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## From Mercosul to American Integration

Luiz Carlos Bresser Pereira  
Vera Thorstensen

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# FROM MERCOSUL TO AMERICAN INTEGRATION

Luiz Carlos Bresser Pereira  
Vera Thorstensen

Brazil is going through an important moment in its international relations and foreign trade policies. It has to choose between two possible strategies. The first one is the maintenance of multilateralism, which is the strategy Brazil has been adopting for a long time: no special relationships with those regional blocs that are being created, except for the Southern Cone. The second one is the strategy of American integration, i.e., the insertion of the Brazilian economy in a regional bloc led by the United States in response to the Enterprise for the Americas proposed by President Bush in 1990.

It may be necessary to rethink the question of inserting Brazil in the international economy, since the previous framework that has served as reference until now has been impaired. This framework, in its straight form, is not useful to the United States any more neither to Brazil. The alternative is to adopt new strategies, consistent with the new international realities.

Since 1991, Brazil, Argentina, Uruguay and Paraguay are engaged in a process of economic integration that ought to be accomplished by the end of 1994. In spite of the difficulties of a project like this, the countries belonging to Mercosul are aware the integration cannot exclude a strategy of international insertion, since Mercosul alone is not big enough to bring to the member countries economies' the dynamism to take them out of the recessive phase they are going through.

The Mercosul option has already been adopted and is not under discussion here. Our point is to analyze the future options of alliances within a new international order. The fundamentally important decision to be made by Brazil and its partners of Mercosul refers to the selection of a strategy of insertion in the international economy.

One alternative is the maintenance of the strategy of multilateralism, where Brazil doesn't stand for special alliances with any other great partner or trading bloc and maintains its policy of export diversification by products and destinations. This option has been defended and implemented through the 1970s and 1980s.

Another alternative is to strengthen the alliance with the United States without hurting our relationships with the rest of the world. Drawing on the 1990 proposal made by the United States the main objective is to create a free trade area in the region. Brazil would profit from the access to a big market, new investments and technology but, on the other hand, would run the costs of opening its economy, which is not fully prepared to face the competition of the United States, and the costs of imports diversion from other trade regions. On the other hand, Brazil would be buying

an "insurance policy" against the uncertainties of the future, especially against possible problems brought about by the strengthening of regional blocs, including the North-American one; such as: selective protection to certain products, defense of the interests of the members of the bloc, and one-sided decisions against the alleged "unfair trade" practiced by exporters outside the bloc. These are the common practices of an international trade more and more managed and less and less liberalized in a world where there is no hegemonic power to ensure multilateralism (Krasner, 1976).

In this paper we will examine the Brazilian policy option of the possibility of joining the process of American integration or the creation of an American bloc. In the first section we will analyze the new reference framework facing Brazil after the collapse of communism and the end of the Cold War. Then we will analyze the possible interests of the European Community - EC - and of Japan in Brazil. In the third and fourth sections we will discuss respectively the national interest of the United States and of Brazil in the creation of an American bloc. In the fifth section we will discuss Brazil's objections to this last.

We will adopt a historic or realistic approach. Theoretically, multilateralism is the most rational long term option for Brazil just as it is for any country in the world. In the short and medium run, however, Brazil has to analyze the international trade and investment tendencies, and consequently take initiatives, instead of being dragged by the circumstances or excluded from the emerging world economic system.

### The New Reference Framework

The new reference framework is defined by several factors. The slow-down in economic growth of the developed countries and particularly of the United States after the first oil shock, the extraordinary success of Japan and the Asian tigers, the consolidation of the EC, the democratic revolution in East Europe signalling the collapse of communism, and the debt and economic crisis of Latin America since the 1980s are some of the new historic facts that define an emerging new international order and make it necessary for Brazil to take a stand.

Four aspects of that changing process are particularly relevant for the definition of the new framework:

. *The change from a bipolar model to a multipolar one.* The New International Order defined in 1989 with the fall of the Berlin Wall, the re-unification of the two Germanies and the collapse of the Soviet Bloc, broke down the old model of power bipolarity between the United States and the USSR. With the end of the Cold War the world faces the lack of clear economic leadership and the birth of a new multipolar model, which will probably be centered on the triad composed of the EC, the United States and Japan, confronting other poles of political rather than economic power. Among them probably will be Russia, allied to what will be left from the CIS -

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Commonwealth of Independent States -, the Muslim Group and even China, which is in the process of opening to the exterior.

. *End of the U.S. Hegemony.* The United States has already lost the leading position in world trade to the EC, both in exports and imports. They have also lost to Japan their technological leadership in some leading sectors, including those of mass production such as automobiles, informatics and telecommunications. The United States has changed from the position of foreign investment leadership to big international debtor, with a foreign debt amounting to over US \$ 1 trillion, an internal debt of about US \$ 4 trillion, a budget deficit around US \$ 300 billion and a trade deficit of about US \$ 100 billion. At present the leadership of the international economy is vacant but two other candidates besides the United States are in the race: the EC and Japan. As Japan is a great economic power but not a political power in the international arena, the EC, now on the way to European Union, is doubtless the strongest candidate for world leadership (Thurow, 1992).

. *Globalization of the Economies.* The globalization of markets, production and investment puts an end to the old model of national economies centered on their domestic markets and gives priority to export activities, which have been growing faster than the internal ones. Such a globalization leads to the internationalization of trade, investments, and of the transference of product and process technology.

