W O R K I N G   P A P E R

Center for Latin American Studies
University of California, Berkeley

Diverging Trade Strategies in Latin America: An Analytical Framework

Vinod K. Aggarwal
Professor of Political Science
University of California, Berkeley

Ralph H. Espach
Political Science Department
University of California, Berkeley

May 2003
Paper No. 2

clas.berkeley.edu
2334 Bowditch Street
Berkeley, CA 94720

The Center for Latin American Studies (CLAS) at the University of California, Berkeley publishes working papers and policy papers relating to Latin America. This series represents the diverse and coordinated activities of faculty and affiliated scholars at CLAS. You may order papers from us by sending a check or money order for US $5.00 made out to "UC Regents" along with the paper title and number to:

Working Papers Series
Center for Latin American Studies
University of California, Berkeley
2334 Bowditch Street
Berkeley, CA 94720

Diverging Trade Strategies in Latin America: An Analytical Framework

Vinod K. Aggarwal
Professor of Political Science
University of California, Berkeley
Ralph H. Espach
Political Science Department
University of California, Berkeley

May 2003
Paper No. 2

Please cite as: Aggarwal, Vinod K. and Ralph H. Espach, "Diverging Trade Strategies in Latin America: An Analytical Framework" in Aggarwal, Vinod K., Ralph H. Espach, and Joseph S. Tulchin, eds., *Regional and Transregional Trade Strategies in Latin America* (in press).

CONTENTS

I. INTRODUCTION

Economic relations among the nations of Latin America have entered a new stage. The last twenty years have seen a dramatic shift in Latin American economic policies away from protectionism and import substitution industrialization policies toward liberalization and the promotion of exports. During the early and mid-1990s in particular, improved economic stability and growth at home and in international markets generated enthusiasm for free trade in various forms. Latin American nations were active at the Uruguay Round of the GATT, hailed the interest of the U.S. in creating a Free Trade Area of the Americas (FTAA), and established several important trade accords at the regional level. International investors gushed at this regionwide trend of deregulating trade and investment, and the privatization of state-owned enterprises. Even then, however, when the international climate was favorable to these reforms and foreign investment levels rose across the region, the governments of the region were demonstrating distinctly different paths and styles of liberalization. This divergence was more manifest in the late 1990s, when it began to have significant effects on international relations across the region.

This is especially true regarding trade relations. The diversity of trade agreements established since the mid-1980s, both within Latin America and between Latin American nations and those of other regions, reflects a broadening range of strategic perceptions and orientations. The argument of this volume is that this increasing divergence among the trade arrangements of various Latin American nations reflects fundamental and growing differences among their broader strategic perceptions and political and economic objectives. These, in turn, are grounded in each country's economic profile, the institutional configuration of its trade policy process, and the constraints and opportunities policy makers perceive at the domestic and international levels. This chapter provides a theoretical framework that highlights the political-economic tradeoffs entailed in these different trade strategies. This framework provides conceptual background for the more detailed, empirically grounded studies that make up the rest of the volume, including country analyses of Argentina, Brazil, Chile, Mexico, and of the Mercosur bloc as a whole.

Among Latin American countries, Chile presents the region's best example of successful unilateral liberalization. Its relatively early start at implementing free trade and export promotion programs, and its maintenance of popular support for liberalization, has allowed it to pursue trade at the transregional level (through APEC, for example, or with the U.S.) and global levels simultaneously, while not sacrificing regional trade relations. During the 1990s Mexico became one of the world's most active bilateral free traders, and its position as a less developed country within the North American Free Trade Agreement (NAFTA) makes its free trade profile unique—while also posing unique challenges. Both Mexico and Chile have actively pursued transregional opportunities, such as Mexico's free trade pact with the European Union (EU), Chile's accord with Australia, and both countries' active negotiations with Japan. By contrast, the giants of the Southern Cone, Argentina and Brazil, have given priority to expanding trade first at the regional level through Mercosur. This allows their economies to adapt more gradually to international competition, and gives their governments the strategic option over the long-term of using the trade bloc as leverage to negotiate free trade with the EU, with NAFTA, or through the FTAA on more favorable terms. However, the complicated relations of interdependence that have deepened through Mercosur pose different challenges to these countries, which have been exacerbated by Argentina's enduring financial crisis.

To explain the rationales that lie behind this increasing divergence among the trade strategies of our four case study countries, we focus primarily on what we term their *trade preferences*. We can distinguish among four different analytical approaches to trade policies and relations. First, abstract models based on broad economic concepts such as comparative advantage can generate "ideal" trade preferences. An example is classic liberal trade theory, which assumes away political or security concerns and predicts that rational states with perfect information will prefer free trade to any other option. For obvious reasons, ideal trade preferences seldom describe the formulation of trade policies in the real world.

The second approach is the one we undertake, in which we consider the combination of economic, political, and strategic objectives that policymakers have in mind, as well as the macro-level international constraints they face, when they consider various trade policy alternatives. This complex set of considerations, which naturally differ from country to country based on their resources and perceived options, generates a specific set of political and economic trade-offs between various strategic objectives. For example, Brazil may rationally accept slower growth in the short-term, and more limited liberalization, for the ability to shape the development, over the long-term, of more diverse and competitive industries. It can be said that Mexico, for instance, has accepted the severe stress that comes from rapid reforms and deeper dependence on the U.S. market, for improved prospects for economic growth and stability. We refer to these sets of political-economic tradeoffs, reflected in each country's trade arrangements since the early 1990s, as *trade preferences*. A third approach to trade relations would consider, in addition, the ensuing negotiations and strategic bargaining that takes place between trade partners. Lastly, a fourth type of approach would include the outcomes of these negotiations, as well as a variety of domestic and international constraints, over time, on a government's formulation of its trade preferences and the effective execution of its strategy. The case studies that comprise the second half of this volume are excellent examples of this type of in-depth, comprehensive study.

This introduction presents a simplified theoretical framework by which we can assess each country's trade preferences, defined as the combination of strategic objectives and macro-level constraints that underlie its trade policies. Other chapters in this volume focus either on specific types of constraints or dynamics involved in the formulation of trade policy, or on how existing strategies across the region were formulated, pursued, and either achieved or underachieved.

How might one go about analyzing the origins of countries' trade preferences? Purely economic explanations, which would generally predict increased liberalization as governments, businesses, and consumers enjoy the fruits of free trade, fail to capture both the inconsistency of liberalization and the variation among these countries' political and strategic interests. Economic demands are certainly foremost in the minds of policymakers of countries with severe debt burdens, and which depend largely on foreign investment for growth. Yet the aims of economic liberalization coexist—and often conflict—with other important interests. Economic analysis alone, based on estimates of aggregate returns from various trade arrangements, is a poor instrument for explaining or predicting trade preferences.

Our analysis combines economic and political objectives within a liberalized and dynamic trading system. However, it does not include traditional security objectives, such as military defense or preparations for war. This is because we are convinced that since the end of the cold war, and with the spread of democracy throughout Latin America, concerns over inter-state violence play a far less prominent role in regional relations than those of economics and politics. Security concerns today are expressed mostly within an expanded agenda that includes drug trafficking, crime, poverty, and economic instability, a list of issues so broad that they defy traditional security definitions.[1] Those that have clear economic dimensions, and are linked to trade policy formulation, are included in our analysis and certainly in the case studies.

It is worth noting that the analysis in this introduction uses the simplifying assumptions of unitary states as rational actors. The terms states, countries, and governments are used interchangeably—not because we believe that these entities are undifferentiated, but because our analysis lies at the second level of international analysis, that of national interest. For example, we do not question the extent to which national trade policies are shaped by an administration's goal of winning elections. Also, we do not differentiate among government branches, such as the executive and congress, except sometimes in our discussion of individual national behaviors. Domestic dynamics are extremely important; however, using a simple model with assumptions of instrumental rationality allows for generalization and prediction, the results of which can be compared against the deeper empirical analysis of the case study chapters.

In terms of the organization of this chapter, Section 1 begins by presenting an analytical characterization of different modes of trade liberalization. We show that conventional categorizations of trade arrangements miss important aspects of trade policy choices. We present an overview of existing transregional, regional, and bilateral trade agreements of which our case study countries are signatories, which demonstrates significant and increasing divergence. Using this framework, we classify the trade profiles of our case study countries. In Section 2, we examine various types of trade arrangements in detail—unilateralism, bilateralism, minilateralism (i.e., limited multilateralism, as in regional trade accords), and broader multilateralism—and the degree to which each is reflected in the trade profiles of our case study countries. This deeper discussion of the tradeoffs entailed in each type of trade arrangement leads us to an assessment of the trade preferences that lie behind these nation's trade profiles. These trade preferences are derived from consideration of each country's medium- and long-term economic and political strategic options. Section 3 revisits our case studies' trade profiles, their preferences, and discusses the policy implications and predictions suggested by our analytical framework. Section 4 summarizes our framework and suggests areas for future research.

