POLICY STAFF PAPER

Department of Foreign Affairs and International Trade
Ministère des Affaires étrangères et du Commerce international
CANADA

With or Without You: Argentina, Brazil and NAFTA

Stephen Wilson
Policy Analyst
Economic and Trade Policy Division (CPE)
Policy Staff

AUGUST 1995
95/09

Please address any comments and questions concerning this paper to Policy Staff (CPB), Foreign Affairs and International Trade, 125 Sussex Drive, Ottawa, Ontario K1A 0G2. (Tel.: (613) 944-0367; fax: (613) 944-0375.) For copies of this paper, please contact the Department's Info Centre (SKIO) (1-800-267-8376; Ottawa region tel: (613) 944-4000 fax: (613) 996-9709) and indicate Code SP67A.

Ce document est également disponible en français.

WITH OR WITHOUT YOU: ARGENTINA, BRAZIL AND NAFTA

Executive Summary

Argentina is one of the most important economies of the western hemisphere. Overall, it has developed a high quality economic and trade policy track record in the 1990s. In this respect, it is one of the countries most ready for accession to the NAFTA. However, in 1991 Argentina, Brazil, Paraguay and Uruguay created the Southern Cone Common Market, known as MERCOSUR. This Paper looks at Argentina's relations with its MERCOSUR partners, principally Brazil, in the light of the former's possible accession to the NAFTA.

Despite liberalization efforts since 1994, Brazil's capacity to stay the course of coherent economic reform is still too recent and insufficiently tested. Consequently, this Paper argues that the differences in pace and extent of economic reform in Argentina and Brazil are significant enough to put the enduring success of the MERCOSUR in doubt. This doubt alone is sufficient to negate some of the value of MERCOSUR for Argentina, especially with regard to investment. As a consequence, it is in Argentina's interest to consider supplementary trading arrangements. Argentina's actual and potential economic links with the NAFTA countries make NAFTA accession a realistic and promising option, preferably together with Brazil but alone if necessary. Argentina's treaty-based obligations with its MERCOSUR partners would complicate a solo accession, but these obstacles can be overcome if the political will exists. In addition to seeking further accommodation within MERCOSUR, Argentina should therefore explore accession to the NAFTA despite these technical difficulties. The benefits would be considerable.

Résumé

L'Argentine a l'une des économies les plus importantes de l'hémisphère occidental. Elle a enregistré dans les années 1990 une performance économique et commerciale supérieure dans l'ensemble. À cet égard, l'Argentine est l'un des pays les plus qualifiés pour accéder à l'ALENA. Cependant, en 1991, l'Argentine, le Brésil, le Paraguay et l'Uruguay ont créé le marché commun du Cône sud, connu sous le nom de MERCOSUR. Le présent document examine les relations qu'entretient l'Argentine avec ses partenaires du MERCOSUR, particulièrement le Brésil, à la lumière de l'accession éventuelle de cette dernière à l'ALENA.

En dépit des efforts de libéralisation mis en oeuvre par le Brésil depuis 1994, la capacité de celui-ci de maintenir le cours de réformes économiques cohérentes n'a pas encore été suffisamment éprouvée. En conséquence, le présent document soutient que les différences de rythme et d'étendue entre les réformes de l'Argentine et celles du Brésil sont assez significatives pour mettre en doute le succès du MERCOSUR à long terme. Ce doute suffit à lui seul à nier jusqu'à un certain point l'utilité du

MERCOSUR pour l'Argentine, particulièrement en ce qui a trait à l'investissement. Par conséquent, il est dans l'intérêt de l'Argentine d'envisager des arrangements commerciaux supplémentaires. Les liens économiques actuels et potentiels de l'Argentine avec les pays membres de l'ALENA font de son accession à cet accord, de préférence avec le Brésil, mais seule si nécessaire, une option réaliste et prometteuse. Les obligations contractuelles de l'Argentine envers ses partenaires du MERCOSUR compliqueraient une accession en solo; il s'agit toutefois d'obstacles qui pourront être surmontés s'il existe une volonté politique de le faire. En plus de chercher d'autres arrangements avec les pays membres du MERCOSUR, l'Argentine, en dépit de ces difficultés techniques, devrait examiner la possibilité d'accéder à l'ALENA. Elle en retirerait des avantages considérables.

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.

MERCOSUR has attracted the attention of many foreign investors interested in the potential of a large, unified market in South America.

MERCOSUR is not purely an economic union. The MERCOSUR accord offers the governments of the southern cone a way to transcend old political rivalries and build stronger relations through active economic cooperation. Some participants in the agreement hope that MERCOSUR will evolve beyond the Treaty of Asunción into a political entity uniting the member states.

Nonetheless, doubts and much unfinished business remain. During the transition period of MERCOSUR, several influential voices in Argentina expressed concern that joining MERCOSUR, as it is presently constituted, would not be in Argentina's national interest because of the economic disparity between Brazil and Argentina and the difficulty in coordinating economic policy. Jorge Blanco, the President of the Unión Industrial Argentina, argued in a December 1993 letter to the Argentine Minister of the Economy that the goal of regional free trade and fair competition would be impossible since:

> Brazilian industry benefited from low-cost electricity rebates and other fiscal incentives, cheap raw material costs from state suppliers, and below-market, long-term financing from official banks for capital-good exports.[3]

Jorge Vilches, a columnist for **El Cronista**, Argentina's leading business and economic newspaper, wrote in a November 1994 article for the **Wall Street Journal:**

> As good as things may look for Brazil at the moment, no one should be fooled. Brazil remains a sick giant, with a horrendous bureaucracy, serious political disunity and real potential for slipping right back into the grips of hyperinflation. It doesn't have the stability, the widely available advanced technologies, the capacity to make huge capital investments, or the middle-class markets to make it the powerhouse of any trading block. During the past 35 years, more than a dozen Latin American trade schemes have failed because of the glaring absence of a fully developed giant like the U.S.[4]

In his article, Vilches implied that Argentine Finance Minister Domingo Cavallo shared these misgivings.

---

[3] Richard Kessler, "Argentine Industry Seeking Delay in South America Free Trade", **Journal of Commerce**, 2 December 1993, p. 4A.

[4] Jorge A. Vilches, "The Americas: Latin Trade Agreements Could Shut Out NAFTA Members", **Wall Street Journal**, 25 November 1994, p. 9.

Without a fairly level macroeconomic policy "playing field", the trading relationship between Argentina and Brazil could run into serious difficulties despite the existence of MERCOSUR trade rules and a common external tariff. In conditions of severe economic stress, the member states of MERCOSUR may find it difficult to place their treaty obligations above their immediate national interests. The Treaty of Asunción recognizes this danger when it stresses the importance of coordinating macroeconomic policy. Unfortunately, the treaty does not specify how and when this coordination is to be achieved.