. *Weakening of multilateralism and strengthening of regionalism.* The ever growing complexity of the international trade relations eventually upsets the basic principles supported by the General Agreement on Tariffs and Trade - GATT: trade liberalization and multilateral negotiations, involving the condemnation of all forms of discrimination between commercial partners. However, for the last few years the world has witnessed the strengthening of "managed trade", i.e. the selective protectionism related to special products and partners, the adoption of unilateral measures against unfair trade, and the creation of regional blocs. According to Primo Braga and Yeats', in 1988 the percentage of international trade based on regional agreements was 53.7, with 30.5% of this taking place within the EC or between the United States and Canada. The authors, however, after pointing out that the system of unilateral trade agreements has already reached irreversible proportions, conclude that "the proliferation of managed trade initiatives seems, to us, to pose a larger threat to the multilateral trade system in a post-Uruguay Round world than new preferential trading blocs" (1992:21).

Such trading blocs have their own typology: (a) economic bloc via common market, such as the EC; (b) trading bloc via FTA - free trade agreement, such as the NAFTA - North American Free Trade Area, which includes the United States, Canada and Mexico; and (c) blocs of concerted production, of the kind being developed between Japan and the countries of the Pacific. The last

type targets the big foreign markets, but doesn't intend to create a free trading area among them.<sup>1</sup> As indicated by the difficulties being faced in the Uruguay Round, the ambitious attempt to strengthen GATT as the international trade ruler has been frustrated exactly because the international trading partners have already been practicing a pragmatic regionalism, opposed to the sort of a trade liberalism which nowadays appears unattainable.

Within this framework, new relationships are beginning to develop in the continent. They may become the embryo of American integration, with the creation of the Bloc of the Americas or the Americas' Free Trade Association. From World War II to the end of the 1970s the relations between the United States and the other countries of the Americas were marked by a process of conflict and cooperation. Conflict arose mostly due to the national import substitution industrialization strategy adopted by the Latin-American countries, while the cooperation came from the support given by the region to the United States in their confrontation with the USSR.

The 1980s were marked by conflicts of interest related to trade, to intellectual property rights, to the foreign debt and by the Latin-America's becoming aware of the necessity to face the fiscal crisis, at a time when the populist, inner-oriented growth strategy proved exhausted. There was no alternative but to implement market-oriented structural reforms and enforce fiscal discipline.

The 1990s will probably be marked by new threats, now related to economic and social themes such as: drugs, immigration control and environmental protection. The key-point of the new relationship, however, is the reduction and consolidation of Latin-America's foreign debt, the success of the stabilization programs and structural reforms and, above all, the efforts to resume growth and income distribution, which are not yet assured.

Having in mind this last objective, the United States, through the Enterprise for the Americas, put forward an initial proposal for creating an American Free Trading Zone granting the Latin-American countries access to their market. Regardless of its intrinsic merits, President Bush's proposal differs from the other two emerging blocs - the EC and the Japanese bloc - because they do not show the same interest in Latin America.

### **The EC's Priorities**

In the late 1980s, Brazil and Latin America expected that the EC would considerably change its attitude toward the region with the entry of Portugal and Spain into the Community. But, in

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<sup>1</sup> - Sylvia Ostry proposes a typology of modes of integration based on its depth. We would have "deep integration", involving economic, political and institutional dimensions, as EC, and "economic or natural integration", as NAFTA and the East Asian bloc (1992: 5).

spite of new cooperation agreements (already in the third generation) which include a vast repertoire of initiatives, the essential elements such as access to markets and investments or financing have not changed. Brazil's only privilege is the access to the Generalized System of Preferences. But because it is one of the greatest beneficiaries of that system, Brazil runs the risk of having many of its products excluded from the next program now being negotiated. It is true that the volume of resources for financing and support has risen, but they are mainly addressed to the least developed countries of the region, especially Central America.

In the late 1980s the Commission in Brussels tried to turn the foreign debt into a political issue but was told by its members that this was a prerogative of the individual governments, rather than a Community's concern. Additionally, the members of the EC followed the leadership of the U.S. government and of the U.S. commercial banks, which are the greatest holders of Latin-American debt.

From 1986 onwards, the EC reappears in the international scene as a great economic power by converting the internal market into reality with free flow of people, goods, services, and capital. It thus became an important partner not only because of the size of its market but also because of the possibilities of accomplishing new agreements on commercial cooperation, investment and technology. Yet, the EC faces now great challenges: the deepening of the Community with the establishment of the monetary and political unification negotiated in Maastricht in 1991 and now under the difficult process of ratification by the national parliaments of the twelve Member States; enlargement of the Community with the admission of new members such as Austria, Sweden, Finland, Switzerland and Norway, the next plus the admission of Central European countries, such as Hungary, Poland and perhaps the Czech and Slovak Republics within the next five or seven years; adoption of a security policy to protect its boundaries against massive immigration, drug traffic, organized crime, besides actual threats such as terrorism, political fanaticism arising from the growing of the ultra-conservative right wing and the religious problems arising from the spread of Muslim fundamentalism inside and outside its boundaries; and, above all, the revival of old ethnic rivalries putting in check the whole concept of the nation-state in which the construction of Europe is based.

On the other hand, the EC has established, during the last few years, a system of trading preferences and economic concessions aimed at the creation of an enlarged economic bloc under its influence.

Within this framework it is hard to believe that the EC may concede to Latin-America something more than political agreements, full of good intentions but lacking economic content.

The same is true of Japan. Its interest in Latin America and specifically in Brazil is only marginal. Japan showed some interest in Brazil in the 1970s, as long as Brazil seemed to complement its shortage of natural resources. But since the crisis of the 1980s its lack of interest has become almost aggressive. Even when they are vigorously competing among them, one of the characteristics of Japanese business enterprises is the solidarity they exhibit in their international performance. Through an invisible coordination, that may originate in the government or in the

trade associations, the decision whether to invest or not in a given country or region becomes common to almost all the enterprises. At the regional level, Japan's investment decisions seem to have concentrated in the South-East and East Asia. Japan's interest in Latin America is distant. Japanese government officials and business men usually say that "Latin America is an area of influence of the United States".