II. CATEGORIZING TRADE ARRANGEMENTS

Over the last fifty years, states have used various measures to promote or control trade flows. In terms of bargaining approaches, these include unilateral, bilateral, minilateral (those which have three or more members, but limit their membership, as with regional trade blocs), and broader multilateral strategies (which have virtually unlimited membership, such as the WTO). In terms of product coverage, measures have ranged in scope from very narrow to broad multiproduct agreements. In addition, some arrangements are geographically concentrated, or "regional," while others include states across long distances.[2] Finally, these measures have varied in terms of whether the outcome of each is predominantly market closing or market opening**.** For the sake of simplicity, the following table and our discussion focuses only on three dimensions of bargaining approaches—the number of nations involved, product scope, and geographical range—leaving aside other characteristics such as timing, degree of openness, governing party or regime, and the like.[3]

Table 1: Categorizing Modes of Governance in Trade

ACTOR SCOPE

		Unilateral	***Bilateral***		***Minilateral***		***Multilateral***
			GEOGRAPHICALLY CONCENTRATED	***GEOGRAPHICALLY DISPERSED***	***GEOGRAPHICALLY CONCENTRATED***	***GEOGRAPHICALLY DISPERSED***	
PRODUCT SCOPE	***Few products*** (sectoralism)	Quotas or tariffs on specific products. Repeal of Corn Laws (1)	U.S.–Canada auto agreement (2)	U.S.–Japan Voluntary export restraints (3)	European Coal and Steel Community (4)	Early voluntary sectoral liberalization. The Cairns Group. (5)	Information Technology Agreement (6)
	Many products	Tariffs such as Smoot-Hawley, or APEC IAPs (7)	U.S.–Canada free trade agreement (8)	Mexico–Chile free trade agreement (9)	NAFTA, EU (10)	FTAA, APEC, EU–Mercosure *(transregionalism)* (11)	GATT or WTO *(globalism)* (12)

From: Adapted from Vinod K. Aggarwal, "Economics: International Trade," in P.J. Simmons and Chantal de Jonge Oudraat, eds., *Managing a Globalizing World: Lessons Learned Across Sectors* (Washington, D.C.: The Carnegie Endowment for International Peace (2001).

In brief, the top row (cells 1-6) refer to different forms of *sectoralism*, that is trade agreements that cover only one or a handful of specially defined products or industrial sectors. Cell 1 includes unilateral measures for sector- or product-specific market opening or restriction, for example the repeal of England's Corn Laws that allowed agricultural imports without reciprocity. In cell 2, we have bilateral agreements among neighbors in specific products, of which there are hundreds across the Americas, and at which the U.S. and Canada are particularly proficient. Cell 3 refers to bilateral agreements between countries that are geographically dispersed, which include measures like Voluntary Export Restraints (VERs). In cells 4 and 5, we have product-specific sectoral agreements. These are also divided according to their degree of geographic concentration. Cell 5 provides an example of dispersed sectoral minilateralism: the case of the Early Voluntary Sectoral Liberalization (EVSL) effort that did not pan out among APEC members. Finally, cell 6 provides an example of multilateral accords that are sectorally based but liberalizing, such as the Information Technology Agreement (ITA).[4]

The next row focuses on multiproduct efforts. Cell 7 refers to unilateral, broad-based trade reform. These include Chile's liberalization program in the 1980s, or the infamous, protectionist 1930 Smoot-Hawley tariff in the United States. Cell 8 represents the category of geographically concentrated bilateral accords, and cell 9 those of geographically dispersed bilateralism. Of the latter there are several examples in Latin America, including Mexico's free trade agreements with Chile and with the European Union. Cell 10 includes geographically focused minilateral agreements, accords that have traditionally been referred to as "regionalism."[5] Cell 11 represents the category of "transregional" trade blocs, including such accords as the Free Trade Agreement of the Americas (FTAA), or APEC, which span regions.[6] These "transregional agreements" can also be more formalized and link two regions. Thus, we can refer to cases such as the proposed EU-Mercosur accord as a transregional (or interregional) agreement. Finally, cell 12 refers to the case of global trading arrangements, namely multilateral, multiproduct arrangements such as the GATT and its successor organization, the WTO.

We can use this framework to assess the trade policies of Argentina, Brazil, Chile, and Mexico in the 1990s. While this conceptual framework applies to agreements that are both liberal and protectionist, our focus in regards to Latin America is on these countries' liberalization program.

Table 2: An Overview of Trade Agreements in Latin America Effective in the 1990s

<table>
<tr><th colspan="8">Actor Scope</th></tr>
<tr><td rowspan="4">Product Scope</td><td rowspan="2"></td><td rowspan="2">Unilateral</td><td colspan="2">Bilateral</td><td colspan="2">Minilateral</td><td>Multilateral</td></tr>
<tr><td>Geographically concentrated</td><td>Geographically dispersed</td><td>Geographically Concentrated</td><td>Geographically Dispersed / Transregionalism</td><td></td></tr>
<tr><td>Few Products (sectoralism)</td><td></td><td>U.S.–Chile Consultative Committee on Agriculture, 1997</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Many products</td><td></td><td>Chile–Argentina (ECA), 2000.
Chile–Bolivia (ECA), 1993.
Chile–Colombia (ECA), 1994.
Chile–Ecuador (ECA), 1995.
Chile–Mexico, 1998.
Chile–Peru (ECA), 1998.
Chile–Venezuela (ECA), 1993.
Chile–Canada, 1996.
Costa Rica–Canada, 2001.
Mexico–Bolivia, 1994.
Mexico–Costa Rica, 1995.
Mexico–Nicaragua, 1992.</td><td>Mexico–European Union, 2000.

Mexico–Israel, 2000.</td><td>Central American Common Market (CACM), 1960.
Latin America Integration Association (LAIA), 1980.
Andean Community, 1996.
Caribbean Community and Common Market (CARICOM), 1973.
Group of 11, 1984.
Mercosur, 1991.
NAFTA, 1992.
Latin American Economic System (SELA), 1975.
Chile–Central America, 1999.
Dominican Republic–Central America, 1998.
Group of 3, 1990.
Mexico–Northern Triangle (El Salvador, Honduras and Guatemala), 2000.</td><td>Free Trade Area of the Americas, negotiations begun in 1994, aimed at completion in 2005.
Asia Pacific Economic Cooperation (Chile, Mexico, and Peru, members), 1989.</td><td>World Trade Organization, 1986.</td></tr>
</table>

Dates refer to the signing of the agreement. Table does not include "Partial Scope Economic Arrangements."

Two observations are immediately apparent. First, these nations have only very infrequently pursued liberalization at the sectoral level. Sector-specific exemptions are, in fact, common as components of larger trade agreements, but they are used to protect less efficient and sensitive industries from foreign competition. Part of the reason, as Sylvia Maxfield discusses in her chapter, is that sector-specific business associations in Latin America are not as organized or powerful as those within OECD countries. For Maxfield, the strength or weakness of state-business collaboration, and the openness of trade policy formulation to organized business groups, significantly influences the success of liberalization programs and accounts, in part, for the differences among our case studies.

In eschewing sectoral agreements, the governments of Latin America are also adhering to the GATT and its successor WTO regime—which prohibits such agreements under Article 24. By contrast, going back to the 1950s and the textiles and apparel regime, developed countries have been significantly more willing to violate the spirit of Article 24 through the use of VERs and other "orderly market" arrangements. More recently, as broad cross-sector multilateralism has faced difficulty, developed nations have effectively promoted numerous multilateral, sector-specific liberalizing accords including the Information Technology Agreement and the Financial Services Agreement. These industries benefit from the support of the industrialized nations in which they are concentrated, which can cooperate to form a powerful trade lobby for multilateral programs like these. A similar example among less developed countries is the Cairns Group of eighteen agricultural exporting countries, which has labored to little effect to promote lowered tariffs on agricultural goods in developed countries.

The second immediate observation from Table 2 is that our case study countries have engaged in a wide variety of trade liberalization practices and agreements. Each country has significantly liberalized its trade policies, both unilaterally and to some degree through international trade agreements. However, each has pushed liberalization to a different degree and in a distinct manner, reflecting the differences in these countries political-economic profiles and strategies.