3. Different Paths: Economic Policy in Argentina and Brazil

There is, in fact, a divergence in economic policy coherence and commitment between Argentina and Brazil. A comparison on a wide range of economic issues shows a better economic track record in Argentina and a consistent pattern of greater government intervention in the economy in Brazil. This is not to say that there is no need for further reform in Argentina. Argentina's financial and administrative systems especially need to be improved. The current policy of pegging the Argentine peso to parity with the U.S. dollar is unsustainable over time and should be revisited sooner rather than later. However, it is clear that economic reform has been more extensive and more successful in Argentina compared to Brazil.

Argentina has made considerable progress in achieving a high degree of fiscal responsibility under the Menem Administration. The federal government's budget was balanced in 1994. 1995 has been more difficult because of the ripple effect of the Mexican peso crisis and the beginnings of a recession in Argentina. The government has cut spending and raised taxes. This program of fiscal restraint has been successful, with the fiscal deficit for the first quarter of 1995 lower than expected. The 1995 budget forecasts a US$ 2 billion surplus, although this forecast may be too optimistic.[5]

In contrast, the fiscal situation in Brazil is considerably less stable. The complexity of Brazil's fiscal arrangements makes it difficult to measure the precise size of Brazil's public sector deficit. The federal government has adopted a complicated

[5] "Argentina: EIU Economic Outlook", Economist Intelligence Unit, Reuter Business Briefing, 10 July 1995. Argentine provinces are an area of fiscal weakness. However, the provinces' combined fiscal deficit was $3.7 billion, or only 0.5% of GDP, in 1994. The IDB recently lent Argentina US$ 750 million to restructure the provincial banks, a source of much of the provinces' fiscal weakness. See "IADB Approves $750 Million Loan For Argentina", Reuter News Service, 10 May 1995; "Menem Battles With States to Cut Costs", Economist Intelligence Unit, Reuter Business Briefing, 23 May 1995.

accounting system, involving the establishment of a Social Emergency Fund which, in a not particularly transparent manner, interrupts the flow of tax revenues from the federal government to the states as a way of coping with constitutional restraints on its ability to manage fiscal affairs. Moreover, the state and municipal governments and many state corporations run large fiscal deficits independently of the federal government.[6]

Brazil's fiscal situation is widely recognized as the most important problem standing in the way of real reform. Although government revenues are growing, spending is increasing even faster. In addition, many 1994 expenditures were delayed until 1995 to improve Brazil's 1994 budget balance. Brazil is expected to run a large deficit in 1995.[7]

Argentina has done much to reform its tax system in recent years. The Menem government has focused on raising revenue through a few major taxes such as a value-added tax (VAT) and has taken steps to improve tax administration.[8] As a result, revenue as a percentage of GDP for Argentina was 16% in 1990.[9] The tax rate for corporate earnings is 30%. It is not expected that this rate will be increased or that new corporate taxes will be introduced.[10]

In Brazil, taxes take about 22.5% of GDP. With several levels of taxation and over 50 different taxes, the tax system has been described as "a chaos of cascade

[6] The World Bank's 1995 World Development Report estimates that Brazil had a central government deficit of one percent of GDP in 1993. However, the IMF notes: "Although inadequate statistical coverage of state, provincial, and local governments dictates the use of central government data, this may seriously understate or distort the statistical portrayal of the allocation of resources for various purposes, especially in countries where lower levels of government have considerable autonomy and are responsible for many economic and social services." World Development Report 1994, (World Bank, 1994), p.235.

[7] "Brazil: Economist Intelligence Unit Outlook", Reuter Business Briefing, 5 June 1995.

[8] Shome Parthasarathi, "Tax Reform in Latin America ", Finance and Development , March 1995, p. 16.

[9] Ibid.

[10] "Argentina: EIU Corporate Tax Regulations", Reuter News Service, 30 May 1995.

taxes, deductions, avoidance, evasion and simple non-payment."[11] The tax system was changed in January 1995, increasing the average corporate tax rate in Brazil from 49.5% to 56%.[12] Higher corporate taxes in Brazil encourage foreign companies to invest in Argentina rather than Brazil.[13]

Brazil's recent history has seen significant price inflation caused by chronic public sector deficits. As a result, Brazil's inflation rate has consistently outpaced Argentina's throughout the 1990s.[14] The 1994 Real stabilization plan, which loosely pegged the Brazilian Real to the U.S. dollar, brought down the inflation rate. However, Brazil's inflation continues to outpace Argentina's by a significant margin. For example, the Brazilian *monthly* inflation rate was an estimated 3.5% in July 1995,[15] while Argentina's *yearly* rate for 1995 is expected to be between 3 and 3.5%.[16]

Argentina has a fixed exchange rate of one peso to one U.S. dollar. There are no currency controls. Although this system has the disadvantage of being inflexible and difficult to adjust to accommodate accumulated differentials between external and domestic price movements and the potential negative impact of these differentials on the balance of payments, it has effectively curbed hyperinflation in a transparent manner. It is notable that the Central Bank maintained peso-dollar parity while under considerable pressure during the "Tequila crisis" which began in Mexico in December 1994.

Brazil has also recently pegged its currency, the Real, to the dollar but in a much looser and less transparent way. The Central Bank buys and sells U.S. dollars

---

[11] "Brazil Survey", The Economist, 29 April 1995, p. 13. U.S. Department of State, Economic Policy and Trade Practices: Brazil, 19 July 1994. (National Trade Data Bank CD Rom).

[12] "Brazil: Change of Address", Economist Intelligence Unit Business Latin America, February 1995.

[13] Ibid.

[14] The Inflation rate, calculated using a GDP deflator, from 1991-1993 was 995% for Brazil and 43.5% for Argentina. The rate for 1994 was 2,192% for Brazil and 1.5% for Argentina. The World Bank, Global Economic Prospects and the Developing Countries 1995, (Washington D.C.: April 1995), p.80.

[15] "Brazil Rates Seen Steady, Inflation a Concern", Reuter News Service, 12 July 1995.

[16] "Argentina's Menem Declares War on Tax Evasion", Reuter News Service, 13 July 1995.

within a publicly announced band. The band was lowered three times, effectively devaluing the Real, between February and July 1995. The most recent shift in the exchange rate band, on 22 June, was announced the day after Cardoso said that Brazil would not alter its exchange rate. This latest shift had the effect of devaluing the Real by 6%.[17]

The Menem government has also carried out a successful program of privatisation. This program, which continues, has radically reduced the involvement of the Argentine government in the economy. As of June 1994, privatisations had raised over $9.7 billion in cash for the government and allowed the retirement of $13.4 billion in public debt.[18]

In parallel with its privatisation programme, the Menem government has sought to reduce government regulation of the economy. Wage controls were abolished; price controls were liberalized; ten regulatory agencies and their associated regulatory mechanisms were eliminated; sectoral promotion schemes for the steel, shipbuilding and aeronautics industries were ended and a wide range of regulations affecting the provision of goods and services was done away with. Regulation of economic activity by the federal government has been significantly reduced, although there remains regulation at the provincial and municipal levels that continues to impede economic efficiency.[19]

The Brazilian government, on the other hand, controls much of the Brazilian economy through state-owned companies in many key sectors. The State has extensive interests in the banking, industrial and transportation sectors. The Cardoso government is working to amend the Brazilian constitution to end the state's monopoly in the oil, mining and telecommunications sectors. There was some privatisation under Presidents Collor and Franco (state-owned steel and petrochemical firms were privatized)[20], but most of the State's interests in the economy have not

[17] "Brazil Exchange Band Move a Devaluation - Analysts", Reuter News Service, 23 June 1995. "Currency Devalued Again to Curb Deficit", Australian Financial Review, Reuter Business Briefing, 26 June 1995.

