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REGIONALISMO ABERTO: UMA PERSPECTIVA BRASILEIRA

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OPEN REGIONALISM FROM A BRAZILIAN PERSPECTIVE

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I - Introduction

The international (economic and political) relations of Brazil are determined by some specific domestic and external characteristics. Among the former some of the most important elements are: a) the very dimension and diversification of the domestic productive structure; b) a long standing option for a "global trader" approach, with no specific commercial links (such as those of Mexico and Canada with the US or those among the European Union country members); c) the high share of foreign-owned capital in the productive sector; d) a clear option for multilateral (gradual) trade openness since 1987, and e) since 1986, an unprecedented movement towards the intensification of regional integration.

The international alignment of Brazil (as well as of most countries) is also determined by external factors. Among the main international factors that influence such alignment are the results achieved in the negotiations of the Uruguay Round, the new scenarios in Eastern Europe and China, the efforts to consolidate integration among western European as well as among North American countries, the mushrooming of preferential trade agreements among Latin American countries, and - last but not least - the increasing mobility of international capital and services.

With such variety of influences the options that Brazilian policy makers have to deal with are numerous. Furthermore, most of the discussions about regionalism and multilateral openness concentrate on the analysis of actual and potential trade flows, with obvious emphasis on the competitiveness of export products. The corresponding studies for capital flows are less frequent. and even more scarce the systematic association between capital ownership and trade flows.

Regionalism - as seen from a Brazilian perspective - has in recent years acquired four different meanings: Brazil´s membership to Mercosur, Brazilian economic relations with other LAIA countries, the perspectives with regard to the formation of a South American Free Trade Area (originally proposed by Brazil and later formally adopted by all Mercosur members) and the perspectives of forming a Hemispheric Free Trade Area.

It is argued in this paper that for an economy with the characteristics of the Brazilian economy the international links are an outcome of (at least) four perspectives of analysis: i) trade of goods, ii) international movements of capital, iii) the economic agents that are responsible for the economic links with the international markets and iv) geopolitical strategies, and this is how its international alignment is better understood.

This work has six parts. Next section discusses some of the main features of the trade dimension of the international links, the third section deals with capital flows and the fourth with the economic agents. The last two sections discuss the influence of geopolitics and some aspects related to the timing and sequencing of integration.

II - The Trade Dimension

It has become a common place to refer to the Brazilian foreign trade experience in the last two decades as a star-case of the literature about trade policies. It provides good examples of selective interventionism, and of the adoption of restrictive import policies, at the same time that it is also a reference of successfully neutralizing anti-trade biases for the export sector, of the commitment to maintain high and relatively stable real exchange rates, as well as of export diversification, in terms of both product composition and markets of destination.

Between 1970 and 1991 the average nominal rate of growth of total exports surpassed 11% per year, a performance matched only by a few other countries. A good part of this dynamism is associated with the exports of semi-manufactures (mainly basic inputs and mineral products) as well as manufactures from new industries with medium-to-high technological content.

This outcome has to do, on one hand, with the implementation of several large projects at the beginning of the last decade, and is associated with the exploitation of comparative advantages in natural resources. On the other hand, it also reflects the competitiveness of some industrial segments that benefit from economies of scale allowed for by the large domestic market.

Such diversified trade structure makes it difficult to identify a clear pattern of comparative advantages, but it allows for (at least) two sets of inferences. From a pessimistic perspective, it is argued that the international market for natural resources-intensive goods grows at only moderate rates, and hence Brazil is - in spite of its export diversification - at an unfavourable position, well-placed in non-dynamic markets, and challenged by the competition of similar products from other developing countries. The optimistic view stresses the benefits that stem from the country having acquired comparative advantages in some relatively differentiated market segments with great dynamism, which provides the economy with a distinctive position in comparison to other Latin American countries.

Independently of the perspective of analysis, one aspect of the recent experience that is often disregarded but which is certainly one of the determining factors of the international alignment of the Brazilian economy is shown in Table 1. In the last decade the economy has been able to reverse trade deficits in several sectors. With the only exceptions of primary energetic products, semi-manufactures based on mineral resources and manufactures with medium-to-high technological content, in all other product groups Brazil experienced positive trade balance during the last decade, in many cases reversing the situation observed in the previous decade.