### **The National Interest of the United States**

As the Bush Initiative revealed once again, the attitude of the United States towards Latin America is different. Before examining this subject, let's scan the United States trading policy, which has developed in three different levels lately (Preeg, 1992).

At the internal level, the U.S. trading policy may be characterized as one of selective protectionism in response to pressures from non-competitive industrial sectors. Among the protected sectors are the automotive, electronic, computer, steel and textile industries. Another characteristic is the unilateralism against any measure considered unfair to the United States trade which leads to immediate retaliation even going against GATT's principles (Section 301, Super 301 and 301 Special).

At the multilateral level, the United States was most interested in launching the GATT's Uruguay Round in 1986. The U.S. was also responsible for the inclusion of new sectors in the negotiations such as farm goods, textiles, services, intellectual property and investments.

At the regional level, the United States led the process of creation of the NAFTA, aimed at the creation of a zone of free trade not only with Canada (since 1989) but also with Mexico (1994). NAFTA was initiated by Mexico, but it is clearly a new political option for the United States in face of the reality of the new trading blocs.

It is not the right time to discuss whether free trade areas are mainly trade diverting or trade creating. Since these two possibilities were defined in the 1950s by Jacob Viner, who opted for the first one and, thus, opposed regionalism, this issue has been subject to debate. Regional blocs, in the form of free trade zones or custom unions, are authorized by article XXIV of the GATT. Thus, an exception was established to the basic principle of non-discrimination (the most favoured nation clause), as far as the constitution of the new bloc doesn't entail higher barriers to trade with the rest of the world and as far as the tariffs, within the bloc, tend to zero. This article has been discussed ever since, particularly in relation to the EC, the most successful case of regionalism.

Though having approved article XXIV, the United States has always been in favour of multilateralism. They supported the constitution of the European bloc for political reasons mainly. But there was a clear change of attitude. As Krasner notes, "the end of the Cold War does mean that the United States will become increasingly economically self-interested in its international



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economic policies. It will no longer be as strongly committed to multilateralism. This will make regional blocs more attractive" (1991: 340).

In this context, despite the resistance inside the United States and the criticism of liberal economists such as Baghwati, who considers the existence of bloc as a clear threat to free international trade (1992), the general tendency in the United States is to support regional agreements. Since the first best scenario - that of multilateralism - is not currently a viable option, the tendency today in the United States is to believe that FTAs do not conflict with the broader and longer term perspective that favors multilateralism (Dornbusch, 1991; Hufbauer and Schott, 1992).

But regionalism is still marginal to the United States which, as a matter of fact, maintains an aggressive policy for the maintenance of their most important markets (EC) and for opening new markets (Japan). They also concentrate their foreign investments in those markets. Every time a national sector feels that it has been harmed by the so called unfair trade practices, the United States react violently against the "aggressor", putting aside political speeches and acting in a unilateral way.

The United States' proposal for the initiation of an American bloc originated from two important perceptions. The first one was the necessity of a policy that ensured them broader markets than Canada and Mexico in case of failure of the Uruguay Round and weakening of GATT as moderator and supervisor of the international trade. The Initiative was launched by President Bush in August 1990, on the eve of the G7 summit in Houston. By doing so, the President of the United States aimed at balancing the specific weight of the EC, shored up by the bloc of its satellite countries, and that of Japan, strengthened by its production-bloc in East and South-west Asia, with the bloc led by the United States: a bloc that could be called the Bloc of the Americas or Americas' Free Trade Association.

The U.S. seems to have already decided that their national interest coincides with the creation of the NAFTA. However, it is not clear for them if it is worth widening the bloc towards an American bloc. The interest of the United States underlying the proposed Enterprise for the Americas could be classified in two types: rhetorical and real interests.

The rhetorical interests had immediate political objectives, justifying the proposed Enterprise for the Americas as an element of pressure from the United States against the strengthening of the EC and Japan. On the other hand, the possibility of creating an American free trade area would become a weapon for the United States against the European countries that have been insisting on the protection of their agriculture, causing the Uruguay Round to stall. So, if trade liberalization and multilateralism fail to progress, the United States would be assured by signing free trade areas with strategic countries: Israel (1985), Canada (1989), Mexico (1993) and maybe all the Americas in a near future. But the arguments of the Bloc of the Americas against the Eurobloc in the GATT negotiations were invalidated by the alliances of the United States with the Group of Cairns of agricultural producers such as Australia, New Zealand, Argentina and Brazil, that constituted another pressure group against the EC.

However, besides the rhetorical interests, used only as elements of impact in international negotiations, there are real interests that justify an alliance between the United States and Latin America, specially with Brazil.

Among the real interests of the United States in an integration with Latin America we may point out:

. *Impossibility of dominating all of the Third World markets.* The United States are beginning to realize that they are not the hegemonic power any more. For the great power, that it was in the bipolar model, the defence of multilateralism and of trade liberalization were the most rewarding strategy. But reality has changed. As hegemonic leader of the western world, the United States dictated the rules of the international game and held privileged positions in many markets. Today this world leadership is contested by the EC and Japan, since they have established their influence areas. So, the EC leads Northern Europe, Eastern Europe (except CIS - Commonwealth of Independent Countries), Northern Africa and Sub-Saharan Africa. Japan has become stronger in Western and South Western Asia including China. The United States still holds a dominant position in North America, the Middle East and, historically, in Latin America.

The Islamic Group concentrates great influence in the Muslim countries of the southern CIS, in the Middle East and in Northern Africa. Its current behavior is hardly foreseeable. As a matter of fact, Islamic fundamentalism is meant to be an alternative to the capitalist and to the communist world. In this area the American influence will face severe restrictions in the future.

Within the present framework the United States' leadership in Latin America will not be contested by the other world leaders, the EC and Japan, which are involved in the consolidation of their own areas of influence.