[18] Felipe A. M. De La Balze, Remaking the Argentine Economy, (Council on Foreign Relations Press: New York 1995), pp. 91, 96.

[19] Ibid., pp.99-104.

[20] "Brazil: Survey - The Many Virtues of Privatization - Slimming the State", The Economist, 29 April 1995, on Reuter News Service.

been touched.[21] The current Cardoso government hopes to privatise much of the economy but the pace has been slow. There were no privatisations between Cardoso's taking office in January 1995 and the privatisation of Escelsa, a power distribution company, in July 1995.[22] Beyond state ownership of much of the economy, Brazil continues to regulate business activity actively.[23] Price controls have long been a favoured tactic to fight inflation and there is continuing support for the selective use of price controls.[24]

Argentina welcomes foreign investment in almost all sectors of its economy and imposes no restrictions or performance requirements on foreign investors.[25] Foreign investors can freely buy and sell foreign currency on the local market and are not taxed on remittances of dividends or profits.[26]

Like Argentina, Brazil has a long history of distrust of foreign investment. However, unlike Argentina, Brazil still imposes significant restrictions and conditions on foreign investment despite recent liberalization efforts. In some sectors, there continue to be limits on foreign equity participation, local-content requirements and links between incentives and export performance.[27] The government maintains the

[21] A recent survey of the top 500 Brazilian companies ranked by sales and assets by the Getulio Vargas Foundation showed that public sector firms accounted for 62 percent of the assets of these companies. "State Sector Still Dominates Brazil Economy - Survey", Reuter News Service, 2 August 1995.

[22] "Brazil Heads for 'New Dimension' in Privatization", Reuter News Service,4 July 1995.

[23] Investing, Licensing and Trading Conditions Abroad, Brazil, The Economist Intelligence Unit, January 1995, p.6.

[24] U.S. Department of State, Economic Policy and Trade Practices: Brazil, 19 July 1994. (On National Trade Data Bank CD Rom)

[25] "Foreign-investment regulations", Business Latin America, 13 March 1995, p. 4.

[26] U.S. Department of State, Economic Policy and Trade Practices: Argentina, 19 July 1994. (on National Trade Data Bank CD Rom); "Foreign Investment Regulations", Business Latin America, 13 March 1995, p. 5.

[27] U.S. Department of State, Economic Policy and Trade Practices: Brazil, 19 July 1994. (On National Trade Data Bank CD Rom)

authority to block profit repatriation if international reserves drop and to tax foreign investment if it is seen as causing "undue" inflationary pressures.[28]

Both Argentina and Brazil have made significant progress in liberalizing their trade regimes since the 1980s by reducing both tariff rates and non-tariff barriers.[29] The most important element of both the Brazilian and Argentine trade policy regimes is, of course, the MERCOSUR agreement which establishes a common external tariff (CET), ranging between 0 and 20%, for most imports from non-members by 2001 and all imports by 2006. As of January 1995, 85% of tariff items were covered by the CET. Both Brazil and Argentina have a list of national exceptions to the common external tariff. There are also general exceptions for the capital goods, telecommunications and infomatics sectors.[30] These exceptions are scheduled to be phased-out until complete CET coverage is achieved. Brazil's list of exceptions to the common external tariff, as of May 1995, included 93 tariff lines at 70%.

Both Argentina and Brazil also maintain non-tariff barriers to imports of goods and services. Brazil's barriers to trade are arguably much greater because they include strong "Buy Brazilian" provisions governing procurement by federal, state and municipal governments and by state-owned corporations. As these entities form a large part of the Brazilian economy, government procurement policy is a significant barrier to imports of goods and services.[31]

4. The Impact on MERCOSUR

As this survey shows, Argentina's economy has progressed further towards the free market goal than Brazil's. The results are commensurate with this progress. Since 1991, growth of real GDP per capita has been significantly higher in Argentina

---

[28] Patricia Saldanha, "Brazil Won't Use Tax Mechanism on Foreign Investment Right Away", Journal of Commerce, 8 March, 1994, p. 4A.

[29] See Chapter 1 of Progress in Structural Reform, An Overview, (OECD: Paris 1992).

[30] In addition, automotive sector trade between Argentina and Brazil is managed and thus constitutes an exception to the CET.

[31] For a recent survey of Argentine and Brazilian barriers to trade, see United States Trade Representative, 1995 National Trade Estimate Report on Foreign Trade Barriers, (Washington D.C. 1995).

than in Brazil.[32] More than 40% of Brazil's population lives in poverty compared to 18% in Argentina.[33] Clearly, Brazil must liberalize its economy further to reach Argentina's level. This will not be an easy job. Yet it is on these reforms that the future of MERCOSUR depends.

Economic policy differences could strain the MERCOSUR relationship between Argentina and Brazil in several ways. Most generally, attempts to develop and sustain a common external trade policy will be constantly bushwhacked unless there is a modicum of convergence on domestic economic policy and practice. More specifically, the better conditions for investment in Argentina will cause foreign companies to invest predominantly in that country for production for MERCOSUR. This represents a good result for Argentina in the first instance, but one that will create considerable unease in Brazil. There is evidence that an early Argentine advantage is occurring. A recent Reuter report notes that "Argentina has been commonly preferred to Brazil as a manufacturing location since the move to free trade between the two countries began in earnest last year."[34] Statistics on foreign investment show that flows into Argentina have been considerably greater than those into Brazil.[35]

Reports suggest that many outside investors believe that the environment for business is more favourable in Argentina than in Brazil. A recent study by McKinsey and Company suggests that international investors perceive a significant difference in the economic policy environment in Argentina and Brazil. In a 1994 survey of investors carried out by McKinsey, there was consensus that Argentina had a

[32] Annual real per capita GDP growth rates for 1991-93 were -0.5% for Brazil and 6.6% for Argentina. The 1994 growth rate was 2.6% for Brazil and 4.7% for Argentina. The World Bank, Global Economic Prospects and the Developing Countries 1995, (Washington D.C., April 1995), p.79.

[33] Shahid Javed Burki and Sebastian Edwards, "Consolidating Economic Reforms in Latin America and the Caribbean", Finance and Development, March 1995, p. 8. Statistics are for 1992 for Brazil and 1993 for Argentina.

[34] "Brazil, Argentina Car Dispute Threatens Trade Group", Australian Financial Review, Reuter Business Brief, 23 June 1995.