Part of the explanations for this outcome are linked to the domestic product cycle (the Brazilian economy experienced periods of great dynamism - as in 1984 to 1986 - as well as recessive years, by the end of the decade), which led several producers into exporting. Part of these surpluses are also due to the adoption - throughout most of the period - of restrictive import policies that disencouraged the demand for import products. But these results are also partly explained by the very dynamism of the export sector.

Table 1 - Brazil: Trade Balance for Selected Product Groups - 1970-80, 1980-90

Product(*)	Trade Balance 1970-80	Trade Balance 1980-90
A - Primary Products	-	-
1. Agriculture	+	+
2. Mining	+	+
3. Energy	-	-
B - Industrialized Products	-	+
1. Semi-Manufactures	+	+
1.1 Based on Agricultural Products, Labor-Intensive	+	+
1.2 Based on Agricultural Products, Capital-Intensive	+	+
1.3 Based on Mining Products	-	-
1.4 Based on Energy	-	+
2. Manufactures	-	+
2.1 Traditional Industries	+	+
2.2 Basic Input Industries	-	+
2.3 New Industries, Labor-Intensive, with Technological Content:	-	-
a) low	-	+
b) medium	-	-
c) high	-	-
2.4 New Industries, Capital-Intensive, with Technological Content:	-	+
a) low	-	+
b) medium	-	+
c) high	-	-
C - Other Products	+	+
D - Total	-	+

Source: CEPAL (1993) (*) For definitions and criteria see CEPAL (1993)

Table 2 - Relative Dimension of Selected Markets and Participation of Brazilian Total Exports and Imports - 1992

Selected Markets	Market Size Index (Mercosur 92=100)	Brazilian Exports/ Group Imports(%)	Brazilian Imports/ Group Exports(%)
1.ASEAN	826	0.1	0.7
2.ASIAN NICs	1820	0.3	0.5
3.OTHER ASIAN COUNTRIES	51	0.1	1.1
4.EUROPEAN COMMUNITY	5993	0.3	0.8
5.EFTA	1184	0.3	0.4
6.CACM	46	0.1	2.3
7.ANDEAN PACT	124	1.4	4.6
8.CARICOM	12	0.9	2.5
9.LAIA (exc.BRAZIL)	537	4.4	7.4
10.MERCOSUR (exc.BRAZIL)	100	14.7	22.4
11.GULF COOPERATION COUNCIL	19	0.0	0.2
12.ARAB COMMON MARKET	63	0.2	1.4
13.USA-CANADA	3567	1.1	1.2
14.AUSTRALIA-NEW ZEALAND	262	0.4	0.6
15.JAPAN	1246	0.3	1.2
16.CHINA	438	0.1	0.6
17.SOUTH AFRICA	72	0.6	1.3
18.NORTH AFRICA	123	2.0	1.0
19.OTHER AFRICAN STATES	10	0.0	0.5

Source: Primary data processed from UN/COMTRADE Database

(*) Total import value index of each group relative to the imports of the three Brazilian partners in Mercosur in 1992

Whatever the reasons, the important aspect to stress - as far as the international alignment of the country is what matters here - is that by the end of the 1980s Brazil had trade surpluses in most of the products it traded[1]. It looks quite evident that such a mercantilist situation is hardly sustainable over a long period of time. This leads to the discussion about the potential benefits for the Brazilian economy of intensifying its economic links with specific markets.

As far as its international alignment is concerned Brazil has so far one explicit option: its participation at Mercosur. But the appraisal of such option calls for its comparison with other markets. Table 2 might be helpful in this regard.

Table 2 adopts an "ad hoc" definition of markets, comprising both specific countries with undisputable importance in the international scenario as well as country groupings. Its first column shows an index of market size (defined in terms of potential imports). This index was built for each selected market by comparing - for 1992 - the amount imported by each market to the amount actually imported by the three Brazilian partners at Mercosur[2].

It comes out from the first column in Table 2 that the subregional market is quite important (particularly for those products with higher technological content[3]), but is not sufficient. If considered exclusively in terms of market size there are several other opportunities to be explored, so the option for intensifying the commercial links within the southern Cone should not be considered - by Brazilian policy makers - as excluding other simultaneous alternatives.

It has already been mentioned that the indications of sectoral trade surpluses shown in Table 1 would lead to some sort of redefinition of Brazilian trade links. This redefinition is likely to be intensified by the openning policy observed since 1987 and more intensely since 1990.