. *Interest in managing the debt problem.* The great debate of the 1980s were the various attempts to solve the Third World debt problem. For the United States, the Latin America debt (US \$ 420 billion) was the most important. Most of it is owed to private American banks and the continuity of a flow of payments depends on the generation of foreign currency through exports. The certainty of accessing the American market may be an important point in managing this problem<sup>2</sup>.

. *Need for a new dialogue between the United States and Latin America.* Since the security problem of the Americas has been lessened by the collapse of the Soviet world, the United States

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<sup>2</sup> - As Bhagwati points out, "the offer in June 1990 by President Bush to get more nations from South America to join the United States in a free trade area... is reflective of the compulsions that the debt crisis there imposes on American policy to respond in a regional framework to ensure that this crisis remains manageable and does not engulf the United States, whose banks are principally endangered by it" (1992: 15).

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need another argument to base the dialogue with Latin America. Thus, the Enterprise for the Americas relaunches the economic dialogue with Latin America in the 1990s. Now we have the priority of the economic over the political and an attempt to manage the new threats and conflicts between the two regions. The United States are like an actor without a script before a marginalized Latin America. New interest must be created to bring them near again. The Enterprise for the Americas has been chosen as the theme of the new dialogue.

. *Commercial interest.* The creation of the trading bloc led by the United States is a real rather than a rhetorical necessity and was born from the uncertainties surrounding the world of today. The United States has been the most important partner of Latin America as a whole (as for Brazil it comes second, after the EC). Even so, its exports to Latin America have been falling every year. It is important for the United States to regain a comfortable position. In spite of these arguments, some analysts, like Andrew Hurrell, maintain that "there is no clear impetus nor incontrovertible political or economic logic behind the arguments that the United States should seek to create or reestablish a new regional order in the Americas". Besides this, Hurrell doubts that the United States has the power to do that, adding: "And there are also real questions as to whether the U.S. has the economic resources to do so". (1991: 39). Yet, the facts are demonstrating that this analysis does not correspond to reality. NAFTA is already a reality. The new president-elected of the United States, Bill Clinton, already declared his support to NAFTA. The loss of hegemony of the United States is basic logic behind this new position of the United States.

After several interviews with businessmen and U.S. government officials, Roberto Bouzas and Juan Carlos Barbosa concluded that the negotiation of a free trading zone with Mercosul is still considered premature. The agreement with Mexico has to be concluded first. But they showed great interest in the Southern Cone and particularly in Brazil, "characterized as an interesting partner of the United States not only because its economy has great potential, but also because it represents wide perspectives of expanding U.S. exports since the Brazilian economy remains relatively closed". On the other hand, "the potential for expansion (of Brazil) if the American business enterprises installed in Brazil reorient their production from the domestic market to export" (1992:44-45).

In short, with the end of the Cold War and of the hegemony of the United States, there is the perspective of a weakened GATT and of the strengthening of regional blocs. The United States, though not yet resigned to the loss of hegemony and naturally eager to maintain its trade open with all the world, will have no choice but to support the Bloc of the Americas. This bloc will be very useful to the United States not only to exert pressures and bargain positions in the international context but also to assure for its exports and investments a preferential space.

### **Brazil's National Interest**

Given the new political fact represented by the invitation to participate in the Enterprise for the Americas, one has to ask the question: what is Brazil's national interest? Should we accept such a proposal or not? After all, unless the economic agents in Brazil are really interested, no agreement will work.

The true interests of Brazil in American integration derive from the country becoming conscious that the old international order, which supported its multilateral strategy, is over. In the new international order we must think a new strategy of Brazil's insertion in the world economy. Actually the new interests are shared by Brazil, Mercosul and Latin America as a whole.

Some international changes justify Brazil's new national interest. First of all, we have the failure of Brazil as a model Third World power and leader of the non-aligned countries, outside of the domain of the United States and of the former USSR. This model was exhausted by the foreign debt crisis and the end of the strategy of import substitution. Such strategy of nationalist character, which reached its peak in the 1970s, didn't prove itself a realistic alternative capable of promoting the development of Brazil in the 1980s. Instead of pressuring the First World to obtain preferential treatment,<sup>3</sup> we had no choice but adopting a defensive position before the pressure of our creditors. At the same time, we had to admit the mistakes of economic policy caused by the fact that the import substitution strategy was artificially extended in the 1970s through external financing. The ideas of reducing the state through trade liberalization, deregulation and privatization became dominant, putting an end to Brazil's Third World oriented strategy.

Secondly, we have the crisis of the state. Since the 1930s, the state has been the major agent of the Brazilian development process, through three instruments: (1) the import substitution strategy, which gave a big impulse to the industrial expansion of some Latin-American countries; (2) subsidies to the industrial sectors considered as strategic; and (3) direct investment in state-owned enterprises. This strategy, however, was already exhausted in the early 1960s. It was artificially maintained in the 1970s through foreign indebtedness to finance the projects of import substitution, as well as by a new wave of subsidies and the creation of state-owned enterprises. But the cost of such an option turned out to be very high after all. It resulted in a deep crisis of the state that has two components: (a) a fiscal crisis directly related to the foreign debt, which financed excessive state expenditures and resulted in an extremely high public debt, the decrease of public savings (which became negative after all), and to a vanishing public credit; and (b) the exhaustion of the mode of state intervention based on the import substitution strategy.

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<sup>3</sup> - This was the leitmotif of "new international Order" strategy that the non-aligned countries adopted in the 1970s.

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The crisis of the state in Brazil is the fundamental cause of the high rates of inflation that devastate the country, the decrease of investments and economic stagnation. In the last 12 years Brazil has been facing the most serious economic crisis of its history. It is clear that the present decade and the new international framework call for radical changes. Brazil has to define a new national project of development and internationalize its economy at the same time.