[35] Cumulative direct investment flows into Argentina for 1990-1992 were US$ 9.7 billion compared to US$ 4 billion for Brazil. Foreign Direct Investment OECD Countries and Dynamic Economies of Asia and Latin America (OECD: Paris 1995), p. 25. Total inflows of all private capital into Argentina for 1993 were US$ 15.1 billion (12% of GDP), compared to US$ 13.4 billion (4.4% of GDP) for Brazil. The World Bank, Global Economic Prospects and the Developing Countries 1995, (Washington D.C.: April 1995), p. 84.

business-orientated economic and political environment and a liberal financial system. Most of the investors believe that Brazil has an economic and political environment unfavourable to business and an illiberal financial system. The report concluded that Brazil's ability to attract capital would be limited compared with the size of its economy.[36] A recent report by the Economist Intelligence Unit makes much the same point.[37]

Moreover, Brazil's recent actions to protect its auto industry illustrate how competition for investment can lead to the wrong policy conclusion: protectionist action rather than domestic reform and adjustment. In March 1995, Brazil temporarily (up to one year, according to the decree) increased tariffs on 109 items originating outside the region, including several motor vehicle items, to 70 percent.[38] When these new tariffs failed to limit auto imports enough to suit the Brazilian government, it imposed an import quota for the remainder of this year of 50% of the cars imported to the date of this further adjustment. Next year, imports by car makers with plants in Brazil will be limited to a fixed proportion of their exports.[39] In addition, Brazil has lowered tariffs on auto part imports, a move that also contravenes MERCOSUR's common external tariff.

It is not yet clear how the Brazilian auto import quota will affect Argentine auto exporters over the medium to long term. Argentina and Brazil have agreed that this quota will not apply to imports from Argentina for the remainder of 1995. Argentina and Brazil will try to negotiate a resolution of this matter by the end of 1995.[40]

This dispute has strained the relationship between Argentina and Brazil to the extent that the Brazilian Industry and Commerce Minister felt obliged to deny Brazil

---

[36] The Global Capital Market: Supply, Demand, Pricing and Allocation (McKinsey Global Institute: Washington D.C., 4 November, 1994), pp. 4-5.

[37] "Brazil: Investment - MNCs Find Doing Business Expensive - EIU Business Briefing", Economist Intelligence Unit, Reuter Business Brief, 11 April 1995.

[38] The tariffs affected durable consumer goods, such as appliances, as well as automobiles. See C. William Robinson, Mercosul What It Is, What It Does, (Canadian Embassy Brasilia, April 6, 1995), p. 15. The new increased tariffs were later added to Brazil's list of national exceptions to the common external tariff.

[39] Angus Foster, "Deficit Drove Brazil Car Curbs", Financial Times, 15 June 1995, p.4.

[40] "Brazil, Argentina Defuse Auto Imports Row", Reuter News Service, 12 July 1995.

was in a multibillion dollar "investment war" with Argentina over automobiles. However, her description of the situation is at odds with this denial:

> We had an asymmetric situation in terms of treatment of the auto sectors. We are trying to see how to negotiate within Mercosur a common set of rules, which means exactly the conditions for attracting investments ... They are going to be very symmetrical.[41]

One must ask how this symmetry will be achieved and at whose expense.

Argentine car manufacturers are very concerned. In mid 1995, the investor relations manager for Volkswagen and Ford licensee Autolatina said: "All the investments that have been announced in Argentina depend on Mercosur."[42] Mauricio Marcri, president of Sevel, the Argentine licensee for Fiat and Peugot, said: "If there are quotas, there is no MERCOSUR ... Argentina will have no choice but to withdraw from the MERCOSUR."[43] Many observers believe that the Brazilian government is using these changes in its import regime as a tactic to encourage companies to invest in Brazil rather than Argentina.[44] The recent triumphant declaration of "We won the battle for automobile investments"[45] with which Brazilian Planning Minister José Serra greeted the announcement of new Brazilian investments by Volkswagen and Fiat lends credence to this analysis.

Baring artificial measures, such as Brazil's auto import quotas, Argentina is better positioned than Brazil to attract foreign investment because its free market economic policies create a more favourable environment for business. Carrying out these policies after decades of statist economic policies was painful for Argentina. If MERCOSUR is to function to underpin competitive, market-based growth, then the onus should be on Brazil to improve the quality of its economic environment, not to side-swipe Argentine efforts through protectionist measures. Unless Brazil can bring

---

41 "Brazil, Argentina Not in "Investment War" - Minister", Reuter News Service,: 22 June 1995.

42 "Argentina, Wobbly Mercosur Rules Worry Argentine Car Makers", Reuters News Service, 6 June 1995.

43 "Argentine Carmaker Says Brazil Could Bury Mercosur", Reuter News Service, 4 July 1995.

44 "Brazil, Argentina Car Dispute Threatens Trade Group", Australian Financial Review, Reuter Business Brief, 23 June 1995.

45 "Brazil Nabs $550 million Investments from Automakers", Reuter News Service, 11 July 1995.

about deep economic reform to achieve policy symmetry quickly, it is likely that confrontations similar to the auto import dispute will continue to plague MERCOSUR.

Another major challenge to MERCOSUR is the threat of low-cost Brazilian exports to Argentina causing severe damage to Argentine industry. The early 1990s saw "a flood of cheap imports entering Argentina from Brazil."[46] Many in Argentina thought that Brazilian exporters to Argentina were able to undercut the prices of their Argentine competitors because of the high rate of inflation in Brazil and the consequent impact on the peso-real exchange rate. The President of the Unión Industrial Argentina complained in a 1993 letter to Argentina's Minister of the Economy that "Brazil's industrial sector . . . was using four-digit annual inflation to its advantage by keeping price hikes above those for salaries, and using a virtually worthless cruzeiro currency to underprice producers here *[in Argentina]*."[47] As a countermeasure to the resulting erosion of its trade balance, Argentina adopted at that time a series of temporary actions against Brazilian imports.[48] Although the Real Plan has brought down the rate of inflation, some argue that there is a real possibility that, without major reforms to the Brazilian fiscal system, inflation will flare up again in Brazil. If a surge in Brazilian exports to Argentina were again to be the result, this would seriously strain Argentina's relationship with Brazil.[49]

The most probable danger is that recurring crises will create a climate of uncertainty for business within MERCOSUR as a whole. Without stable rules to create a climate of certainty for business planning, both domestic and international companies will be discouraged from making investments. Therefore, any degree of serious instability in MERCOSUR is likely to undermine the region's ability to

---

[46] R. G. Dearden, R. J. Hofley and J. Lagos, "The Mercosur Integrates South American Economies", NAFTA Watch, 16 March 1994, p.7.

[47] Richard Kessler, "Argentine Industry Seeking Delay in South America Free Trade ", Journal of Commerce, 2 December 1993, p. 4A.

[48] Dearden, Hofley and Lagos, "The Mercosur", p.7.