Be that as it may, the second and third columns of Table 2 show that Brazil has a rather low profile in terms of both the share of Brazilian exports in the international markets and the relative importance of the Brazilian market as a source of demand, with the only significant exception of Mercosur.

This means that the option for intensifying the regional links should not discard a number of alternative simultaneous possibilities. Among others, more intense exploitation of the potential of traditionally important markets, such as the industrialized countries, the dynamic perspectives of the Chinese economy and Pacific Basin countries, the specificities of economic integration among African countries and their cultural identity with Brazil are all potential opportunities that should not be disregarded.

For an economy with such a diversified supply structure as the Brazilian economy the discussion should not be formulated in terms of regionalism versus multilateralism. There are

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1 *A similar result would be achieved if Table 1 were re-designed for trading partner countries, instead of products: Brazil had trade surpluses with most of its partners.*

2 *Needless to say, figures would change somewhat if the basis for comparison were more recent years, given the impressive growth of intra-Mercosur trade.*

3 *Some authors (e.g., Buitelaar (1993)) stress the fact that Latin American exporters benefit from a "learning process" associated with regional trade: intraregional trade is technologically more sophisticated than Latin American exports to the rest of the world, and for several products the regional market works as a first ("learning") step in the exporting activity.*

different market conditions to be explored for different products, at the same time that recent experience indicates that the "learning process" associated with exporting to the regional market might be a useful tool for later exploration of more sophisticated markets.

So far the regional dimension has been considered as a synonimous of Latin American integration. As a matter of fact, the only formal commitments Brazil has in terms of integration are its membership to Mercosur and its membership to LAIA. It is important to stress, in this regard, that every agreement among Mercosur members is done according to LAIA procedures, as a constant signalling that the facilities are to be extended in some future time to other LAIA members. Actually, negotiations between Mercosur and some of its neighbours - such as Chile, Bolivia and Venezuela - have been intensified recently and it is likely that some sort of differentiated treatment be adopted soon to benefit these countries in their economic relations with Mercosur[4].

One possibility of extending differentiated economic relations to other Latin American countries is the proposed formation, in 10 years, of a South American Free Trade Area. Originally proposed by Brazil, it has been formally adopted by all Mercosur members since May, 1995. The importance of reaching such an enlarged market (some 270 million people) is something undisputed. But the interest in such Area seems to be better understood after considering what we called as the other dimensions of analysis.

Brazilian strategists have also been asked to take a position with regard to being part of a hemisferic integration. The discussion was originally linked to the possibilities of including other countries as parts of NAFTA.

There has never been a clear favourable position on the part of Brazil with regard to joining NAFTA. For one side, there could be costs if the country is affected by significant trade deviation provoked by Mexican exports to the US. But, at the same time, it is argued that: a) as different from other Latin American countries, probably most of the products that would matter in a bilateral trade negotiation with the US would be in a list od sensible goods; b) given the geographic diversification of the markets for its exports the relative weight of the US market is lower for Brazil than for other countries in the region; c) based on previous experience with Article 301 of the US Trade Act, there is a suspiction that negotiations could involve other topics, beyond the simple bilateral trade concessions; d) it is still not clear how negotiations with countries other than Mexico and Canada will take place, so it would seem wiser to wait and see how other candidates - like Chile - will be treated; e) entering NAFTA might provoke retaliation by the European Union, Brazil's largest trading partner.

In any case, it has been formally decided that any such negotiation with the Mercosur members will be made with the whole group, and not with individual countries.

More recently, the proposed integration at a hemispheric scale seems to be more in line with actual Brazilian objectives. As a matter of fact, in a Presidential meeting on December, 94 a deadline was actually established, so that negotiations should define the concessions to be made by all the countries involved in this initiative until the year 2005.

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4 *Among other aspects to take into account, the fact that Bolivia and Venezuela belong to the Andean Pact certainly makes these negotiations less simple.*

From the strictly commercial perspective figures in Table 2 suggest that Brazil should be interested in participating in such initiative. What is still not clear is the negotiating procedures and its timing. We shall return to this point later in this paper, after discussing other dimensions of analysis.

III - The Dimension of Capital Flows

International integration has traditionally been considered in terms of trade flows. However, the increasing dynamism of capital movements and the international complementarity of productive processes have led analysts to consider also other elements that might be in some cases even more determining than previous trade relations.