To internationalize the economy doesn't mean, as Washington and the First World usually believe, just to stabilize prices, reduce the state and open the economy. These are necessary but not sufficient conditions. The neo-liberal strategy assumes that the rise in investment, which is absolutely essential to the resuming of development, will come from abroad, namely from the multinational enterprises. This assumption is not realistic. It is possible and desirable to expect an increase in foreign investment but we know that there are clear limitations to that kind of source. The great changes in the international framework have moved the poles of political and economic concern to other regions of the world. The new priority areas in terms of commercial promotion and new investments became: the EC with the consolidation of its internal market in 1992, the countries of Central Europe, which are now under the influence of the EC and may serve as an outlet for EC exports; the countries of the Pacific Basin Area, due to their high rates of growth; and Mexico, which has negotiated its participation in the NAFTA. Besides the change of poles of political and economic attraction, the figures confirm the marginalization of Latin America in the international scenario. In 1950 it represented 11% of the world exports, in 1958 about 5% and in 1990 only about 3%.

The definition of a new national project involves, first of all, the recovery of the saving capacity of the state. This would be done through an increase in revenues, decrease of current expenditure or through the cancellation or consolidation of its public debt (whose respective interests reduce public savings). On the other hand, it has to open the economy so as to guarantee greater external competition and more efficient resource allocation. Additionally, it has to stimulate the entry of technology necessary to modernize the industry and adequate it to the philosophy of market and production globalization. These policies, complemented by competent industrial and technological policies, both financed by the recovered public savings, will constitute the basis for an aggressive posture in the exporting business, necessary to stimulate internal investment and generate positive balances of foreign currency.

Based on this framework, let's examine Brazil's foreign trade policy. In the last years it has been developing within three different dimensions (Azambuja, 1991). At the internal level, there prevails a policy of trade liberalization with a significant decrease in Brazilian tariffs up to the end of 1993. At the regional level, Brazil is actively committed to the creation of a common market encompassing goods and services with Argentina, Paraguay and Uruguay. This project might be accomplished by 1995. At the multilateral level, Brazil has had a relevant role in the GATT negotiations of the Uruguay Round still in course. Brazil defends the theses of non-discrimination and lately of international trade liberalization. Some points of the negotiation that drags on in Geneva are specially significant to the country: agriculture, textiles, intellectual property and

services. A fourth dimension will open up if Brazil decides to contribute more actively to the creation of the Bloc of the Americas.

In the late 1980s Brazil realized that the import substitution strategy was exhausted and that the most efficient allocation of its resources would depend on the opening of its markets and also that the resuming of development should be based on the aggressiveness of its exports. This perception added to the burden of the foreign debt and the pressure from multilateral agencies for the adoption of structural reforms led Brazil to start opening its economy.

In the last years, the flow of trade in global values demonstrated that Brazil's most important partners are the EC, the United States/Canada and ALADI. The figures of the destination of Brazilian exports in 1991 are: EC 31%, United States/Canada 21.5%, and ALADI 15%. Exports to the United States/Canada led the list up to 1988 but in 1989 the EC came first. The chart for 1990 was 32.3% to the EC, 25.8% to the United States/Canada and 10.2% to ALADI. What happened in 1991 is that the exports moved from the United States/Canada to ALADI as the following chart demonstrates.

**Chart 1. Brazil - Exports by Economic Zones (%)**

	1988	1989	1990	1991
ALADI	11,0	10,2	10,2	15,5
US + Canada	29,3	26,6	25,8	21,5
EC	28,7	30,6	31,4	31,0
Japan	6,9	7,1	7,5	8,2
Asia	8,2	9,3	9,5	9,8
Middle East	4,4	3,5	3,4	3,5
Others	11,4	12,8	12,2	10,1

Source: Decex.

The flow of exports to the main partners, however, makes one important characteristic evident. The content of the exports to the EC in 1990 was 43% of manufactures against 57% of raw-materials and semi-industrialized goods. As to the exports to the United States and Canada, 76% were manufactures against 24% of raw-materials and semi-industrialized goods. Thus, the flow to the United States shows more variety and has a higher level of industrialization. (See Chart 2).

**Chart 2. Brazil - Exports of Manufactures by Economic Zones (%)**

	1988	1989	1990	1991
ALADI	84,2	84,0	86,7	
US + Canada	74,4	76,6	75,8	
CE	39,1	38,9	42,7	
Japan	25,3	19,6	16,6	
Asia	61,6	43,6	41,8	
Middle East	60,1	62,4	53,6	
Others	4,1	44,6	43,3	

Source: Decex.

Furthermore, if we analyze the economic bloc of the EC we'll find a system of preferences within its trade policy that involves big alliances and high level privileges with the EFTA, Central Europe countries and Mediterranean countries. A more detailed analysis of such agreements and of Brazilian exports demonstrates that many products will be seriously affected in the near future. Among them: iron, ingots and steel, as well as product such as meat and vegetable oil, textile and shoes, auto-parts, paper and cardboard.

It's also important to remember that the most important partner for the rest of Latin America is the United States, whereas for Brazil the main market is the EC.

As to the Generalized System of Preferences, Brazil has access to the EC as well as to the United States through it. This system allows Brazil to export a range of goods with tariff reduction or exemption within given quotas. However, it is widely known that both the United States and the EC are willing to limit to the less developed countries access to that system. This would affect badly Brazilian exports to those markets.

Thus, in spite the EC being currently the most important commercial partner of Brazil, the United States represents some advantages: Brazilian exports to the United States and Canada have higher aggregate value, are more diversified and include products less prone to be affected by special agreements. Among the products Brazil exports to the United States are: aircraft, machines, transportation equipment, automobile parts, shoes and chemicals. The main products exported to the EC are: orange juice, soy bean complex, sugar, coffee, steel and iron.