[49] Failure to live up to its MERCOSUR obligations has not been entirely a Brazilian fault. In March 1995, "Argentina reintroduced their 'statistics tax' at the 3 percent level on all third country imports, except for breeding stock, seeds, mineral fuels, paper, books and newspapers, capital goods and computer and telecommunications equipment, where the tax is zero (currently there is no commitment to phase out this tax). This effectively means ... that Argentina is opting-out of the CET (i.e., total import taxes per tariff item will be 3 percent above the CET), except where the "statistics tax" is zero." C. William Robinson, Mercosul What It Is, What It Does, (Canadian Embassy Brasilia, 6 April 1995), p. 15.

encourage direct investment, a key objective of the agreement. Argentina has special reason to focus on this issue. International investors concerned by continued instability in MERCOSUR may decide to avoid investing in Argentina as well as Brazil, despite Argentina's favourable domestic environment for foreign investment. A perception of regional instability and policy inconsistency, although caused in practice by Brazil, could end up tarnishing Argentina's efforts as well. For Argentina, problems with MERCOSUR could jeopardize not only its trading relationship with Brazil but also foreign participation in its economy more generally.

5. Brazil Tries Again - The Cardoso Presidency

Many Brazilian policy-makers recognize the need for serious reforms. The Brazilian Finance Minister Pedro Malan recently called for "urgent and lasting reforms in such areas as tax, social security and the civil service to end chronic inflation."[50] The question is not whether there is a recognition of the need for economic reforms in Brazil, but whether these reforms can be made quickly and comprehensively enough to overcome the threat that the economic differences between Argentina and Brazil pose to the success of MERCOSUR. In the words of Malan, the effort to reform Brazil's economy is not "just a marathon, but a marathon with obstacles".[51] The question is whether Brazil can finish the marathon in time to avoid serious damage to MERCOSUR.

This is not to say that President Cardoso and his team are not moving in the right direction. Cardoso has been largely successful in getting his first round of constitutional reforms through the Brazilian Congress in the face of serious opposition. These reforms loosen the state's grip on the economy. As of mid August 1995, the Brazilian Senate had approved constitutional amendments that would end distinctions in the Constitution between foreign and domestic companies, allow private companies to distribute piped gas, permit cabotage of passengers (but not cargo) between Brazilian ports by foreign firms and end the monopoly of Telebras, the state telecommunications company, over the telecommunications sector. The Senate is still debating the approval of an amendment which would end the monopoly of

[50] "Brazil Economic Stability A Long-Term Job - Malan", Reuter News Service, 27 June 1995.

[51] Ibid.

Petrobras,the state petroleum company, over the exploration, refining and distribution of petroleum and petroleum products.[52]

However, more radical changes to Brazil's constitution are necessary to effect a real change in Brazil's economy. Perhaps the most important area for reform is the fiscal system. The constitution dictates how 90 percent of taxes must be spent. As a result, spending is difficult to cut and the resulting deficits exert substantial inflationary pressure.[53] Cardoso wants to amend the constitution to redefine the financial relationships between the federal and lower levels of government, to simplify the tax system and to rationalize the social security system.[54]

Brazil's movement towards a free economy is slow and uneven. In part, this is due to lack of a consensus about the direction Brazil's economic policy should take. Planning Minister José Serra, whom press reports connect with São Paulo industrial interests, and Industry Minister Dorothea Werneck are considered by many to favour protectionist policies to promote the interests of Brazilian industry.

This ambivalence on the role of the state in the economy extends to Brazil's Congress. There is little party discipline or loyalty in the Brazilian Congress and there is no firm consensus on the advisability of privatising key state enterprises.[55] Cardoso has complained about the lack of support for his economic reforms in Congress from his own party (the Brazilian Social Democratic Party).[56] In the same week that they passed the first bloc of Cardoso's constitutional reforms, Brazil's legislators voted on a bill that would have set interest rates at 12 percent by legislative fiat. The bill was not passed, but the fact that it was seriously proposed says a great deal about many Brazilian policy-makers' belief in the efficacy of state intervention in the economy.

[52] "Congress Approves Constitutional Amendments", ZTGR2066, Canadian Embassy Brasilia, Unclassified Reporting Telex, 10 August 1995; "Brazil Senate OKs Ending State Telecom Monopoly", Reuter News Service, 10 August 1995.

[53] "Brazil President Marks Economic Wins, Faces Battles", Reuter News Service, 30 June 1995.

[54] U.S. Department of State, Economic Policy and Trade Practices: Brazil, 19 July 1994. (On National Trade Data Bank CD Rom)

[55] "Business Outlook Brazil", Business Latin America, 22 May 1995, p. 4.

[56] "Brazil Chief Urges His Party to Back Econ Reforms", Reuter News Service, 4 July 1995.

Other challenges for Brazilian reformers include the obvious difficulty of carrying out reforms in a country as large, complex and heterogeneous as Brazil. By contrast, Menem and the Argentine reformers built on a widespread consensus on the necessity of radical free-market reforms and a relatively small, homogeneous population. Given the more difficult challenges Brazilian reformers face, it is not realistic to expect them to achieve reforms at the same pace as those achieved in Argentina.

Two examples illustrate how the constraints Brazilian reformers face affect the pace and extent of reform. Compared to Menem, Cardoso is taking a go-slow approach to privatisation. As noted above, there were no privatisations between Cardoso's inauguration in January 1995 and the privatisation of Escelsa, a power distribution company, in July 1995. Cardoso has not adopted an aggressive stance on privatisation. He has said that it will take two years to dispose of Companhia Vale do Rio Doce, the iron ore, gold and manganese mining company that should be one of Brazil's biggest privatisations, because of concerns that Congress will try to nullify his decision.[57] Given Cardoso's slower approach to privatisation, it is unlikely that the State will be extricated from Brazil's economy in the same way it was in Argentina. Consequently, privatisation is likely to be partial and less effective in creating economic dynamism than it has been in Argentina.

Again in contrast to Menem, Cardoso has been unable to move forward aggressively in carrying out key constitutional reforms. Perhaps what is most important is that Cardoso has not yet put forward reforms to broaden the tax base. As a result, the government budget is dependent on emergency financing measures that will run out at the end of this year. Cardoso has delayed tax reform because of concerns that changes to the tax system would offer Congress the opportunity to reduce rather than increase federal taxation, while failing to cut expenditures. Cardoso appears willing to delay tax reform for another year to avoid congressionally imposed tax cuts that could only worsen the country's fiscal situation.[58] The reform of Brazil's fiscal system, a crucial step in curing the economy permanently of the inflation that has so long plagued Brazil, may well be a slow and uncertain process.

Recognizing the difficulty of fundamental fiscal reform in Brazil, many observers are sceptical about the long-term prospects of the Plano Real to control inflation. One economist compares the Plano Real with "a temporary dike holding back the

[57] Angus Foster and Quentin Peel, "Unmoved by the Craze for Failure", Financial Times, 27 April 1995.

[58] Ibid.