In the 1970s Brazil was the developing country that benefited most from foreign direct investment, with an average annual inflow of US$ 1.4 billion. This was twice as much the amount received by Mexico, the following country in that list. In the 1980s it is well known that the attractiveness of the Brazilian economy to foreign investors was reduced, lagged behind that of Singapore, Mexico and China. The first years of the 1990s have also witnessed a secondary performance of the Brazilian economy in regional terms, ranking third after Mexico and Argentina.

But even the less promising record of the recent years has some particularities that are important to take into account. As different, for instance, from Mexico - where a good deal of the investment flows were associated to the restructuring of the automobile industry and to the liberalization of the service sector - as well as from Argentina (and Venezuela) - where most of the flows were linked to the privatization of services - in Brazil the inflow of foreign direct investment is largely explained by an intense process of modernization of the subsidiaries of multinational companies operating in the domestic market.

This last point leads to an aspect that is often disregarded, but which is central for the present argument: Brazil is the developing country with the biggest stock of foreign capital, and it has held this position for decades. Even more important, as different from other countries the macroeconomic instability that characterized the Brazilian economy for so long has not been sufficient to induce significant net outflows of direct investment[5]. The very dimensions of the domestic market seem to be sufficiently attractive to stimulate the permanence of transnational subsidiaries.

The importance of this aspect for the discussion of regional integration has to do, first, with the geographic origin of the investors. As is well known, UN's Transnational Unit has emphasized in several of its documents the propensity of direct investment flows to be concentrated in geographic terms, as a mirror to the concentration of trade flows. Evidence suggests that those flows tend to be concentrated around three poles - the US, Western Europe

5 This is not to deny the existence of capital flight, mainly during the 1980s. The point to emphasize is that no significant productive units have closed down as a consequence of that movement.

and Japan, and have apparently survived the modifications in the forms of firms' ownership, often observed in recent years, as a consequence of the so-called process of globalization.

The Brazilian economy differs from most other Latin American countries also in relation to this aspect. According to UN (1992) in 1990 in Latin America only in Brazil, Uruguay and Paraguay most of the stock of direct investment belonged to european investors[6], whereas all other countries of the region had predominance of US investors.

The importance of this fact for the present argument is that this aspect will necessarily be part of the negotiations, if a hemispheric trade area is to be formed: it would allow european subsidiaries a preferential access to, say, the US market.

Moreover, some initiatives have already been taken which reflect this fact. The European Union countries and the Mercosur members have both recently approved the beginning of negotiations with each other, aiming at the definition of preferential trade conditions among the two groups of countries. Although the whole process is still in a very preliminary stage, the formalization of intentions might be read as a clear signal that the european partners are not going to passively observe the intensification of negotiations among American countries.

A second reason why capital flows should be considered in the analyses of integration processes stem from bilateral direct investment among the countries that participate in each given integration experiment.

It is well known by now that for Mercosur countries, for instance, only in recent years (i.e., post-1990) there have been significant capital flows associated with the direct production of goods. Bilateral investments in the area were traditionally concentrated inservices, commercial banks in particular. To the extent that there are increasing commitments with the productive sector - and hence with trade flows - this reinforces the web of mutual interests, making integration initiatives less vulnerable.

Trade and investment flows should not therefore be dealt with separately. This is increasingly true, thanks to the very process of globalizing productive processes, and has additional consequences for the present argument of regional integration. The link between trade and investment determinants calls for some considerations about the economic agents involved in the two processes. This brings in a new dimension for analysis.

IV - The Dimension of Economic Agents

The first half of the 1990s has witnessed an unprecedented movement of Brazilian industrial firms in search of a more competitive position. Both domestic and foreign-owned firms have tried to adjust to the new global trends as well as to the perspectives of operating in a more open market, facing unprecedented competition of imported products, with notable increases in

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6 *According to UN (1992) 36% of the stock of foreign capital operating in Brazil belonged to European Community firms. In 1985-89, european countries were responsible for 51% of the inflow of foreign direct investment in Brazil.*

productivity, obtained via the adoption of modern production techniques, administrative simplification, widespread quality controls and other measures.

As a specific field research has found (Baumann (1994a)), firms have opted extensively for reducing decisory levels and the number of jobs per product unit, and have concentrated their efforts in exploring specific market segments, with significant effects in terms of product specificities, the provision of technical assistence, stricter quality control of products and raw materials, and so on. Furthermore, this movement had a counterpart in terms of subcontracting, as well as consequences in designing the very process of production, with the adoption of modern production techniques, more intense use of microelectronic devices, etc.