With existing trade arrangements in mind, we can characterize the policy profiles of our case study countries as follows:

- Argentina: *regional partner*, focused at the minilateral (concentrated) level, with transregionalism pursued through collective regional activity
- Brazil: *regional leader*, focused at the minilateral (concentrated) level, with transregionalism pursued through collective regional activity; also extremely active at the multilateral level
- Chile: *multilateral trader*, including unilateral liberalization and agreements at the bilateral (geographically dispersed) and multilateral level
- Mexico: *hub market*, including bilateral, minilateral (concentrated), and transregional trade agreements

Why is it that these four countries, which share similar levels of economic and social development, export a relatively similar range of products (although Brazil and Mexico are significantly more industrialized than Argentina, or especially Chile), and have all engaged in economic and trade liberalization, show such distinct trade policy profiles? Economic rationale alone cannot account for the diversity, since all four governments have officially embraced similar policy programs since the early 1990s. To understand these different trade profiles, we must combine these economic orientations with analysis of the political and security aims of each country. As we will discuss in Section 3, each country's choice among economic and political tradeoffs—that is, its strategic approach to trade policy—is influenced by its assumptions about the international system and its perceptions of the strategic options available to it. These combinations of political and economic objectives and the tradeoffs between them, these longer-term strategies and fundamental assumptions, we term *trade preferences*. It is worth reiterating that the case studies in the book trace the process that leads from these preferences to actual policy outcomes in depth; our objective in this chapter is to provide a basic analysis of different factors and ideologies that might drive the development of countries' trade policies.

III. A STRATEGIC APPROACH TO TRADE ARRANGEMENTS

In this section we examine in more detail the tradeoffs entailed in the various arrangements presented in the Tables 1 and 2, and the factors that influence the choices policymakers make between different trade policy options. This discussion is organized around the categorization of trade arrangements already presented. This analysis of the costs and benefits of each arrangement, however, leads us into consideration of individual countries' trade strategies.

UNILATERALISM

Since the early 1980s each of our case studies, and virtually all of Latin America to one degree or another, has made efforts to liberalize their trade unilaterally. In addition to trade reform, governments have liberalized through reducing the size of state agencies, privatizating state-owned enterprises, enacting regulatory reforms, and other policies. This overarching trend of internal economic reforms is extremely important in that it has provided the domestic political-economic context for the trade policies of this period. Indeed, the successes of Mercosur and other regional economic projects in the early and mid-1990s should not be considered in isolation. These achievements came within a period of regionwide liberalization, overall global economic growth and relative stability, and burgeoning extra-regional foreign investment.

Classic economic theory argues that unilateral liberalization, as the most direct route to free trade, maximizes gains from trade by avoiding the messiness of political negotiations and forcing shifts in production across the entire economy to reach optimal efficiency. Unilateral liberalization also frees up state resources that formerly went to protecting or subsidizing weak economic sectors, allowing them to be invested toward long-term productivity gains through improving education, worker training, and national infrastructure. Thus, whether or not trade partners reciprocate, over time these gains in economic efficiency, not to mention the gains to consumers that come from cheaper imports, make unilateral opening a wise policy. These benefits are realized, however, in the long-term, since dramatic shifts in resource allocation and productivity take time.

Yet unilateral liberalization has several drawbacks. First, if other countries do not reciprocate, lower trade barriers can place domestic industries at a disadvantage, since they have less opportunity to achieve economies of scale. Without some institutionalized enforcement of reciprocity, unilateral liberalization can open up a country to exploitation by trade partners who subsidize their industries. Second, on the domestic front, unilateral liberalization lacks clear short-term gains except for the diffused effect of lower overall prices, and often entails severe costs for domestic producers and the workers they employ. The resistance of these industries, the labor they employ, and other economic interest groups can make unilateral liberalization politically unfeasible. In contrast, politicians who engage in bilateral or multilateral liberalization can point to reciprocal reforms in partner countries that compensate for domestic costs.

The principal political cost of unilateralism is that, by removing lowered tariffs as a bargaining chit, it reduces a country's leverage to secure trade reciprocity from its trading partners. If a country's main trading partners already have low trade barriers, then all that is gained is increased domestic efficiency and lower costs for imports. However, within a region of uneven progress in liberalization, and when important trade partners (such as Brazil, the EU, and the U.S.) engage frequently in protectionist policies, the loss of this bargaining tool can pose a significant opportunity cost. Obviously, this opportunity cost is higher for large countries, whose markets can be extremely attractive to foreign investors, than for small countries. In this regard, a second political drawback of unilateralism is the opportunity cost of foregoing trade liberalization on a collective basis within the rubric of a regional trade accord. Countries with small markets have much to gain from collective bargaining, since alone they have little leverage in pushing their terms of trade against larger market countries.

The most prominent Latin American example of unilateral trade liberalization has been the case of Chile, which led the region in embracing the free market model, beginning in the mid-1970s. By the 1990s, Chile's tariffs, on the whole, were the lowest in South America, and it has developed a variety of highly competitive export industries, in particular in agro-industry and fishing, in addition to its traditional strength in mineral exports. Although small, Chile's economy is institutionally stable, dynamic, and competitive, which makes it an attractive site for regional investment. This accomplishment is highlighted by the fact that recent financial crises in Mexico, Argentina, and Brazil, have had much less effect in Chile.

The Chilean model, however, is a difficult one for other nations to follow. Early efforts had high social costs and were largely unsuccessful. Even in the 1980s, as reforms began to improve economic growth and stability, the Pinochet regime actively repressedsocial and political resistance through violence. Today it would seem that several factors work against the possibility of aggressive national liberalization programs, such as that of the Fujimori government in Peru. First there is the popularity of democracy across the region, and the increased willingness of regional leaders to protest coups and other anti-democratic measures, as was the case with several Latin American nations' responses to the attempted coups in Paraguay in 1996 and Venezuela in 2002 (while, in the latter case, the U.S. government showed an unsettling enthusiasm for the return of military rule). Democratic practice is better understood, more widely embraced by the public, and more deeply institutionalized in most countries than it has been for decades (although certain attempts to undermine it, like Fujimori's, have in those cases set this process back). Also, despite the Bush administration's guffaw in Venezuela, the United States and other economic powers are less openly favorable and generous to authoritarian regimes, reducing the gains such governments may expect from rapid liberalization.

Current efforts to promote unilateral liberalization face economic challenges as well as political. Chile's reform program predated and outpaced those of its neighbors by several years, making it a celebrated darling of international investors, development banks, and the governments of OECD countries, which sought to promote its example as the Latin American "tiger." A decade or two later, third generation export growth programs face increasingly competitive international markets and a less generous attitude from the OECD countries, which now clearly feel the heat from developing country competition. In her chapter, Carol Wise argues that Chile's should still be considered the most successful liberalization program in the continent, largely due to the state's sophistication and commitment to supporting entrepreneurship, enhanced human capital, and improved dynamism in its export sectors. For its part, Rosales' chapter clearly illustrates Chile's position that, through its regional trade, "…the country is interested in exporting, on a regional level, the conditions of competition and openness that it has attained on a domestic level." For the foreseeable future, however, dramatic unilateral liberalization appears to be an unlikely strategy for other countries to pursue. The increasingly dynamic and pluralist qualities of their democratic systems suggest that they will act under domestic political constraints similar to those of other democracies. Also, compared to Chile in the 1980s, Argentina, Brazil and Mexico have much larger and more diverse economies with powerful manufacturing and agricultural industries, as well as labor groups, capable of resisting most reforms that bring short-term costs with few politically salient reciprocal benefits.

MULTILATERALISM

Over the last twenty years the project of global multilateral trade liberalization, institutionalized principally in the GATT and WTO negotiations, has run upon hard times. The inability of members to reach consensus on various issues, including levels of agricultural protection, intellectual property, and environmental and labor regulations, coupled with increasingly vociferous and organized public resistance, have stymied progress toward broad, multiproduct liberalization. Most governments profess to be ardent supporters of the WTO and multilateral free trade, at least in its ideal form. However, uncertain of their partners' level of commitment and the feasibility of implementation against strong domestic resistance, has led many states to pursue free trade through regional or sectoral trade agreements, in which problems of collective action are easier to overcome.

A multilateralist trade strategy has several advantages.[7] In collective terms, the inclusion of a broad range of goods and a variety of states enables the mobilization of broad domestic and transnational coalitions. Under truly comprehensive, global free trade there would be very few groups with nothing to gain. Multilateralism also benefits from the high-level fanfare generated by its multinational meetings, which helps governments to mobilize political support at home. However, multilateralist trade strategies are also inherently problematic. With so many countries involved, negotiations are difficult to carry out and fraught with complexity. Without effective leadership by powerful countries, and legitimate, institutionalized enforcement of norms—which is extremely difficult among nearly 150 countries—collective action problems such as free-ridership abound. Also, the high public profile of these negotiations stimulates social awareness of the potential consequences of free trade and bolsters domestic and transnational opposition.

Each of our case study countries has participated actively in GATT and WTO negotiations. All of them (but Brazil most aggressively) have opposed measures to expand the WTO agenda to include extra-trade measures such as labor rights and environmental standards, and have pushed for greater attention to the needs of developing countries. In his chapter, Joseph Tulchin highlights the role that Chile played as a legitimate voice and proactive negotiator for the less developed world. Despite their activity regarding these contentious issues, these countries have consistently emphasized their support for the expansion and strengthening of the WTO. Members of regional initiatives such as NAFTA and the Mercosur describe these as intermediate steps toward the broader goal of multilateralism. In their design and operations, these regional (or minilateral) initiatives are intentionally nested within the standards and norms of the WTO, so as to minimize conflict with the global free trade project.