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.

agreement on a common external tariff to reach agreement on substantive issues related to macroeconomic policy.[62]

Argentina does have one real and practical option to supplement MERCOSUR membership. Argentina could accede to the NAFTA. Accession to the NAFTA would provide companies exporting from Argentina with secure access to a prosperous market of more than 420 million consumers. This would encourage both trade and investment. The NAFTA has proven to be a secure and stable agreement which can accommodate countries at different levels of economic development, while providing for the settlement of trade disputes that occasionally arise within a clear and consistent set of rules. Argentina already has substantial commercial, investment and technology ties with the NAFTA members. Argentina's trade regime makes it, for the most part, NAFTA-ready. The technical obstacles to NAFTA accession imposed by Argentina's membership in MERCOSUR, although important, are not insurmountable, as I shall detail in section 8 below.

Of course, discussion of the possibility of a NAFTA accession by Argentina is predicated on an existing economic relationship between Argentina and the NAFTA countries important enough to merit the effort. This Paper will, therefore, next look at what economic ties exist before analyzing potential technical obstacles to a NAFTA accession.

7. Economic Integration with the NAFTA Countries

A trade agreement, if it is not to be a largely irrelevant political gesture, must reflect real or potential economic relationships between its parties. As the data presented below shows, Argentina has well established and important commercial and investment ties with all of the NAFTA countries.

7.1 Merchandise Trade

International direct investment and trade in services are becoming more important but merchandise trade is still, by far, the most important kind of international economic exchange.[63] The pattern of Argentina's merchandise trade

[62] "Argentina, Brazil at Odds on Hemispheric Trade Path, Official Says", Inside NAFTA, 9 August 1995, pp. 10-1.

[63] For example, in 1994 Argentina imported US$4.3 billion of services compared to US$21.5 billion in merchandise. Source: Direccion Nacional de Cuentas Internacionales, from the Foreign Ministry of Argentina's World Wide Web Internet homepage.

with the NAFTA countries shows that they are, in fact, important trading partners. When the impact of Chilean accession (and possibly the accession of other countries in the hemisphere) is considered, the case for a NAFTA connection becomes even stronger.

Despite the great surge in Argentine exports to MERCOSUR in the 1990s, Argentine exports to the NAFTA countries grew in absolute terms, while the NAFTA has maintained much of its relative importance as a combined export market for Argentina.[64] As Chart 1 shows, the NAFTA countries have taken roughly 15% of Argentine exports for some time. Most Argentine exports to the NAFTA countries went to the U.S., but both Canada and Mexico were important export markets commensurate with their economic size (see Table 1). As Argentine industry continues to restructure in the dynamic environment of the modern Argentine economy, Argentine exporters should become increasingly competitive and improve their export performance to North America. This process would, of course, be considerably enhanced by guarantees of secure access under a comprehensive agreement such as the NAFTA.

The opening of Argentina to the outside world under Menem has resulted in a growing influx of imports from the NAFTA countries, again principally from the U.S.. Most of these imports have been either capital goods, for use in modernizing and restructuring Argentine industry, or consumer goods to meet the great surge in demand that resulted from the opening of Argentina's economy after decades of protectionism. As Chart 2 shows, the NAFTA countries have maintained a significant share (roughly 25%) of the Argentine import market despite the rapid growth in trade between Brazil and Argentina.

If Chile were to accede to the NAFTA, the importance of the NAFTA countries to Argentina as trading partners would increase substantially. Bilateral trade between Chile and Argentina almost doubled between 1991 and 1994.[65] As a result, Argentina is now Chile's third most important trading partner after the U.S. and

[64] 15% of Argentina's exports went to current NAFTA countries in 1989 compared to 14% in 1994. Source, IMF Direction of Trade Statistics Yearbook 1994 and IMF Direction of Trade Statistics Quarterly, June 1995.

[65] Bilateral trade between Chile and Argentina was US$ 811 million in 1991 and US$1.59 billion in 1994. Bilateral trade grew by 35% between 1993 and 1994. Chile's exports to Argentina were US$ 635 million in 1994. Source: Dicom quoted in Latin America Regional Reports: Southern Cone, 16 March 1995.

Chart 1

ARGENTINA'S EXPORTS

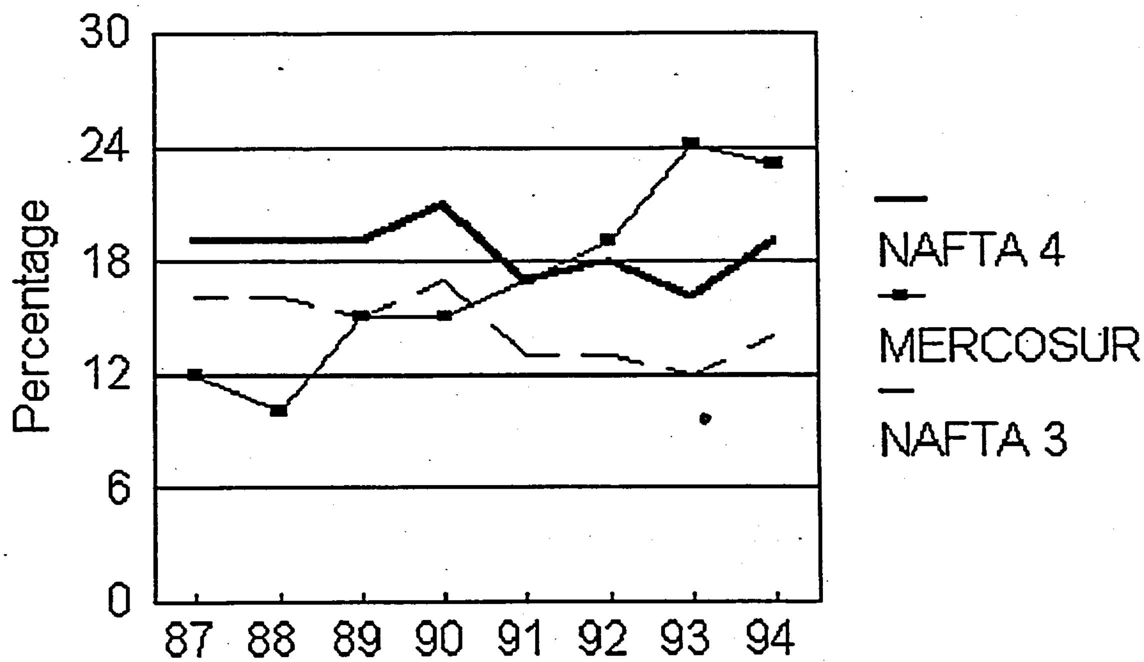

Table 1

Argentina's Exports 1994
Millions of US Dollars

Total	15,319	100%
U.S.A	1,668	11%
Canada	226	1%
Mexico	256	2%
Chile	771	5%
NAFTA 4	**2,921**	**19%**
Brazil	2,724	18%
Uruguay	500	3%
Paraguay	241	2%
MERCOSUR	**3,465**	**23%**