The indicators of the competitiveness of the industrial sector in Brazil in recent years are all very impressive and point to one same direction. It is always difficult to identify clearly the trend of a movement at the moment when it is taking place, so there is no basis to forecast the future steps. But whatever the qualifications that might be raised, there is little doubt that these results are likely to affect the competitive position of Brazil in the international market. They also call for the need to consider the strategy of production and commercialization of the firms.

It is already some decades since the first observers have identified the existence of intra-sectoral trade. The original findings were associated with trade among european countries, and were largely explained by the productive interaction stemming from the process of regional integration. Figures indicating that over half of some bilateral trade flows among european partners are of the intra-industry type are frequently found.

In Latin America this process is far more recent and less intense, but evidence indicate that this is an increasingly important feature of the regional trade (IDB (1992)). For several countries in Latin America intra-industry trade has accounted for more than half of the bilateral trade with their main trade partners (mostly other Latin American countries, the US and Western Europe), for an increasing number of industries.

As regard the sectoral concentration of the indexes of intra-industry trade, it has been found (Baumann (1994b)) that those industries for which high indexes obtain for Latin American countries tend by and large to present high indexes also in the industrialized countries, suggesting universal sector-specific tendencies. These comprise mainly textiles products, non-metallic mineral manufactures, manufactures of metal, apparel and clothing and miscellaneous manifactures. The increasing Latin American indexes can be interpreted as indicative of a regional adaptation to the new international patterns of production and trade.

For Brazil the estimates of intra-industry trade by the end of the 1980s indicate that this type of trade corresponded to over 1/10 of the total trade in manufactures, and approximately 1/5 of all the bilateral trade with Western Europe and about 1/7 of the bilateral trade with other Latin American countries.

The indicators of intra-industry trade in Latin America have become impressive enough so as to bias any analysis of economic integration that misses their influence. In the case of Brazil the highest indexes of intra-industrial trade with the US are found in Machinery, Transportation Equipment and Chemical products, a sectoral distribution very similar to the one found in the trade with other Latin American partners. The corresponding indexes for the trade with Western Europe are not only higher than for other areas, but appear also in several other sectors, indicating a significant degree of diversification and complementarity.

This is certainly a point to take into account in the discussion about economic alignment: the economic links between Brazil and Europe have peculiar features associated with both the ownership of installed capital and a strong degree of productive complementarity, as different to what is found in other countries in the region, and this certainly qualifies Brazil's commitment to join hemispheric initiatives.

Another new feature of the international trade to which countries have to adapt themselves is that as part of the very process of globalization not only productive specialization leads to the exchange of similar products. The predominance of large economic groups in the international market leads to a large number of transactions taking place within the same firm. As a matter of fact, it is estimated (Cowhey/Aronson (1993)) that about 40% of all US international trade is intra-firm trade. As a consequence, investment stocks and flows do determine a large part of the structure and direction of trade flows.

Evidence of intra-firm trade for Brazil is still scarce, but there are indications (Baumann (1994c)) that by 1990 intra-firm exports accounted for at least 1/10 of the Brazilian exports of manufactured products, and that these operations were concentrated in the trade with a few industrialized countries. Moreover, there are indications that in those sectors with high share of intra-firm exports the external market became increasingly important as a source of growth in recent years: the performance of the large groups has contributed in a decisive way for aggregate export and growth, and the process of regional integration must be compatible with their global strategies.

This leads to the discussion of the geopolitical perspectives that feed integration initiatives.

V - The Geopolitical Perspective

So far this article has dealt with regional integration in a very specific way, considering integration essentially as a set of opportunities for business, export expansion and productive complementarity.

It is actually difficult to explain the precise meaning of a process of integration. It necessarily involves - apart from strict economic considerations - domestic political decisions required for the inevitable loss of part of the country's sovereignty, it might involve other dimensions, such as military involvement, etc.

The discussions about integration often concentrate on economic matters, and stress the potential for trade creation and trade deviation, sometimes including the geographical orientation of investments, etc. For countries like Brazil - without significant frontier conflicts[7] - and with a traditional low profile in the international scenario, this debate tends to concentrate exclusively on economic topics.

7 *Despite it having frontiers with no less than 10 countries.*

But the international alignment of a country involves some other variables that have become increasingly important in the domestic agenda.