An institutionalist approach suggests that the case study nations, as lesser powers in the international system, benefit disproportionately from multilateral institutions. Institutions such as the WTO not only reduce transaction costs, but provide a more balanced and objective forum for negotiations, constrain the unilateral actions of large powers, and facilitate the organization of coalitions. Less powerful nations can also influence more effectively the norms and values embodied in the international system through institutions than through pressuring powerful states individually. In recent decades, multilateral institutions like the International Monetary Fund and the WTO have supported the internationalization of finance and commerce that has helped to further development in poor countries. Foreign investment, however, does not come easily. Our case study countries have had to make political and economic sacrifices in the form of privatizations, severe fiscal cuts, the creation of administrative and regulatory institutions, and the acceptance of political difficult standards and regulations in a variety of areas. Argentina's protracted negotiations with the IMF in 2002 are just the latest example of the stringency of the demands of the international financial community. On the other hand, as the policy agenda of "globalization" expands to include environmental protection, developing countries around the world have become increasingly sophisticated at demanding reciprocal measures or compensations to offset the costs of these reforms. Multilateral institutions have proven valuable instruments for the negotiation of these compensations, as was evident most recently in the concessions won by developing states—in which Brazil and Chile were deeply involved—at the 2001 Doha Round of the WTO.

A country's trade preferences reflects its strategy for embracing or accommodating the various pressures for liberalization, and the tradeoffs it believes it can obtain for opening its market. The differences among the trade profiles of our case study countries indicate that their strategies for opening to international markets have been affected by political, as much as economic, considerations. It is important to keep in mind, however, that all unilateral, bilateral, and minilateral initiatives of the last two decades have taken place within the context of an increasingly institutionalized GATT/WTO. This global project provides an ideological model, a forum for negotiations, policy and practice standards for fair trade (even if they're not always followed), and most recently a functioning dispute settlement institution. Even the U.S. and Mexico have begun to bypass NAFTA's arbitration process when they are frustrated by its institutional weakness, as occurred most recently over Mexican telecommunications laws. Progress toward global, multiproduct free trade may recently have fallen behind regional or sector-specific trade accords, but the multilateral regime embodied in the WTO still provides the normative and operational framework for international trade discussions.

Chile and Mexico have strove aggressively in recent years to meet the standards and practices of more developed countries. In Chile's case in particular, its good-standing as a member of the WTO is seen to be an important asset. As Tulchin points out in his chapter, Chile's trade regulations and practices meet or exceed the international norm, which along with its institutional stability generates a type of "soft power" that has proved extremely useful in multilateral negotiations. Rosales' case study likewise states that Chile's success at the multilateral level, and its aggressive, forward-thinking approach to expanding trade on all fronts without regard for regional protectionism, improves both its political position and economic competitiveness. Mexico has pushed similarly to achieve broader, more rapid liberalization and at the same time—with much less success, thus far—to strengthen the institutional bases of its free market economy. Mexico's efforts, however, are driven more by its attempts to capitalize on its NAFTA membership and to attract European investment than they are by WTO standards.

Brazil has been extremely active both in the WTO court, as a defendant and plaintiff, and in WTO negotiations as an avid defender of developing countries' interests. Like China and India, at times Brazil has been painted in the U.S. and European media as a protectionist opponent of free trade, or at least an unfair competitor. Brazil has met these criticisms with some indifference, since its actions at the WTO have been quite effective, and the protectionist policies of the European Union and the U.S. seem to be far worse. Also, Brazil's inclusion with China and India emphasizes its global importance and its self-acclaimed role as regional leader, rightly deserving of a permanent seat on the UN Security Council. In his chapter in this volume, Motta Veiga describes how Brazil's distinctive global vision, which is centered on elevating its political power on the global stage, has for decades shaped its approach to trade and economic relations.

Brazil is one of few developing countries with an economy sufficiently diverse and competitive to be involved simultaneously in trade disputes that range from sugar, soybeans, and footwear, to automobiles and steel. Recently it has played a key role in defying the pricing policies of pharmaceutical MNCs, supported by their host governments, on AIDS medications. The fact that it (like India) has an established pharmaceutical industry of its own, capable of producing these products cheaply and efficiently, gives it the ability to be aggressive. Its market size and diversity lend it more political leverage than the other case study countries have, and provide Brazil myriad options for sector and issue linkage. Whereas a strategy of aggressive, sometimes protectionist posturing might bring severe costs for a smaller, more trade dependent economy like Chile's, Brazil perceives it as effective. As President Cardoso declared regarding Brazil's actions in the WTO "…Never in Brazil's history have we fought more or gained as much."[8] Moreover, Brazil's diplomatic corps, renowned for its institutional training and professionalism since before military rule, remains extremely active and influential in the formulation of all international policies, including those concerned with trade. Due to its size, its sense of destiny, and its institutional legacies, the Brazilian government, dominated by its executive branch, tends toward strategic—rather than economic—thinking. Of our case studies, while Chile benefits from quiet compliance with multilateral programs and subtle diplomatic maneuvering, Brazil's trade profile exhibits the most pronounced and contentious multilateral agenda. A more risky strategy, perhaps, but one that Brazil's enormous resources and regional importance allows it to feel it can take.

For the countries of Latin America, the foremost economic prize in the medium term is unhindered access to the huge U.S. and European consumer markets. A multilateral free trade program, once implemented, would provide this (in exchange for the costs of reduced protection for domestic producers). All the case study countries declare support for a comprehensive WTO, especially one that reduces agricultural protections and nontariff barriers in the developed world. Yet the costs to many local industries of rapid, complete internationalization would be severe. Resistance from domestic industrial, agricultural, labor, and other special interests, which has increased naturally under democratization, has further complicated trade liberalization in these Latin American countries, just as it has in the U.S. and Europe. Wise emphasizes that the degree to which these governments are successful at translating export-led growth and economic transformation into broad-based economic benefits, especially for the lower income masses desperate for lower priced goods and economic opportunities of their own, will determine the long-term success (and durability) of their liberalization programs. For all of our case studies except Chile, these governments have found that by following bilateral or minilateral liberalization strategies they can better mitigate, postpone, or direct the costs and benefits, domestic and international, of free trade.

BILATERALISM GEOGRAPHICALLY CONCENTRATED

Theoretically speaking, bilateralism between neighbors has many political-economic advantages. Geographic, cultural, and historical similarities provide a favorable atmosphere for dialogue and partnership, especially considering that Latin America is a relatively peaceful community of nations. Also, free trade between neighbors encourages mutual confidence and trust in political and security terms, and creates diverse opportunities for the spillover of cooperation in several issue areas. Bilateral trade is also simpler for policymakers to consider and for diplomats and economists to negotiate. Whether concentrated or dispersed geographically, bilateral trade agreements allow policymakers the most clear and predictable situations of industrial complementarity and economies of scale. Bilateral negotiations are easier to start, less costly, and usually less complicated politically than are mini- or multilateral negotiations.

The disadvantages of bilateralism include the possibility of significant trade diversion, since efficiency gains are generally lower than they would be under minilateral or multilateral free trade. Also, when a country signs several different bilateral agreements with various partners, the different tariff levels, exceptions, deadlines, standards, etc. can lead to confusion and overall inefficiency. As Salazar-Xirinachs discusses in his chapter, the potential for developing a "spaghetti bowl" of multiple, overlapping trade accords is a common criticism of current trends in hemispheric trade. Moreover, the specific terms and conditions of each bilateral agreement compromise to some degree the member countries' participation in broader free trade projects, where they are unlikely to be able to secure such detailed, sensitive treatment. Finally, bilateralism can be a poor option for smaller nations because it forces them to negotiate one-on-one with larger nations from a disadvantaged position, since smaller country producers stand to gain more from access to large markets than do large country consumers or producers from access to the smaller market. For example, Chile has been pursuing a free trade agreement with the United States since the early 1990s. This delay is due not to any concern with Chile's credentials, or lack of effort, but because free trade with Chile is such a minute issue in the U.S. that it easily gets lost within the complex, competitive arena of domestic politics. Also, the potential effects of U.S.-Chilean free trade are so concentrated on tiny agricultural industries, that these small lobbies can prevail against lukewarm general support for the measure.

As Table 2 indicates, bilateral trade accords between two neighboring nations are uncommon in Latin America. When they have occurred, as between Chile and its neighbors or between Argentina and Brazil in the mid-1980s, they were typically part of a larger program of political and security cooperation. These broad political and military gains in the form of improved mutual confidence and security far outweighed their economic benefits, at least in the short term.