Source: IMF Direction of Trade Statistics Yearbook 1994, IMF Direction of Trade Statistics Quarterly 1995

Chart 2
ARGENTINA'S IMPORTS

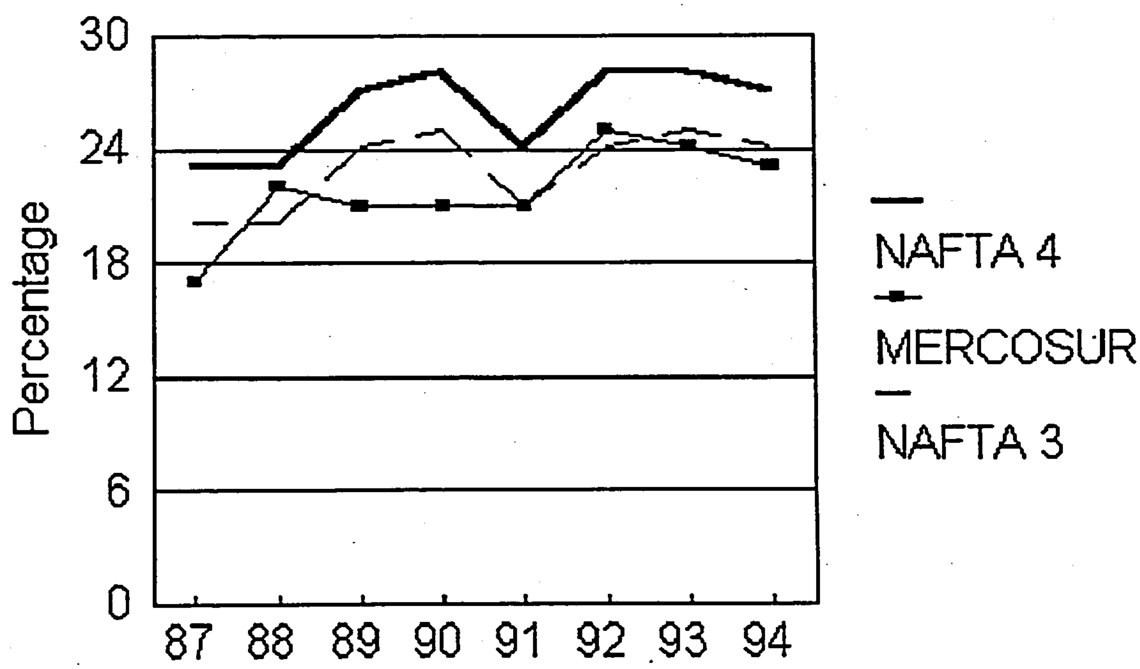

Table 2

Argentina's Imports 1994
Millions of US Dollars

Total	**22,009**	**100%**
U.S.A	4,913	22%
Canada	153	1%
Mexico	226	1%
Chile	721	3%
NAFTA 4	**6,013**	**27%**
Brazil	4,592	21%
Uruguay	397	2%
Paraguay	82	0%
MERCOSUR	**5,070**	**23%**

Source: IMF Direction of Trade Statistics Yearbook 1994, IMF Direction of Trade Statistics Quarterly 1995

2

Japan. Chile exports mainly copper cathodes and car parts to Argentina. Argentina exports crude oil, soya, wheat and meat to Chile.

It is interesting to look at how the pattern of Argentina's trade changes if Chile is considered as part of the NAFTA. When Chile is included, the NAFTA countries begin to approach MERCOSUR in their importance to Argentina as an export market (19% for NAFTA vs. 23% for MERCOSUR in 1994). On the import side, including Chile gives the NAFTA countries a larger share of the Argentine market than MERCOSUR (27% for NAFTA vs. 23% for MERCOSUR in 1994). The existing trade links between Argentina and the current NAFTA members are enough to justify an Argentine accession. Chilean accession, followed potentially by other NAFTA accessions in the hemisphere by countries such as Colombia[66], will make the underlying economic logic for an Argentine accession increasingly clear.

7.2 Investment

Unfortunately, it is difficult to gauge accurately the importance of different investors in the Argentine economy because there are no comprehensive statistics.[67] However, these numbers that do exist do tell us two things: the U.S. is probably the largest investor in Argentina and U.S. investment is growing.

The U.S. Embassy in Buenos Aires has attempted to measure American direct investment in Argentina by surveying U.S. firms known to have made investments in that country. The Embassy estimates that more than US$2 billion of new direct investment was made by U.S. firms in 1994, US$1.4 billion in 1993 and US$232 million in 1992. Much of the 1993 investment was in purchases of Argentine firms being privatized, while most of the 1994 investment was in new projects. Official

---

[66] It is interesting to look at the effect a Colombian accession to NAFTA would have on Argentina's trading patterns. In 1994, a NAFTA 5, including Colombia and Chile, would have taken 23% of Argentina's exports compared to 19% for the NAFTA 4. Its share of the Argentine import market would have remained at the same as the NAFTA 4 (at 27% in 1994). Source, IMF Direction of Trade Statistics Yearbook 1994 and IMF Direction of Trade Statistics Quarterly, June 1995.

[67] "All restrictions on the movement of capital in or out of Argentina were eliminated in 1989. There are also no reporting requirements, which results in virtually no solid data existing as to the nature of capital flows into and out of the private sector." See Economic Policy and Trade Practices: Argentina, U.S. Department of State, 19 July 1994.

direct investment statistics for 1994 placed U.S. direct investment stock in Argentina at US$4.4 billion for year end 1993.[68]

Canadian investment in Argentina is also growing. The Canadian Embassy in Argentina estimates that Canadian companies have roughly $1 billion of direct investment in Argentina. Much of this is in the energy and telecommunications sectors.[69]

The latest OECD investment statistics available (Table 3) show that in 1992 the investment of the U.S. in Argentina was the largest of any of the G-7 countries.[70] Without more recent, comprehensive statistics, these data and those of the U.S. Embassy show that the U.S. is most probably the most important foreign investor in Argentina.

Portfolio investment is even harder to measure than direct investment. However, the U.S. Embassy in Buenos Aires has again estimated that U.S. portfolio investment was US$ 6.3 billion in December 1994.[71] This estimate is probably still a good approximation of present U.S. portfolio holdings in Argentina. The confidence of U.S. portfolio investors in Argentina seems to have largely returned following the Mexican peso crisis of December 1994. *Euromoney* magazine surveyed 50 major U.S. institutional investors in March 1995. Argentina ranked seventh on their list of favourite foreign markets, the highest ranking for any developing country. Many planned either to make a first investment in Argentina or to increase their exposure as a percentage of their total portfolio. Few planned to reduce their exposure to Argentina as a percentage of their total portfolio.[72]

---

[68] "Argentina - U.S. Investment Statistics" in the National Trade Data Bank CD Rom. This report was based on a 2 December 1994 report by the U.S. Embassy in Buenos Aires.