On the other hand, Brazil and Latin America will have to compete with the Mexican products for the markets of the United States and Canada after NAFTA begins. After the tariff dismantling between the members of NAFTA, Brazil will have to face a competitor, with strategic advantages of proximity and zero-tariffs, competing for the same final markets. The present trend in the formation of regional blocs of international trade has created new practices for international

relationships. One of them is the rule of increasing preferences for the members of the bloc even if this contradicts the most important principle of GATT, namely the principle of non-discrimination. The other one is the rule of selective protectionism of the members of the bloc against outsiders, through the practice of managed trade to avoid further retaliation (For example: automobiles, electronics, steel, textiles among others). In this framework, it is clear that Brazil has a lot to lose with the formation of NAFTA. Trade between Brazil and the United States would divert to Mexico due to the fact that non-tariff barriers will be eliminated for Mexico but not for Brazil<sup>4</sup>.

As a matter of fact, Brazil and Latin America are marginalized in the international scene. The creation of Mercosul was fundamental and is doing very well. But it is not enough to generate the economic dynamism to take Latin America out of the present stagnation. In a marketplace full of antagonism and rivalries between blocs, such marginalization may be fatal.

### The counter-arguments

The analysis we've just presented drives to the conclusion that Brazil ought to show great interest in the formation of the Bloc of the Americas. But this is not the official position of the Brazilian Ministry of International Affairs (Itamaraty) and of the most important economists who analyze our international relations.

For some time the Brazilian diplomacy avoided the problem after President Bush proposed the Initiative for the Americas, arguing that it lacked content. That Brazil should wait for a clearer definition. That the United States were not really interested in a FTA with Brazil and the other countries of South America. That regionalism was not a real tendency in the world. When this type of reasoning proved unrealistic, more explicit argument against Brazil participating of a FTA with the United States was developed.

The first argument was that the conditions that the United States established for Brazil and the other Mercosul members to join NAFTA were too demanding or just undesirable (macroeconomic stability, adoption of market oriented reforms, including an intellectual property agreement and protection of foreign investment agreement). As a matter of fact, macroeconomic stability, market oriented reforms and the protection of foreign investment are on the interest of Brazil as much as they are of the United States. Only the protection of intellectual property is not in this case. Is much more on the interest of the United States, but in a bargaining process Brazil may gain accepting an agreement on that subject.

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<sup>4</sup> - Estimates given by the World Bank and referred to by Sérgio Abreu and Lima Florêncio (1992: 11) show that Brazil's gain with the elimination of tariffs and non-tariff barriers could amount to some US \$ 0.9 billion a year, which is only lower than Mexico's gain in the same situation (US \$ 1.6 billion).



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As a matter of fact, the Brazilian government understands that Brazil has an essentially multilateral vocation and no interest in participating in regional agreements in the continent. Only Mercosul is viewed as acceptable. The argument that supports their position is extremely simple. Brazil is a "global trader", whose exports are widely diversified in terms of destinations. The United States accounts for only one quarter of Brazilian exports but is responsible for almost three quarters of the Mexican exports. Then, it would make no sense for Brazil to concede preferences to the United States.

Other arguments are added. Winston Fritsch enumerates two: first, within Mercosul, Brazil would lose out on reducing trade barriers relative to the United States; second, since the United States is not the most efficient supplier of Brazil's imports, the gains derived from bilateral liberalization would be smaller than those from multilateral liberalization. Fritsch, however, admits a rationale for Brazil: "the only economic rationale for a Brazilian interest in the Bush Initiative... is to gain discriminatory access to the larger US market". But adds immediately, adopting the "wait and see attitude that dominates the present Brazilian policy: "the evaluation of such prospective gains cannot be made..." We will only know after "the still uncertain outcome of the Uruguay Round... the credibility of the US offer of free market access... and the negotiations involving Mexico and, perhaps, Chile, whose outcomes are still to be seen" (1992: 4).

An argument that reveals Brazil's fear of opening its economy to the United States is elegantly presented by Hélio Jaguaribe (1991). According to him, we have two models of integration: "factors redistribution model" and "systems restructuring model". The first one is claimed to be typical of small countries; the second one would be applicable to Brazil. According to this view, trade liberalization and the American integration should be conditional to technology transfer and managerial training in Brazil. The assumption behind is that the Brazilian industry has no capacity to compete with the American industry, requiring new forms of protection. If this is not done, Brazil will regress to a agricultural countries with a few and limited industrial activities.

In fact, this pessimism about the Brazilian industry is not realistic. No doubt - and in contradiction to the Washington consensus - it is necessary to have an industrial, technological, and managerial development policy. But one thing is to favour industrial policy, another is to have it as a necessary condition for a NAFTA with the United States. This is the best way to, *de facto*, oppose the American integration.<sup>5</sup>

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<sup>5</sup> - In a similar form, the strategy some Brazilian industrialists found to oppose trade liberalization is to make it conditional to the adoption of industrial policy. In a recent document IEDI - Instituto de Economia e Desenvolvimento Industrial (an institute formed by the most important national industries in Brazil) affirms: "It is false the dilemma between protectionism and foreign opening. The opening to international competition is a required tool of modernization, since it prevents accommodation and immobilism. But its width and rhythm must be coordinated with the recovery of macroeconomic control, with a coordinated action on the systemic factors assuring competitiveness, and with industrial policies implying the reorganization of the productive system and aiming the persistent advancement of productivity"

Brazilian diplomacy is becoming aware that the United States are inclined to create a Hemisphere Area of Free Trade (HAFT) after the creation of the NAFTA. This awareness is reflected in a recent and very representative text by Sérgio de Abreu and Lima Florêncio who admit that "in the medium term we must be prepared to a possible association with an HAFT" but "this should not be a priority of our international trade policy" (1991:10). As a matter of fact, the Brazilian positioning against the Initiative.... is marked by precaution. Brazilian commercial relationships with the United States were very conflictive in the 1980s<sup>6</sup>; even more than with the EC and Japan, because both protected themselves against the increasing competition of Brazilian exports of manufactures, while the United States, attached to the principles of free trade, was constrained to make use of unilateral measures. On the other hand, Brazil has a long tradition of fearing the "imperialism" of the United States and trying to protect itself. The import substitution strategy and the Third-World oriented policy that Itamaraty has been competently adopting for many years has been a form of protection against imperialism. It is then very difficult for Brazil to accept quickly the hypotheses of further integration with the United States.

