

1. Introduction

The failure of interventionist economic policies by the late 1980s led to a general recognition in Argentina of the superiority of the free market model. Argentina, under President Menem, has undergone sweeping economic liberalization. As a result, Argentina now has one of South America's most advanced economic and trade policy regimes.¹

The economic success of Argentina and its liberal economic policies make Argentina a highly desirable trading partner and investment destination for the NAFTA countries. Argentina's policies are also generally compatible with NAFTA trade and investment disciplines. The idea of Argentine accession to the NAFTA makes a great deal of sense. Argentina, however, has chosen to focus its trade policy efforts on building a common market, MERCOSUR, with its immediate neighbours. This Paper looks at how tensions within the MERCOSUR between Argentina and Brazil should lead Argentina to consider the NAFTA option as a supplement to its current policy links to its larger neighbour and the factors that Argentina would have to weigh in making such a decision.

2. Running a "Marathon with Obstacles": Brazil, Argentina and the Future of MERCOSUR

It makes sound economic sense to encourage trade and investment between neighbouring countries. The MERCOSUR agreement, established in 1991 by the Treaty of Asunción, has as its ambitious objective the integration of Argentina, Brazil, Paraguay and Uruguay into a single economic unit with a common commercial policy. Moreover, as recent discussions held with its neighbours make clear, many policy-makers within MERCOSUR, particularly in Brazil, see MERCOSUR as the foundation for a greater South American economic unit.

In many respects, MERCOSUR has been successful. It is unarguably the most successful trade liberalization agreement yet conceived in South America. It includes investment and dispute settlement regimes as well as tariff elimination on internal trade. Intra-MERCOSUR trade more than doubled between 1990 and 1993.²

¹ For a detailed discussion of Argentina's recent economic history, see Felipe A. M. de la Balze, *Remaking the Argentine Economy* (Council on Foreign Relations: New York 1995).

² Based on ALADI data in C. William Robinson, *Mercosul What It Is, What It Does*, (Canadian Embassy Brasilia, 6 April 1995), p. 3. MERCOSUL is the acronym for The Southern Cone Common Market in Portuguese. MERCOSUR is the acronym in Spanish.