since the spillover effects from Asia's crisis has proven elusive.[7] Nonetheless, the FTAA Ministerial in Ecuador in No-

[7] While the FTAA would ideally represent a solution to the bouts of instability that Latin America has suffered in the past few decades, there are good grounds to believe that it alone cannot solve a more fundamental issue of trade-finance coherence implicit in the economic geography of the Americas. In financial terms, the Latin American countries are firmly in the orbit of the US dollar. In trade terms, however, they have highly differing orientations, reflecting the geographic and cultural factors that explain trade intensities in gravity models. Latin American countries' trade is oriented in roughly equal measures towards North America, Europe and to other Latin American partners. Mexico is oriented primarily toward the United States, with a much smaller trade link to Europe and only marginal ties with other Latin American countries. Brazil is the opposite, with much stronger trade links to Europe and relatively small and equal links to the United States and other Latin American partners. Argentina is oriented mainly to Europe and other Latin American partners. Chile and Peru, which have growing trans-Pacific links, are the most diversified in terms of their trade patterns. The diversity of trade orientation in the region poses problems in the context of (a) large swings in real exchange rates of the key international currencies (dollar, yen and euro); (b) the revealed proclivity of second-tier currencies to evidence behaviour consistent with multiple equilibria and to negotiate the move between such equilibria (which are often quite distant from one another) with sufficient rapidity to place great adjustment strains on the real economy; and (c) lengthy sustained divergences of currencies from points of equilibrium such as defined by purchasing power parity. There is every potential for exchange rate developments to generate instability in the region with the system of trade acting as the conduit. This is precisely what happened in the late 1990s when, as a result of Brazil's forced devaluation and the euro's post-introduction slide against the US dollar, Argentina's exports to its two main trading partners, Brazil and Europe, faced the equivalent of steep tariff increases while its import-competing industries faced the equivalent of large own-tariff cuts (or alternatively large export subsidies). Given sufficient time, the competitive disadvantage undermined Argentina's economic position and paved the way for its subsequent economic disaster. Since geographic and cultural realities make it unlikely that the FTAA will fundamentally alter the trade orientation of South America, the FTAA offers no solution to this fundamental coherence problem. Nor, incidentally, is dollarization any more of a solution; indeed, it works in the wrong direction since it only intensifies the coherence problems in the event of future exchange rate shifts. For a fuller discussion see Dan Ciuriak, "Trade and Exchange Rate Regime Coherence: Implications for Integration in the Americas", *The Estey Centre Journal of International Law and Trade Policy*, 3(2), 2002: 256-274.