

inflationary tide."⁵⁹ This may appear uncharitable. But the history of inflation control plans in Brazil, all of which failed after initially reducing inflation, does not inspire confidence.⁶⁰ If the Real Plan fails, as the others have, the result would severely strain MERCOSUR and could undermine investor confidence in Argentina as Brazil's MERCOSUR partner.

6. The NAFTA Option for Argentina

Where does this leave Argentina? Its MERCOSUR ties to Brazil place it in an awkward situation. To a greater degree than before, it has bound itself economically to Brazil. However, as detailed above, the economic policy divergence between Brazil and Argentina make continued trade friction with Brazil likely. Argentina's attempt to increase its exports to Brazil becomes an uncertain endeavour over the medium to long term if the rules of access to the Brazilian market continue to change in response to the problems created by a weaker economic policy regime.

The effect on foreign investment in Argentina is equally serious. Carlos Calderón, representative in Argentina and Brazil for the merchant bank Morgan Grenfell, provides a good summary of the current situation:

Several measures Brazil has taken in the last few months indicate that there is a strong force in government wanting to go back to the bad old ways. This is not a good sign for the Argentine economy because investments in Argentina are only valid as long as Mercosur is there. They invest in Mercosur because of its 200 million customers, not to sell to 30 million Argentines.⁶¹

What then should Argentina do? Its economic strategy is based on expanding trade and investment through secure access to a large market. This approach is correct and admirable. However, secure access to the Brazilian market is proving to be less than certain. Brazil's difficulty in reforming itself on a free market model, as Argentina has done, means that this uncertainty may well continue. There are signs that Argentine policy-makers are uneasy about Argentina's MERCOSUR relationship with Brazil. Inside NAFTA recently quoted an unnamed senior Argentine trade official who complained that the MERCOSUR partners had been unable to move beyond

⁵⁹ "Brazil's Election: MNCs Await: Promised Reforms", Economist Intelligence Unit Crossborder Monitor, 5 October 1994.

⁶⁰ "Brazil Stabilisation Success", Oxford Analytica Daily Brief, 5 August 1994.

⁶¹ "Argentine Convertibility Should Weather Brazil Row", Reuter News Service, 23 June 1995.