In Chile's case, its bilateral economic complementation agreements with the various member countries of the Andean Group, and its associate membership in Mercosur, reflect its preference for flexibility instead of full membership in subregional pacts that would tie it to relatively protectionist, economically less competitive countries. Following its unilateral liberalization efforts in the 1980s, bilateral trade agreements have been advantageous for Chile since they entail either access to larger markets or the pressuring of regional neighbors to match Chile's lower tariff levels. Chile's stable and fast-growing economy and its increasing consumer market give it leverage over its poorer Andean neighbors, while the competitiveness of its exports and international corporations serves it well in the much larger Argentine and Brazilian markets. Chile's bilateral agreements with Mexico and Canada, and its current negotiations with the U.S., are means of access to the NAFTA market, and represent in our framework an overlap between regional dispersed bilateralism and transregionalism.

Our other case study nations are full members of regional trade blocs. In the case of Mercosur, Argentina and Brazil have emphasized the need for the group to negotiate free trade with nonmember countries, or with other trade blocs, in a collective fashion. As long as this commitment holds, this precludes broader bilateral agreements between Mercosur members and nonmembers. Collective negotiations have proved difficult, especially in the case of Mercosur's negotiations with the Andean Group. Nevertheless, negotiating from a single consolidated position is likely to yield a more advantageous outcome than could be obtained by any one member negotiating alone. This is particularly important as Mercosur continues its transregional free trade negotiations with the European Union, with NAFTA members, and within the Free Trade Area of the Americas project.

The value of geographically concentrated trade in Latin America, whether bilateral or minilateral in form, is fundamentally limited. Compared to the complementarity seen in trade between the U.S. and Mexico (the sort of free trade envisioned in classic economic trade models, between two nations with abundance in two different factors of production), trade among less developed economies offers limited opportunities for mutual gains. Trade among similar Latin American economies often heightens competition in primary goods, driving down profits. It does little to increase technology or productivity, since competition among manufacturing or technology-based firms remains meager; in fact in most cases it simply invites broadened monopolies. With low complementarity, free trade among similar economies brings few efficiency gains for the region as a whole. Trade within the Andean Pact, for instance, or the Caribbean Community, has never become a significant source of members' economic growth.

BILATERALISM GEOGRAPHICALLY DISPERSED

Two of the case studies—Chile and Mexico—have engaged widely in geographically diffuse bilateralism. Similar to geographically concentrated bilateralism, negotiating on their own allows these governments tactical flexibility in setting the terms, conditions, and schedule of tariff reduction. Both countries are in advanced stages of economic liberalization, Chile as a result of its unilateral reforms and development, and Mexico from its unilateral efforts and its NAFTA-driven transition process. Many of these agreements have been with larger and more successful exporting countries, or even with giants like the European Union (Mexico), Canada (both), Japan (both in process) or the U.S. (Chile in process). These bilateral agreements provide improved access to the world's most lucrative markets and they open these economies to the world's fiercest competition. However, Chile and Mexico engage in these agreements with somewhat different strategic motivations.

Since the establishment of NAFTA, Mexico has strategically positioned itself as the hub in a "hub and spokes" strategy of multilateral trade.[9] Membership in the world's second largest free trade market makes it an extremely attractive partner to countries around the world, and bilateral negotiations present less of the tricky social and nontariff issues required in direct negotiations with Canada or the U.S. Mexico has signed or is negotiating a host of free trade agreements with countries in South America, the European Union, and Asia. In addition to increased trade, Mexico's position as a gateway to NAFTA has attracted billions in foreign direct investment. However, as the case study chapter by Ortiz explains, Mexico's aggressive transregional bilateralist program reflects both a strategic advantage—its NAFTA membership—and a defensive maneuver. Since joining NAFTA, Mexico's trade profile has become increasingly dominated by trade with the U.S., and much of its growth in trade has been by way of diversion from countries in Asia or other regions, due largely to NAFTA's hefty and complicated set of rules of origin. While Mexico is less powerless, and more proactive, in accepting and responding to these circumstances than many critics suggest, such overwhelming dependence on trade with and investment from the U.S. causes serious concern. Free trade with Europe, Japan, and with Latin American countries is intended to mitigate this trade diversion and other effects of increased interdependence with the United States.

Chile, already deeply committed to a high degree of economic liberalization and export-led growth, has little to lose and much to gain from free trade with as many and as varied a set of partners as possible. Rosales emphasizes that by increasing its trade with Asia, the European Union, and with its subregional neighbors (especially the Mercosur countries) as well as with the U.S., Chile has avoided dependence on any one or two foreign markets. As in the Mexican case, however, there are certain political costs to negotiating or signing onto free trade agreements at the terms of larger, more developed countries. For Chile, however, having already suffered through the severe short- and medium-term effects of economic dislocation, and with a range of highly competitive export industries, these political costs are borne more easily. In fact, Chile's success at maintaining relatively stable growth during the 1990s has allowed it to make progress in social investment, including its education, health, and pensions systems.

MINILATERALISM GEOGRAPHICALLY CONCENTRATED

Regional trade agreements have proliferated worldwide since the 1960s, a reflection of the tactical and political advantages of these groupings. Similar to bilateralism, cultural, historical, or institutional similarities can promote feelings of regional community and facilitate the compromises required in reaching agreements. Likewise, regional free trade is often concomitant with collaboration in security or political issues as well, and takes place within a broader regime of interdependence, which enhances the incentives for success. In negotiations, it is relatively easy for like-minded countries to agree on norms and rules, and the potential industrial complementarities and economies of scale are more clear and predictable at the regional—rather than the transregional or global—level. Also, it is often easier to resolve collective action problems at the minilateral level, since the grouping is small and governments are more familiar with one another, and because the power balance is more clearly understood. On the other hand, minilateral trade, like bilateral trade, can lead to trade diversion and regionally specific norms, rules, or procedures that complicate progress toward free trade on a larger scale.

In recent decades the rise of minilateralism, in the form of subregional trade agreements, has been the most pronounced trend in Western Hemispheric trade relations. Although defined as projects for economic liberalization and integration, many of these agreements—

including NAFTA and Mercosur—were established largely with improved regional security and political relations in mind. Several early subregional projects were influenced by dependency theory. The work of Raúl Prebisch and others promoted the creation of protected regional markets in order to nurture local industrialization and reduce dependency on imports from the U.S. and Europe. With the severe debt crises of the 1980s and the failure of import-substitution-industrialization policies, dependency theories and their radically protectionist prescriptions were widely discredited (if not virtually banned by international creditors, the IMF, and the U.S. Treasury). With the rise of the "Washington consensus" in the 1980s, the rationale for these subregional groups shifted to emphasize their utility as frameworks for gradual free market reform. The question whether such regionalism is a help or hindrance to the broader goal of nondescriminatory, multilateral free trade is still up for debate.

In its creation in 1994, NAFTA institutionalized and formalized free trade measures among countries that already shared porous borders and massive trade flows. To some extent, Mexico's membership was an acceptance of the inevitable deepening of its ties—particularly in economic and security affairs—with the U.S., which had always been dense but were rapidly increasing. Costs to Mexico include a degree of trade diversion, the constraints on its foreign and domestic political autonomy that come with deeper interdependence with the U.S., and the distance this special relationship with the U.S. created between it and its traditional Latin American partners. To some degree these costs can be mitigated through Mexico's aggressive pursuit of bilateral and transregional trade relations, although the long-term prospects for this attempt at "balancing" are uncertain at best.

These economic and political costs for Mexico of NAFTA membership are balanced by the gains accrued from the growing importance of its partnership with the global superpower. In terms of both its economic welfare and its national security, the United States now has a clear stake in the improvement and stability of Mexico's economy and political system. This new significance was evident almost immediately, in 1995, in the $40 billion rescue package patched together by the Clinton administration following the devaluation of the peso. Since taking office, the Fox administration has proactively engaged the U.S. on several key issues, including border control and a more reasonable migration policy, and economic development. Just as importantly, the rise of cross-border transactions among individuals, firms, and local state agencies have improved the institutionalization of negotiations and dispute settlements, generating dense networks of cooperation at several levels.

Mercosur is the world's largest and most successful example of a regional free trade bloc among countries of the South. Mercosur grew out of a set of bilateral agreements, signed in the second half of the 1980s, which were intended to alleviate political and security tensions between Brazil and Argentina, and to bolster support for these countries' fledgling democratic governments. This bilateralism, once in place, expanded into subregional cooperation in a variety of areas, including the dramatic improvement of security relations. The explosion of intra-Mercosur trade in the early 1990s largely reflected the extraordinary lack of subregional trade up until that point. Throughout the 1990s, Mercosur was an important international complement to, and instrument of, the liberalization programs of its member countries. However, apart from Mercosur's economic benefits, it always held political and strategic importance, especially for Brazil.