Examples are some conflicts that have been detected in the Northern part of the country, in the Amazon forest. Illegal mining, drug traffic, and illegal labor migration are some examples of the topics that require some sort of common, binational solution. So far, a number of these problems have been dealt with via repression, but clearly other forms of more permanent alternative solutions are increasingly needed. Specific agreements dealing with these problems might have economic implications that go beyond what could be forecast by the conventional estimates of potential trade creation and trade deviation.

A process of integration is not always a political phenomenon, but can also be a process fostered by political and microeconomic forces. Active cross-border trade, investment and migration induced by geographic proximity or cultural identity might foster regional integration, even where the institutional framework is non-existent (Oman (1994)).

It has already been said (Pérez Llana (1981)) that the foreign policy of Brazil is traditionally biased by the economic aspects, reflecting the lack of a precise definition of the country's external position. This is partly explained by the multiple interests of a diversified economy such as the Brazilian economy.

The geopolitical dimension of analysis goes beyond frontier questions and puts emphasis in the view that the country will be forced in the future to assume more clear positions with regard to global subjects like security matters[8], trade, finance, science and technology and others (Takahashi (1993)). The solutions for these problems might not correspond to the recommendations derived from the strictly economic analysis.

Among other examples of the importance of this geopolitical dimension, sometimes surpassing the economic rationale, we can recall that in the late 70s and early 80s the need to have access to energy sources of various types led Brazil (and several other countries) to unprecedented links with the countries in the Middle East and elsewhere; exports to those countries required incentives which would hardly be recommended from a purely economic perspective. More recently, due to some of its commitments in Mercosur Brazil opted for not importing some cheaper competing products from other countries.

These examples illustrate the fact that the international alignment is sometimes determined by factors that are not always considered by most economic modelling. There are costs in the short run that might be more than compensated by (less easily identifiable) gains in the long run, in terms of market penetration, acquiring dynamic competitive advantages, and so on.

The importance of this dimension of analysis for the discussion about regionalism has to do with previous reference to the different connotations that the idea of "integration" might have in Brazil.

It is well known that among other pre-conditions for the 1986 agreement between Brazil and Argentina - which became the basis for the later accord that created Mercosur - there was the need to circumvent the geopolitical resistence by the military forces on both countries[9].

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8 *The frequent external pressures being made on the size and technical capability of the Armed Forces are one example.*

9 *Such resistence was actually broken for the first time with the acceptance to build the Itaipu hydroelectric dam.*

Later on, the four members of Mercosur have learned that a common position in international negotiations allow for much stronger negotiating positions, and also that the purely economic gains that accrue from intraregional trade can be far more expressive than originally thought. Market dimensions as well as complementarity of productive strucutres do matter.

A different set of considerations is made in relation to other countries in the region.

As a LAIA member Brazil provides and benefits from a number of trade preferences. As a matter of fact, most of the intraregional trade depends on such favoured treatment. But within LAIA there are a number of overlapping accords among subgroups of countries, which provide additional facilities. Among other examples, reference can be made to Mercosur and the Andean Group. Let us use these two subregional groups to illustrate the argument.

There are some difficulties in promoting a formal integration between Mercosur and the Andean Group at present, since the definition of the set of sensitive products by Mercosur might affect the potential supply by the countries of the Andean Group. Notwihstanding these obstacles, there have been intense negotiations to transform some de facto interests in "ad hoc" commitments.

The intended integration between the two areas is strongly influenced by geopolitical factors: the expansion of the natural frontier in the Northern part of Brazil, with the consequent migratory movements, the (mostly Brazilian) aspiration to have direct access to the Pacific Ocean, the (also mainly Brazilian) potential demand for natural gas fromBolivia, the need for systematic occupation some isolate areas to avoid drug trafficking, the desire of (mainly Venezuelans) oil producers to facilitate shipment of oil and oil products to the oil demanding areas at the North and Northeast regions of Brazil, and several other aspects.

The integration between these two groups of countries is strongly dependent upon the creation and improvement of infrastructural conditions, and will require soon negotiations on specific common legislation dealing with subjects like labor migration and others. Needless to say, this is a completely different approach than the one that has oriented negotiations in Mercosur until now[10].

In this sense, the proposition of a South American Free Trade Area might perhaps be a natural consequence of the specific solutions to each of these local needs.