However, as the imperialist thesis is out of date, the alternative of its opponents is to disqualify the American proposal. This is done either by denying that there is a tendency to the formation of commercial blocs, or by the adoption of some standard phrases as: "the proposal is not clear", "the Bush Initiative lacks content", "let's wait and see what happens"<sup>7</sup>. The argument that there is no tendency towards the formation of trade blocs was absolutely dominant in the Itamaraty until very recently.<sup>8</sup> With the increasing consolidation of NAFTA this thesis obviously is losing ground.

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(1992: 2).

<sup>6</sup> - See Primo Braga and Silber (1988).

<sup>7</sup> - This attitude, however, seems to be changing. According to daily *Gazeta Mercantil* (8/22/92) in a seminar carried out at Fundação Getúlio Vargas, Rio de Janeiro, on August 21 (when this paper was almost finished), "for the first time since the announcement of the creation of the NAFTA, Itamaraty officially admits that the Brazilian competitiveness in the U.S. market is going to be harmed by the concession given to Mexico in the access to high tariff products and to protected fields like citrus, textiles and tile. This assertion was made by the Minister of International Affairs, Celso Lafer, in his speech".

<sup>8</sup> - See, for instance, Celso Luiz Nunes Amorim, head of the Economic Department of Itamaraty, argues that only the EC would effectively be a commercial bloc (1991).

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Thus, other forms of opposition to the Bush Initiative are emerging. An interesting one has been adopted by Santos Neves (1991). His argument is that the creation of the NAFTA, whose rules don't include any clause about the access of the rest of Latin America, shows the United States' decision to marginalize South America. With the end of the Cold War, the Second and the Third World disappear. There are now four blocs: the European, the Japanese, the North-American and the one to be constituted around Russia. Thus "the South is not a fifth bloc, not even a lesser bloc. The people and nations of the South are simply those who have not found a place in the emerging international order, an order that seems to be guided by a harsh 'principle of exclusion' "(1992:5).

In this framework, Santo Neves continues, the NAFTA represents a historical watershed; the end of the economic concept of Latin America leading back to the geographical concept of South America: "the creation of the North American Free Trade Association brings to the fore the fact that the Latin American idea, although plentiful in historical substance, has lost a large measure of its economic and political thrust".<sup>9</sup>

Brazil and South America are, then, threatened of exclusion. But this doesn't drive Santos Neves to the conclusion that we must strive for integration into the Bloc of the Americas, while remaining faithful to multilateralism. We are supposedly excluded from NAFTA or from a FTA with the United States - an exclusion that Santos Neves does not regret, since he also opposes an integration with the United States. Our only choice would be to keep fighting for multilateralism. In line with the Brazilian policy, "Brazil aggressively opposes all forms of regionalized protectionism. All blocs must be open to international trade" (1992:17).

I quoted Santos Neves more extensively because he makes an intelligent and creative analysis which is very representative of the Brazilian thought, in spite of the author's warning in a footnote that his ideas "should not be construed to represent, in whole or in part, the official position of the government of the Federal Republic of Brazil". No doubt, the Brazilian official position is more moderate and more diplomatic. But it opposes a decisive adhesion of Brazil to the Bloc of the Americas.

It is probably clear by now that the Brazilian position is fundamentally contradictory. On one hand, it's admitted that there is a strong tendency towards regionalism. Additionally, it is admitted that this regionalism may represent the exclusion of Brazil and Latin America from international trade and capital flows. On the other hand, Brazil insists in fighting against all kinds

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<sup>9</sup> - The Latin America concept is historically new for Brazil. Up to the first part of this century Brazilians used to define themselves as South-Americans. The idea that we are Latin Americans was introduced by the United States, and some old nationalists never accepted it. The participation of Mexico in NAFTA is being viewed by these nationalists as a confirmation that Brazil is indeed part of South America, not of Latin America.

of regionalism, in favour of multilateralism as if it was easier to fight against regionalism than against the difficulties in integrating the Americas.

This position is obviously unrealistic. It shows an unacceptable geographical determinism. Chile is also part of South America but it is already in line to be included in NAFTA. Furthermore, such position reflects an old distrust relative to the United States that makes no sense today. It is not that our national interests coincide with those of the United States. We still have many conflicts. The point is that Brazil is no longer such a weak country that can not negotiate its own interests.<sup>6</sup>

### **Conclusions: an insurance against the uncertainties of the future**

Truly, multilateralism remains an ideal to be reached. But we must be realistic. In the short or medium range there is no room in the world for multilateralism. The blocs are in a fully-fledged process of constitution. And they will not be an obstacle to the future multilateralism, as far as they don't adopt excessive trade barriers or practices of managed trade. Now, either we seek to be included or we will be really excluded.

In this case, we cannot assume a cautious waiting position. It makes no sense to keep waiting for the United States to take the initiative or to further explain what they intend with the Enterprise for the Americas. Brazil is big and mature enough to adopt an active position on this issue and help to construct the Bloc of the Americas. No doubt the United States is and will be the leader, and will hesitate about admitting Brazil. As it is hesitating in relation to Mexico. The differences in degree of development between the United States and Canada on one side and Latin America on the other, represent the main obstacle to integration. But since the integration responds to the national interests of the United States as well as to those of Brazil, there is no reason for its not being accomplished.