Despite its title as a common market initiative (an objective now clearly in dispute, following Argentina's prolonged crisis), the Mercosur project has been more effective at reducing security tensions, bolstering democracy, and enhancing the international political and economic profile of the Southern Cone than it has had at increasing regional trade and growth.[10] As noted before, the massive regional increase in foreign investment and economic growth over the 1990s had more to do with these country's domestic reform programs, and the overall health of the global economy, than with effects directly accountable to Mercosur. As international conditions have worsened since the East Asian financial crisis in 1997-98, and with the collapse of Argentina's economy at the end of 2001, Mercosur is under severe strain. Considering its various economic, political, and social benefits, however, over the period of its existence Mercosur has had an overwhelmingly positive impact on its members.

Mercosur's economic pattern is principally that smaller members gain access to Brazil's enormous consumer market, especially for their agricultural and low-level manufacturing exports, while opening their markets to Brazil's advanced manufactures and capital goods. Several regional industries have gained in efficiency from the possibility of establishing cross-border production and distribution networks. In terms of export balance, the smaller members have generally gained disproportionately, at least until the devaluation of the Real in 1999. It is important to point out, however, that with the exception of Paraguay and Uruguay intraregional trade remains a relatively insignificant portion of these countries' portfolios, which remain as they have always been dominated by trade with the U.S. and Europe. Mercosur has not changed that, with intraregional trade topping off at 23 percent of the member countries' total trade, in 1998 (a South American Free Trade Area, if it were to exist, also would not alter this pattern).

As Motta Veiga emphasizes, the value of Mercosur for Brazil is political and strategic as much as economic. If Mercosur can organize itself to negotiate collectively in trade negotiations vis-à-vis the European Union and within the FTAA process, its members stand a better chance of achieving more favorable terms, such as flexible scheduling for tariff reduction, regulatory leniency, and support for social and economic programs that assist less competitive industries and groups affected by economic transition. Leadership in Mercosur, and in various South American political and economic initiatives, is also an important card in Brazil's bid to enhance its power and legitimacy in global affairs, including its campaign for a permanent seat on the UN Security Council. According to Motta Veiga, Brazil's behavior within Mercosur, and it its leadership of the bloc in its negotiations with the EU and other transregional partners, can not be understood without considering its larger national political agenda.

Argentina originally valued Mercosur for the subregional security, democratic and peaceful norms it represented, as well as for the access it gave to the Brazilian market. During the 1990s Argentina gradually came to terms with its growing dependence on the massive Brazilian economy and the added political leverage this gave Brazil in regional affairs. However, this asymmetry grew more difficult to accept—especially for the irascible Cavallo former Minister of the Economy—as the country slogged through a prolonged recession. With Brazil's devaluation in 1999, and its reluctance to abandon protectionist sectoral policies, its regional partners began to complain openly about its shortcomings as a regional hegemon, which by definition should voluntarily bear a greater share of the burden of regional partnership. Calls for deeper institutionalization of Mercosur, including for multinational, autonomous decisionmaking, and a supranational dispute settlement mechanism, achieved little. Brazil was reluctant to agree to any collaborative measures that may impinge on its sovereignty, and the creation of a supranational bureaucracy (which was still likely to be dominated by Brazilian interests) faced domestic opposition in all member states. Brazil's image and capacity as a regional leader will be sorely tested by the challenges of assisting Argentina through its current troubles. Certainly the stabilization of the peso at a lower value will improve macroeconomic conditions for cooperation. However, a review of events in 1995-97, a previous period of stability and growth, when Mercosur failed to broaden state collaboration and to institutionalize, does not inspire confidence. A stronger, more effective Mercosur demands political commitment and leadership. Brazil's election cycle, and the fact that it also faces a threat of economic stability, makes such leadership unlikely at least in the coming years.

Transregionalism — Minilateralism Geographically Dispersed

The FTAA project, which would combine the various subregions of the Americas, is the most important current example of transregionalism in the Americas. All 34 participants have incentive to succeed, either to increase their exports to the enormous North American market or, for NAFTA members, to gain access and fair treatment in the growing Latin American markets. However, the project has encountered problems of collective action. Within a group that ranges from Caribbean microstates, to impoverished states like Haiti, Honduras, and Bolivia, to OPEC members Venezuela and Mexico, to mammoth Brazil and the U.S., collective action dilemmas should be expected. Governments find it difficult to commit to painful reforms with uncertain outcomes, trusting that most of the other nations of the hemisphere will do roughly the same. Even if most governments showed the political will to agree to the wide-ranging objectives of the project, mobilizing the resources and institutional capacity needed to implement lower tariffs (which reduce state income), and a host of new regulations and standard practices would be a tremendous challenge. Most importantly, there is a prevailing attitude of skepticism about the United States' commitment to further trade liberalization, based on its long-standing protectionism in certain sectors and its appetite for antidumping cases. An implementable FTAA, one with reduced sectoral protectionism across the board and with realistic, reasonable measures to reduce nontariff barriers based on health, labor, or environmental standards, would be the optimal framework for hemispheric economic growth. Yet the hemisphere's array of dynamic democracies—which allowed the FTAA its initial impetus—may prove too complex an environment for the wide-ranging consensus demanded by the project in its current form.

Transregionalism has emerged over the last decade as a popular strategy, one that complements more concentrated, regional minilateralism. As a half-step between minilateralism and global multilateralism, transregionalism has the advantages of more focused negotiations, while significantly increasing and diversifying the aggregate market. For all of our case study countries, transregional free trade has the principal value of adding balance and diversity to a nation's or to an economic group's trade profile. Rosales suggests that Chile's free trade ties across the Pacific Ocean, and with Europe, offer much broader returns than focusing on hemispheric relations. For Mexico, membership in the Asia Pacific Economic Cooperation (APEC) and a free trade agreement with the European Union invites extraregional investment and reduces Mexico's dependence on the U.S. Mercosur's ongoing negotiations with the EU follow the same logic. Why should the establishment of hemispheric trade, dominated by the U.S., receive so much attention at the expense of consolidating historical trade and cultural partnerships in Europe? Although a free trade agreement with Europe does nothing to preclude the subsequent creation of free trade with the U.S. or within the FTAA, it would certainly be of advantage to European firms and investors. It would also increase the political and economic leverage of Latin American countries in FTAA negotiations.

It is far from assured, however, that achieving a trade agreement that meets the goals of Mercosur negotiators will be any easier in Europe than within the FTAA. To satisfy Southern Cone exporters, European leaders would have to overcome opposition from powerful domestic opponents of open markets, most specifically the French-supported protectionist agricultural regime. Despite the apparent progress made at the Doha round of WTO talks in 2001, protectionism by developed countries in key industries such as agriculture and textiles is not likely to disappear any time soon.

Chile and Mexico (along with Peru) are members of APEC. However, with the lack of institutionalization and the decreased demand in Asia for Latin American exports since the 1997 crisis, membership in APEC has not produced important benefits other than encouraging trade and investment with Asian countries. The example of APEC, which with its dramatically large and diverse membership has failed to institutionalize coordination on various issues and policies, may prove instructive for negotiators and observers of the FTAA initiative.[11]

The fact that none of the authors of our case studies spends much space outlining prospects or arguing the importance of expanded transregionalism (though Rosales mentions these negotiations as important) can be interpreted to mean that thus far, formal transregional agreements have proved either of too little benefit, or too difficult to establish, for our case study countries to engage in them more fully. Certainly the former is not the case. Every country in Latin America depends to a large degree on trade and investment relations with developed countries in North America, Europe, and/or Asia. The difficulty of negotiating these agreements, however, lies largely outside of the power of these countries to overcome. Until and unless the developed countries abandon their traditional protectionism in various key industries, more formalized free trade would come largely at the expense of Latin American producers. As is the case with global multilateralism embodied in the struggling WTO, it is these failures on the part of developed countries to live up to their commitments of free trade that drives the continued interest in Latin America for various regional projects. Regionalism may be a far inferior alternative to the ideal of free trade with the U.S. or Europe, but it may be the best option currently available, in both economic and political terms.

IV. TRADE PREFERENCES AND NATIONAL STRATEGIES

The following table summarizes the economic and political tradeoffs entailed in various trade strategies. With these in mind, we can consider the individual trade preferences of Argentina, Brazil, Chile, and Mexico over the last decade.

