country, Argentina, Paraguay, and Uruguay in the near future. See "Instabilidade brasileira pode atrasar agenda do Mercosul," *Gazeta Mercantil* (Sao Paulo), 4 October 1991.

continue to have critical macroeconomic problems specifically with regard to inflation and balance-of-payments disequilibrium. In the few countries where stabilization has been achieved, this success rests on a fragile basis.[31] Even long-term projections based on optimistic hypotheses regarding export growth and inflow of foreign investment to the region show a relatively modest growth rate of per capita income in the period 1990-1995.[32] As a result, attempts to harmonize macroeconomic policies may pose a growing obstacle to the integration process.

On June 19, 1991, an agreement between the United States and the participating countries of MERCOSUR (known as the "Four plus One Agreement") came into effect. This spurred a debate in Latin American diplomatic and academic circles about the role of regional trade groupings as an instrument of foreign economic policy.[33] The basic argument is that the Latin American countries which are members of subregional trading arrangements like MERCOSUR can benefit from joint negotiations with the United States insofar as they can increase their bargaining power.

Smaller economies of the region rely on the dynamic role played by integration as an engine of growth; whereas for the larger economies, economic integration is just a handmaiden of adjustment and growth.

It is difficult, however, to accept this argument in its entirety. First, the combined economic power of Latin American and the Caribbean countries participating in subregional agreements is still outweighed by the national economic power of the United States. Second, even within subregional trade groupings, interests among Latin American countries differ significantly because of the high degree of heterogeneity in the region. Although it is easy to define a broad agenda for discussions, in practice, the power to negotiate specific issues depends on the convergence of interests. Third, the creation of Consultative Councils on Trade and Investment to regulate joint agreements does not ensure the disappearance or reduction of the threat of retaliation, safeguards, and "tit-for-tat" strategies. Fourth, even if the United States partic-

31. United Nations Economic Commission for Latin America and the Caribbean, ECLAC, "Panorama Econömico de América Latina, 1991," (Santiago: 23 September 1991).
32. Data suggest an annual real growth rate of 3.5 percent. Centre d'Études Prospectives et d'Informations Internationales (CEPII), "Un Scénario pour l'Economie Mondiale à l'Horizon 2000," *Problémes Economiques*, No. 2-242, (25 September 1991), 15-24.
33. Luis Carlos Delorme Prado, Integraçao Econômica e Desenvolvimento Sul-Americano," unpublished paper, (Rio de Janeiro: September 1991). Also, see the opinion of the Brazilian Ambassador to Argentina, Francisco Thompson Flores in *Gazeta Mercantil*, 27 September 1991, 3.

ipates as a "partner" in the subregional arrangements, it will continue to negotiate key issues on a bilateral basis.[34] Fifth, only a small fraction of the participating countries' foreign trade may benefit from preferential treatment and better access conditions to the US market.[35] Finally, if the US administration perceives that the framework agreements under the Bush Inititative operate against its own interests, it can dispose of the formal arrangements. Critics argue that the United States will not be willing to negotiate access problems for products deemed important such as textiles, sugar, clothing, steel, and cotton.

In evaluating the recent evolution of the trade relations of Latin American and Caribbean economies, the contrast between the external vulnerability of these countries and the present "trade Panglossianism" must be considered. To design realistic strategies in the region, governments must consider the growing external vulnerability and weakening bargaining power of Latin American and Caribbean countries. The reforms of the multilateral trade system will not ensure that this region will face a significantly more favorable trading environment in the foreseeable future. The basic elements of past bilateral relations between the United States and the Latin American and Caribbean nations will continue to determine the outcome of future negotiations, regardless of the new framework proposed by the Bush administration. Indeed, the ability of governments to reduce the region's external vulnerability and to deal with its macroeconomic disequilibria will primarily determine the underlying dynamics of the movement toward economic integration of Latin American and the Caribbean. Thus, under the present circumstances and given the future prospects, the effects of recent integration efforts are likely to be modest in the next few years.

34. The experience of the Caribbean Basin Initiative lends support to this reasoning. See Crusol, "La Coopération," 24.

35. *Ibid.*, 23.