trade in services and govenrment procurement. It is, therefore, unlikely that Brazil would want to negotiate a comprehensive bilateral agreement between MERCOSUR and a competitive developed country such as the U.S. or Canada - at least into the foreseeable future.

MERCOSUR accession to the NAFTA represents a third option. This approach would make the most substantive sense in terms of trade policy principles and market realities, given the more comprehensive nature of the NAFTA and its market size. From an economics point of view, this marriage would represent the first-best solution. MERCOSUR's accession to the NAFTA would also ensure a better result overall for Canada than attempting to negotiate a bilateral agreement, and would avoid the complications always posed by a root-and-branch reconstruction exercise involving Canada-U.S. economic relations, such as that envisaged in the first option outlined above.[31]

The central difficulty with this approach, however, is Brazil's continuing lack of readiness and/or willingness to engage. Two concerns seem to underpin this hesitation. First, Brazil does not yet enjoy the kind of domestic economic policy coherence indirectly required for a country to be comfortable with adhering to a high quality agreement such as the NAFTA. Brazil's fiscal and monetary track record, despite recent valuable efforts by President Cardoso and his Administration, remains spotty and the direction of its trade policy, while more liberal than previously, is still uncertain. The lack of a straight-forward majority in Congress to support Cordoso's reform efforts and constitutional barriers to coherent economic policy complicate matters.[32]

Second, and in keeping with its long-standing self-image as an emerging global power (especially now that "power" is increasingly understood in economic terms), Brazil is also pursuing a vision of MERCOSUR as the hub of a South American free trade agreement (SAFTA) of which it, given market size and population, would be the

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[31] NAFTA's current rules of origin for determining whether a product qualifies for duty-free, preferential movement within such an expanded NAFTA would likely suffice to prevent circumvention of member country A's tariff on imports from non-member countries that enter member country B (with a relatively low external tariff) to be reworked somewhat before shipment to country A (with a higher external tariff in place to protect domestic production).

[32] For a description of the tensions underlying Brazilian economic policy-making, see Stephen Wilson, "With or Without You: Argentina, Brazil and NAFTA", Policy Staff Paper No.95/09, Department of Foreign Affairs and International Trade (August 1995).