Table 3: Advantages and disadvantages associated with various trade strategies

	Unilateralism	Bilateralism	Minilateralism	Multilateralism
Economic	Maximum individual efficiency, but can disadvantage local industries without reciprocity	Risk of trade diversion; relatively clear assessment of costs and gains; flexible terms	Wider economies of scale; risk of trade diversion; less flexibility	Maximum global efficiency
Political	Flexibility, but minimum political leverage	Improves security and cooperation among neighbors; most easily established; strongly favors larger member	Improves regional security and cooperation; small group can overcome collective action problems; favors larger members	Collective action problems, and complexity of achieving success among diverse members; coalition-building dominant strategy

We have characterized the trade profiles of our case study countries as follows:

- Argentina: *regional partner*, focused at the minilateral (concentrated) level, with transregionalism pursued through collective regional activity
- Brazil: *regional leader*, focused at the minilateral (concentrated) level, with transregionalism pursued through collective regional activity; also extremely active at the multilateral level
- Chile: *multilateral trader*, including unilateral liberalization and agreements at the bilateral (geographically dispersed) and multilateral level
- Mexico: *hub market*, including bilateral, minilateral (concentrated, dominated by U.S. hegemony), and transregional trade agreements

A comparison of these trade profiles to the political-economic tradeoffs presented in Table 3 helps us piece together these nations' trade preferences, and patterns among their preferences. At least for the time being, Argentina and Brazil have centered their foreign economic policies around the enterprise of regional integration and political solidarity. The economic benefits of Mercosur have been significant, but alone they are insufficient to justify these commitments if Mercosur comes to be viewed as an obstacle to broader free trade, or to more far-reaching political goals. As the chapter by Alcides Costa Vaz makes clear, enhanced economic interdependence paid off handsomely when Argentina's and Brazil's macroeconomic cycles were in sync, in particular between 1994 and 1997, but their difference in monetary regimes and lack of economic policy coordination has proven costly. Politically, Argentina gains significant bargaining power as a member of Mercosur, which is especially important considering that President Menem's several overtures of stratagic partnership with the U.S. fell on deaf ears in Washington. However, the costs and benefits of its economic partnership are unclear, as many of its more developed industries have suffered at the hands of Brazilian competition, especially since the Brazilian devaluation in 1999.

Mercosur has fallen far short of establishing a common regional market, and trade among its members even declined in the late 1990s. Since then, with Argentina's financial collapse and the resulting contagion affecting Uruguay and Brazil, prospects for Mercosur appear even bleaker, at least in the short-term. The chapter by Roberto Bouzas assesses in detail Argentina's continued minilateral regional strategy, which reflects a combination of strategic ambivalence toward liberalization, and an incapacity for coherent policymaking due to the complicated domestic political situation under presidents Menem and de la Rua. Fixing the peso to the U.S. dollar was a powerful gesture of commitment to stability; however, the government was unable to implement domestic fiscal and institutional reforms required to fulfill that commitment. Bouzas emphasizes the complexity of Argentina's external relations, both with a Brazil that faces similar domestic uncertainties, within a region undergoing rapid change, and in a global environment radically different from that of 1990. Less than a strategy, perhaps, Argentine leaders negotiated the establishment of Mercosur, its evolution, and other trade matters in a somewhat ad hoc fashion, pushed by short-term economic and domestic political demands. For Argentina, Mercosur seemed to offer a more hospitable climate for liberalization than entering highly competitive global markets. Also, from a strategic viewpoint, regional integration and cooperation still offer the country its best platform for the expansion of free trade within the Americas or with Europe. Since Brazil has often acted as a largely unpredictable and slow-moving partner, however, Argentina may yet reconsider its bilateral options. At present, suffering under financial collapse, the country is unable to think beyond its short-term needs. Nevertheless, if as it emerges from these difficult times Mercosur membership comes to appear more as a hindrance than a source of assistance, Argentina's trade preferences could see a dramatic revision. Argentina is unlikely to abandon Mercosur, considering the success of the project in several areas, but it may resist its more restrictive aspects. On the other hand, Brazil could come to play a significant role in helping Argentina's recovery, and the devalued peso (along with a devalued Uruguayan peso) will reduce significantly the gap in competitiveness that had plagued the regional community. As Bouzas suggests, Argentina's future trade preferences, and therefore its strategy, will likely depend on what leader, or coalition, emerges to pull it out of its current woes and reestablish its economic footing.

Brazil, massive and growing, has gained prestige by adding regional political leadership to its position as the economic engine of South America. Increased political coordination—manifest most importantly in Mercosur's free trade negotiations, as a bloc, with the European Union and the FTAA—yield the benefit of enhanced international legitimacy and bargaining power. Also, Brazil thus far has managed to expand its trade and to strengthen and diversify its economy while protecting some of its key sectors, including the sugar and auto industries, from the effects of rapid liberalization. Brazil's trade has been dramatically liberalized. However, using the advantages of being a regional hegemon in a minilateral strategy, and as Argentina's financial troubles and institutional impediments weakened its competitiveness, Brazil has maintained control over the pace and form of its liberalization.

Regionally, Brazil's use of its hegemonic position and its gradual, state-controlled dance with liberalization reflect neomercantilist considerations, especially within its largely insulated foreign ministry. The country's political agenda is particularly pronounced at the multilateral level, where Brazil has exerted significant effort in several international organizations. Brazil's global political pretensions, including its campaign for a permanent seat on the U.N. Security Council, its activism as a leader of the developing world, and its proactive use of WTO dispute procedures set it apart from the other case study countries. Mercosur's future may hinge on Brazil's ability and willingness to assist Argentina and its other neighbors through the current crisis. If Mercosur weakens further, Brazil's strategy of leading a South American bloc in FTAA negotiations will be dealt a severe blow. Until now, however, Brazil's hedging strategy has served its interests relatively well.[12] It remains uncommitted to deeper institutionalization of Mercosur, has successfully resisted an FTAA based on a NAFTA model or on piecemeal negotiations with the U.S., and it maintains significant political autonomy, all while still claiming several efficiency benefits from gradual liberalization. The generosity the IMF showed Brazil in August 2001, while loans for Argentina were curtailed, reinforces the view that Brazil is perceived to be different from its neighbors. Like Mexico, which has embraced interdependence with the U.S., Brazil appears to have attained the privileged status of a country that the international financial system cannot afford to allow to fail. And this with far less of the political and economic constraints imposed by a formalized regional agreement, such as NAFTA.

With its unilateral liberalization and broad bilateralism, Chile pursues a high level of export growth and competitiveness without committing itself to the rules and standards of minilateral regionalism. Chile's successful liberalization program, active state-led development, and the stability of its political institutions have earned it the reputation as South America's most stable and well-governed economy, making it an attractive trading partner. The cost of its unilateralist strategy is that, as a small country negotiating trade pacts on its own, Chile has little market leverage vis-à-vis the U.S., Japan, or Brazil, and can do little to resist their terms of agreement. Since today most Chilean industries are relatively competitive, this cost is more manageable for Chile than it would be for Brazil, for example. However, Chile's experience regarding accession to NAFTA membership, for which it has had to wait for almost a decade now, despite its competitiveness and willingness to meet the conditions of the pact, illustrate these costs.

During the last decade Chile's trade preferences have centered around economic more than political objectives. Its strategic outlook, and its agenda of export-led growth and legitimization as a rule-follower rather than as a challenger of the system, reflect the ideological dominance of the free market model, as well as a keen awareness of its options as a smaller country. From 1990 to 1997, when a strong U.S. economy and relative stability in regional markets boosted economic growth and investment throughout South America, Chile fared well. Also, as Tulchin highlights in his chapter, Chile recently played a central role in negotiations at the Doha Round of the WTO, and appears to have attained a position of importance far beyond that which would be expected from a realist's calculation of its economic and political capacity. However, if the global economy enters a period of slowdown, heightened competition, and protectionist entrenchment, and if trade agreements must be negotiated one-by-one, in painstaking fashion, Chile's go-it-alone strategy may leave it vulnerable to marginalization and various forms of discrimination, both from the large markets of the North and its regional neighbors.

The tradeoffs of Mexico's hub market strategy—based on its NAFTA membership—are rapid, more stable economic growth for reduced political autonomy. Deeper interdependence with the United States does not completely eliminate instability, especially in the case of a slowdown or shocks in the U.S. economy. However, these tighter relations guarantee U.S. assistance and support in times of crisis, because trouble in Mexico will generate significant costs for the U.S. If NAFTA is deepened to include some redistributary and economic development policies, along the model of the EU, the advantages of membership could be much improved, arguably for the U.S. and Canada as well.[13] On the other hand, any additional involvement of U.S. funds or expertise in Mexican development also increases U.S. leverage in Mexican internal affairs, through a wider variety of economic and social policies (although military action is virtually unthinkable). As Ortiz argues, Mexico's entry to NAFTA can be viewed as a pragmatic, but quite visionary, proactive decision to manage the inevitable tightening of its relations with the U.S. The ever-increasing numbers of Mexican immigrants and American citizens of Mexican background, and the boost this gives to cross-border business, tourism, and social and cultural exchanges—with NAFTA just a tool for formalizing and managing this inevitable trend—means that Mexico is likely to continue to have trade and strategic preferences markedly different from our other case studies. Within this context of Mexico's special relations with the U.S., its transregional, bilateral hub-market trade profile reflect its optimal strategy for capitalizing on NAFTA membership.