The foreign trade of the EC, the United States and Japan in 1991, (taking into account intra-Community trade), represented 58% of world trade. Excluding the intra-CE trade, that figure falls to 35%. These data makes clear the weight of these powers in the international scene. Even though each one of them is trying to create and strengthen its own zones of influence and of preferential trade, none of them can afford to lose the major markets. Thus, Latin America's becoming a preferential partner does not mean any change in the American position in international trade.

To the United States the most important outcome of the creation of an American bloc is that it would provide an institutional framework to give support to several economic interests such as: access to the Latin American market, regulation of investments and protection to intellectual property. Besides, it would provide institutional support to the solution of serious economic problems such as: clandestine migration, drug traffic, and environment protection.

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The major advantage for Brazil and for the whole of Latin America would be the end of the marginalization and isolation they have been suffering, especially in face of the context of uncertainties of the new international order. In terms of exports, Brazil doesn't need to negotiate privileged access to primary or semi-industrialized goods, since it is competitive enough to gain market share. So, with the EC the determinant strategy is efficiency. As to manufactures, the experience has demonstrated that international trade is becoming increasingly managed. For this reason, the negotiation of a zone of free trade, in the short term, may be a decisive strategy for the United States. To Brazil, the Initiative represents an insurance policy against the perplexities and uncertainties of a world of rivalries between blocs and lack of hegemonic economic leadership. The United States launched the proposal. It's up to Brazil either to let it die or to give it real content. The bet with the future may be on an occasional isolation of Brazil; maybe Brazil is compelled to join a bloc already composed by the main countries of Latin America; or maybe Brazil could be leading the interests of South America in the Bloc of the Americas centered on the United States.

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**STATISTICAL APPENDIX****Chart 3: Brazil - Exports per Economic Zones (US\$ billion)**

	1988	1989	1990	1991
ALADI	3,7	3,5	3,2	4,9
US + Canadá	9,9	9,2	8,1	6,8
EC	9,7	10,5	9,9	9,8
Japan	2,3	2,4	2,3	2,6
Asia	2,8	3,2	3,0	3,1
Middle East	1,5	1,2	1,1	1,1
Others	3,8	4,4	3,8	3,2
Total	33,8	34,4	31,4	31,6

Source: Decex.

**Chart 4: U.S. Imports (US\$ billion)**

	1985	1990
World	358,9	515,6
Canada	67,9	93,2
Japan	72,4	93,1
EC	71,4	95,4
Latin America	48,3	66,7
Mexico	19,3	30,8
Brazil	8,1	8,6
Argentina	1,2	1,7
Chile	0,8	1,5
Venezuela	6,8	9,9
Colombia	1,5	3,4
Ecuador	2,0	1,5
Peru	1,1	0,8
% Imp.LA/total imports	13,5	12,9
% Imp.LA/Mexico/total imp.	8,1	7,0
% Imp.Brazil/Total imp.	2,3	1,7

Source: OECD - Organization for Economic Co-operation and Development.



**Chart 5: Exports to the United States (US\$ billion)**

	1985	1990
World	205,2	371,5
Canada	67,9	93,2
Japan	73,4	93,1
EC	71,4	95,4
Latin America	29,5	52,2
Mexico	12,8	27,4
Brazil	3,1	4,9
Argentina	0,7	1,1
Chile	0,7	1,6
Venezuela	3,1	3,0
Colombia	1,5	2,0
Ecuador	0,6	0,7
Peru	0,5	0,8
% LA imp./totals imp.	14,4	14,1
% LA imp.- Mexico/total imp.	8,1	6,7
% Brazil imp./total imp.	1,5	1,3

Source: OECD.

**Chart 6: Economic Community's Imports (US\$ billion)**

	1985	1990	1991
World	308,9	587,6	607,6
EFTA	62,3	137,9	136,2
US/Canada	58,1	120,1	125,2
Japan	21,7	58,7	63,7
ACP (69)	23,2	25,5	23,5
Mediterranean countries	33,7	53,7	53,5
Latin America	22,7	32,3	31,9
Brazil	8,0	11,7	11,6
Mexico	3,9	3,7	3,8
Colombia	1,3	1,9	2,1
Venezuela	3,0	2,3	2,0
Chile	1,4	3,3	3,1
Argentina	2,5	4,4	4,7
Uruguay	0,2	0,8	0,5
Peru	0,8	1,0	1,0
Ecuador	0,2	0,5	0,7
Bolivia	0,2	0,1	0,2
Paraguay	0,2	0,5	0,5
% LA imp./total imp.	7,4	5,5	5,2
% Brazil imp./total imp.	2,6	2,0	1,9

Source: Eurostat.

**Chart 7: Economic Community's Exports (US\$ billion)**

	1985	1990	1991
World	287,8	533,1	520,9
EFTA	64,4	141,5	133,9
US/Canada	72,5	109,1	99,0
Japan	8,0	28,8	27,3
ACP (69)	14,9	21,1	19,6
Mediterranean countries	33,5	57,9	56,5
Latin America	11,1	19,2	21,5
Brazil	2,1	4,7	4,9
Mexico	2,1	5,0	5,9
Colombia	0,8	1,0	1,1
Venezuela	1,7	2,2	2,3
Chile	0,6	1,5	1,4
Argentina	1,2	1,5	2,1
Uruguay	0,2	0,3	0,4
Peru	0,4	0,4	0,5
Ecuador	0,4	0,4	0,6
Bolivia	0,2	0,1	0,1
Paraguay	0,2	0,3	0,2
% LA imp./total imp.	3,9	3,6	4,1
% Brazil imp./total imp.	0,7	0,9	0,9

Source: Eurostat.