Arguments of geopolitical origin seem to be even more easily identifiable in the proposed creation of a hemispheric free trade area. At the beginning of the present decade there was widespread fear that the deepening of the European integration process would lead to the formation of what was then called "Fortress Europe", with even stricter import barriers, and this has motivated integration initiatives in other continents. In a similar way, Latin American countries that do not form part of NAFTA fear the consequences of trade deviation (mainly caused by Mexican products in the US market) and the possible adoption of import barriers. and reacted in two ways- both applying to form part of that group and by adhering to the proposed hemispheric initiatives.

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10 *Notice that this is a strictly Brazilian perspective. The actual interests of other Mercosur members in such eventual negotiations with the Andean Group might be quite different than these.*

The latter seem to be essentially a geopolitical reaction, because, among other aspects, the actual economic gains accruing from a hemispheric initiative is still a controversial subject, as different simulation models provide quite varied results.

This leads to the last point to consider - the compatibility among these different integration processes.

VI - The Timing and Sequencing of Regional Integration

Analysts of the several integration processes taking place in Latin America often point to the fact that the several commitments among different country groups should be compatible with each other. The costs for, say, customs authorities might be too high if import regimes are markedly different for products originating from different countries.

It is also often assumed - and formally said - that all these movements towards subregional integration are in fact "building blocks" that in the limit will contribute to freer multilateral trade.

It has already been said in previous sections that Brazil actually faces a number of alternative possibilities regarding regional integration, and that there is in principle no specific opposition to any of them. In fact, this multiplicity calls for another (intertemporal) compatibility among these possibilities[11]. The definition of the optimum timing and sequencing of the various integration exercises comprise the various dimensions that have been emphasized in the previous sections of this work.

The argument can be illustrated by reference to the time horizons of the several experiments: a) several specific measures (including the establishment of a Customs Union, by adopting a common external import tariff) started to function in January, 1995, the actual beginning of Mercosur, but an extensive negotiating agenda remains open (even with regard to the import policies of the member countries); b) the South American Free Trade Area was proposed to be created within 10 years, which means that it should ideally enter operation by year 2004; c) the commitment to create a Hemispheric Free Trade Area established the year 2005 as a target; d) Mercosur members have established that by December, 1995 imports from non-member countries should start to have differentiated treatment, and this has motivated a number of isolated initiatives of other countries in the region to negotiate some form of "ad hoc" preferential access to the common market (concrete programs of negotiations have already started with Chile and the Andean Group countries); e) negotiations are also been held for an Agreement of Economic Complementarity between Mercosur and Mexico.

As was shown in previous sections, there are some aspects for which these initiatives might be not strictly compatible.

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11 *Not to mention the need for compatible objectives within each initiative: in some cases a high number of accords on multiple subjects - often with ambitious targets - has frequently led to intertemporal inconsistencies.*

Let us consider, for instance, previous reference to the fact that the integration of Mercosur with the Andean Group countries have a determining ingredient of infrastructure investment, and consider also that this type of investment traditionally has a strong component of public policies.

Now consider the Brazilian (Mercosur) negotiating position in the Denver Meeting last June (the first trade ministers meeting to prepare for the negotiations for the Hemispheric Free Trade Area). Ministers from Mercosur countries sustained that negotiations should be carried in two stages, with some agreements (technical barriers to trade, rules of origin, sanitary and phytosanitary measures, non-tariff restrictions, agricultural subsidies and dumping, investment promotion and guarantees and technological cooperation) being negotiated by 1998, while other sensitive areas (tariffs, trade in services, government procurement, intellectual property) should only be considered in the year 2000.

It would seem that the different realities of the relations with North America, Western Europe and other Latin American partners would lead to different negotiating approaches. Dealing with these areas in a simultaneous way will require explicit consideration of the dimensions mentioned here, at the same time that it will make it clear the very necessity of doing so.

It is hoped that this text has made it clear that a Brazilian view of integration would comprise the following facts: a) Brazil presents an increasing commitment to open up its economy, with one component of it being the search for integration with other countries; b) at the same time, the economy is at present submitted to different stimuli in terms of different (but ideally complementary) integration processes; c) negotiating positions - as well as the very designing of each integration project - have necessarily to take into account other dimensions, going beyond the exclusive analysis of trade effects; d) compatibility among the various integration experiments requires not only compatible projects, but also intertemporal consistency; and e) integration processes can be seen as a set of specific agreements or might be induced by de facto initiatives or needs.

This paper has dealt with a subject with multiple faces. It can hardly lead to a concluding remark. It aimed instead at emphasizing the very complexity of the matter.

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