Mexico's trade preferences underwent a radical transformation during the 1980s and 1990s, driven both by ideological shifts among the ruling elite and changes in the international system. In a strategic sense, this change can be regarded as radical in its softening of a long-held conservative concept of state sovereignty necessary to pursue the tangible benefits of economic growth, development, and the pressures that NAFTA brings for modernized governance. The country's—at least the government's—dramatic transition from avid anti-Americanism to President Fox's innovative, proactive enthusiasm for cooperation requires explanation on several levels. Regarding trade relations specifically, Mexico's revised preferences and strategy are related to the rise of commitment to liberal trade theory (mostly through the ascension to office of a generation of technocratic leadership), ambivalence regarding multilateral institutionalism (as highlighted by Ortiz), and a competitive strategy of capitalizing on its unique position vis-à-vis other developing nations.[14] Over the long term, the evolving political nature of its NAFTA partnership, and the effects of its deepening interdependence with the U.S., will be as important as its economic gains in shaping Mexico's future.

V. CONCLUSION

This chapter argues that analysis along any single axis—be it economic or political interests—cannot explain the growing diversity among the recent trade strategies of these four Latin American countries. An assessment of the long-term political calculations, including the tradeoffs inherent in pursuing either multilateral, minilateral, and unilateral arrangements, and the recognition that these states do not share a common vision regarding their potential roles within the international system, reveal the various preferences that underlie these strategies. Our focus on trade preferences, derived from an analysis of economic and political bargaining, is useful in categorizing these strategies and in suggesting the objectives and risks they entail.

This analysis gives rise to two questions to which the concept of trade preferences and the strategic framework that we have presented could be usefully applied. First, what factors and processes influence a country's trade preferences? How much are they—and the divergence among them—the result of distinct strategic perceptions among top-level policymakers, or how much are they driven by subnational interests and institutions? The authors in this volume take up several of these questions in their chapters. The influence of domestic constraints, actors, and shifting coalitions is the focus of the analysis by Sylvia Maxfield, who assesses the role of business groups, and Carol Wise, who analyzes various countries' state-led export programs. These chapters point to several fruitful avenues for further investigation. A related question is to what extent can we generalize from these four cases to test, for instance, a hypothesis that a specific institutional trait or traits within a government or its foreign or trade ministry shape its liberalization in a specific way? What role do regional relations and integration play in this process? Each of these questions demands further exploration.

A second interesting area of further inquiry is how much the examination of these four cases reveals patterns of preference or behavior that can be generalizable to other developing countries in other parts of the world? Do transition economies or young democracies tend to act differently from more developed countries, for whom the domestic costs of trade liberalization are less severe (although certainly severe enough for certain groups, such as farmers)? Are foreign policymaking dynamics and decisionmaking best analyzed along geographical lines—based on the idea that geographically proximate countries share common cultural, historical, and/or institutional characteristics that shape their behavior—or along other lines of distinction such as size or degree of economic development? These four countries were selected partly to control for the effects of dramatic differences in economic development levels, or trade industries. To compare Brazil, or even Chile, against a much smaller and less developed economy such as Ecuador would be problematic. However, smaller countries likewise face a range of alternatives in their trade relations, and have political and strategic goals in addition to economic growth. Therefore the application of this type of analysis to those cases could be useful as well.

These important questions are beyond the purview of this introductory chapter. We hope, however, that this analysis and the others in this volume represent a step toward an improved understanding not only of current trends in Western Hemispheric trade and trade policy formulation, but of the tradeoffs and preferences that lie behind international trade strategies in general.

Aggarwal, Vinod K., (1994) “Comparing Regional Cooperation Efforts in the Asia-Pacific and North America” in A. Mack and John Ravenhill, eds., *Regimes in the Asia-Pacific Region* (Sydney: Allen & Unwin).

______ (2001) “Economics: International Trade,” in P.J. Simmons and Chantal de Jonge Oudraat, eds., *Managing a Globalizing World: Lessons Learned Across Sectors* (Washington, D.C.: The Carnegie Endowment for International Peace).

______ and Kun Chin Lin (2002) “Strategy Without Vision: The U.S. and Asia-Pacific Economic Cooperation,” in Jürgen Rüland, Eva Manske, and Werner Draguhn, eds., *APEC: The First Decade* (London: Curzon Press), pp. 91-122.

______ and John Ravenhill (2001) “How Open Sectoral Agreements Undermine the WTO,” (co-author), *Asia Pacific Issues*, No. 50, February.

Cameron, Maxwell, and Vinod K. Aggarwal (1996) “Mexican Meltdown: States, Markets, and post-NAFTA Financial Turmoil” *Third World Quarterly*, vol. 17, no. 5.

Centeno, Miguel (1997) *Democracy within Reason: Technocratic Revolution in Mexico* (Pennsylvania State University Press).

Fawcett, Louise, and Andrew Hurrell, eds. (1995) *Regionalism in World Politics: Regional Organization and International Order* (New York: Oxford University Press).

Feinberg, Richard (2000) *Comparative Regional Integration: APEC and the FTAA*, forthcoming.

_______, (1997) *Summitry in the Americas: A Progress Report* (Washington, D.C.: Institute for International Economics).

Gereffi, Gary and Donald L. Wyman, eds. (1990) *Manufacturing Miracles: Paths of Industrialization in Latin America and East Asia* (Princeton: Princeton University Press).

Grinspun, Ricardo and Maxwell Cameron, eds. (1993) *The Political Economy of North American Free Trade* (Montreal: McGill-Queen’s University Press).

Hufbauer, Gary Clyde and Jeffrey J. Schott (1993) *NAFTA: An Assessment* (Washington, D.C.: Institute for International Economics).

Mansfield, Edward D. and Helen V. Milner, eds. (1997) *The Political Economy of Regionalism* (New York: Columbia University Press).

Jatar, Ana Julia, and Sidney Weintraub, eds. (1997) *Integrating the Hemisphere: Perspectives from Latin America and the Caribbean* (Washington, D.C.: Inter-American Dialogue).

Keohane, Robert O. and Helen Milner, eds. (1996) *Internationalization and Domestic Politics* (Cambridge: Cambridge University Press).

Mansfield, Edward D. and Helen V. Milner, eds. (1997) *The Political Economy of Regionalism* (New York: Columbia University Press).

Pastor, Robert A. (2001) *Toward a North American Community: Lessons from the Old World for the New* (Washington, D.C.: Institute for International Economics).

Putnam, Robert D. (1988) "Diplomacy and Domestic Politics: The Logic of Two-Level Games" *International Organization* 42, (Summer 1988) pp. 427-460.

Ravenhill, John (2002) *APEC and the Construction of Pacific Rim Regionalism* (New York: Cambridge University Press).

Smith, Peter H. (1996) *Talons of the Eagle: Dynamics of U.S.-Latin American Relations* (New York: Oxford University Press).

Tulchin, Joseph S. and Ralph Espach (2001) *Latin America in the New International System* (Boulder: Lynne Rienner Press).

_______, ed. (2002) *Mercosur at a Crossroads* (Woodrow Wilson Center Press).

_______ and Heraldo Muñoz, eds. (1996) *Latin American Nations in World Politics* (Boulder, CO: Westview Press).

Wise, Carol, ed. (1998) *The Post-NAFTA Political Economy: Mexico and the Western Hemisphere* (University Park, PA: Pennsylvania State University Press).

Notes

[1] See Tulchin and Espach (2000).

[2] It is worth noting that this category is quite subjective, since simple distance is hardly only the relevant factor in defining a "geographic region." But despite conceptual difficulties, we find this to be a useful category.

[3] This table was first developed in Aggarwal (2001).

[4] Other examples include the Basic Telecom Agreement (BTA), or recent Financial Services Agreement (FSA). For a discussion of these agreements, see Aggarwal (2001) and Aggarwal and Ravenhill (2001). Examples of multilateral protectionist sectoral agreements include the Multifiber Arrrangement in textiles and apparel.

[5] As should be clear from the table, however, Cells 2, 4, and 8 are also forms of "regionalism", although theoretically they may have quite different political-economic implications.

[6] Note that the definition of what constitutes a "region" is to a large extent subjective.

[7] See Aggarwal and Lin (2002) for a general discussion of the costs and benefits of different approaches to trade liberalization.

[8] *Estado de São Paulo*, February 7, 2002.

[9] See Smith 1995, and Ortiz's chapter for the unfolding implications of this position.

[10] For a variety of viewpoints on the importance of Mercosur and its future development, see Tulchin 2002.

[11] See Feinberg (2000), Aggarwal (1994), and Ravenhill (2002).

[12] For a discussion of Brazilian "risk-hedging" within Mercosur, see Cândia Veiga (2002).

[13] See Pastor (2002).

[14] Regarding the rise of technocratic leadership, see Centeno 1996.