[69] Embassy of the Republic of Argentina, Ottawa and the Department of Foreign Affairs and International Trade, **The Argentine Economy, Investment Opportunities and Trade Relations with Canada** (Ottawa: January 1995), p. 29.

[70] A Canadian direct investment value is not available from this source because its relatively small size (as recorded in the early 1990s) would reveal information on individual companies' investments.

[71] "Argentina - U.S. Investment Statistics" in the National Trade Data Bank CD Rom. This report was based on a 2 December 1994 report by the U.S. Embassy in Buenos Aires.

[72] "And Our Survey Says...", Euromoney, April 1995, pp. 54-6.

Table 3

1992 FDI Stocks in Argentina
Millions of US Dollars

U.S.A.	3,353
Japan	490
U.K.	387
Germany	1,094
France (1991)	15
Italy	1,035

Source: OECD International Direct Investment Statistics Yearbook 1994

3

Again, as with merchandise trade, when the impact of Chilean accession is factored in, Argentina's economic links with the NAFTA countries become even stronger. There is significant Chilean investment in Argentina, much of it in the power generation and manufacturing sectors. The Chilean Embassy in Buenos Aires reported that Chileans invested US$1.8 billion in Argentina from 1990 to 1994.[73] Argentina is by far the favoured destination for Chilean investors.[74] A 1991 investment treaty between Argentina and Chile guarantees most favoured nation treatment and the free repatriation of income. For its part, Argentina was the biggest Latin American investor in Chile in 1994 with investments of US$60 million (2% of total foreign direct investment in Chile).[75]

[73] "Argentina - Investment by Chile" on the National Trade Data Bank CD Rom. This report is based on a 13 February 1995 report by the U.S. Embassy in Buenos Aires.

[74] For further detail on Chilean investment in Argentina, see Ricardo Ffrench-Davis, Manuel Agosin and Andras Uthoff, "Capital Movements, Export Strategy and Macroeconomic Stability in Chile", in Ricardo Ffrench-Davis and Stephany Griffith-Jones, eds., Coping With Capital Surges, The Return of Finance to Latin America, (Lynne Rienner: Boulder, 1995).

[75] Latin America Regional Reports: Southern Cone, 16 March 1995.

7.3 Making the Relationship Formal

The growing importance of Argentina's economic ties with the NAFTA countries is one of the most important forces which would drive an Argentine accession to the NAFTA. Argentina needs to protect its economic interests with the NAFTA countries. One of the most effective ways for Argentina to protect these interests is to formalize its economic relationships with the NAFTA countries within the framework of a clear set of rules. The NAFTA agreement provides such a framework.

8. MERCOSUR Obligations and NAFTA Accession

Despite the strong economic logic in its favour, an Argentine accession to the NAFTA would not necessarily be an easy process. In particular, Argentina's membership in MERCOSUR complicates matters. Argentina is obligated to give most favoured nation (mfn) treatment to the other MERCOSUR parties for trade in goods (but <u>not</u> services) and investment. The NAFTA goes beyond MERCOSUR in both these areas. Therefore, Argentina, on acceding to NAFTA, would face the choice of whether to honour this mfn commitment by unilaterally extending certain benefits exchanged between Argentina and the NAFTA partners related to merchandise trade and investment to its MERCOSUR partners, or whether to take the political choice of offering these benefits only on a reciprocal, negotiated basis regardless of the letter of the Treaty of Asunción and its related Protocols. In addition, as Argentina shares MERCOSUR's common external tariff with its other members, the elimination of import duties between Argentina and the NAFTA could create concern in Brazil (for example) about North American goods circumventing the CET by using Argentina as a back-door into Brazil, given the elimination of import duties between the MERCOSUR countries. This possibility requires a discussion of rules of origin, the usual control mechanism implemented to prevent such circumvention.

8.1 Trade in Goods

The Treaty of Asunción, the primary treaty for MERCOSUR, states in Chapter One, Article 8 (d) that:

> They *[the States Parties]* shall extend automatically to the other States Parties any advantage, favour, exemption, immunity or privilege granted to a product originating in or destined for third countries which are not members of the Latin American Integration Association.[76]

[76] From a translation, see International Legal Materials, Volume XXX, Number 3, May 1991, p. 1045.

What does this mean? Under the terms of this Article, Argentina is bound to give its MERCOSUR partners the same benefits, with regard to merchandise trade, that it would give to its hypothetical NAFTA partners. The extent of these benefits can be determined by comparing the trade liberalizing measures of the MERCOSUR agreement with those of the NAFTA. The incomplete survey below shows that the NAFTA goes beyond the MERCOSUR in liberalizing merchandise trade. A much more detailed comparison of NAFTA and MERCOSUR obligations would be an essential part of the preparatory work for Argentina's accession to the NAFTA, but the following illustrates the challenge.

A key element of a free trade agreement is, of course, the elimination of import duties and other similar border charges between member countries. This issue would pose few MERCOSUR-related problems for Argentina upon accession to the NAFTA as it has already eliminated most of its tariffs on Brazilian imports as part of the MERCOSUR agreement. Problem areas might include Argentina's national exceptions for intra-MERCOSUR trade, but these exceptions are to be phased out. In any event, both Argentina and Brazil made commitments at the Miami Summit in December 1994 to work towards hemispheric free trade which would include tariff elimination between each other and the NAFTA countries.

The Treaty of Asunción eliminates most non-tariff barriers between members of MERCOSUR. Annex I, Article 10 states that: "As of 31 December 1994, all non-tariff restrictions shall be eliminated from the common market area." However, one analyst reports that over 200 NTBs remain in place on intra-MERCOSUR trade.[77] It is not evident from this source how many of these may be Argentine measures. If, as part of NAFTA accession, Argentina were to eliminate such an NTB, Argentina would have to decide whether to extend this liberalization to its MERCOSUR partners pursuant to Asunción's mfn obligation.

Asunción also eliminates the right of members to initiate certain emergency safeguard actions against each other in the case of import surges. Annex IV, Article 5 states that: "In no event may the application of safeguard clauses extend beyond 31 December 1994." However, the same analyst cited above states that, although bilateral actions to safeguard against injurious import surges are prohibited by Asunción, "global safeguard actions [i.e., taken pursuant to GATT Article XIX] will be allowed, but remain to be negotiated."[78] NAFTA Article 802 already provides a higher

[77] Robinson, MERCOSUR, What It Is, What It Does, p. 17.

[78] Ibid., p. 29.

level of liberalization in this regard. It prohibits application of global safeguard measures to imports from NAFTA members unless these imports account for a substantial share of total imports and contribute importantly to the injury or threat of injury caused by these imports. MERCOSUR is forming a common global safeguards policy. If this evolves toward restricting the use of this mechanism on goods from member states, then there may well be little substantive difference with NAFTA 802.

Chapter Six of the NAFTA contains a broad range of measures related to trade in energy. If Argentina, unlike Mexico, were to accept fully this part of the NAFTA, its MERCOSUR mfn obligation would apply to a range of liberalizing provisions. In terms of the NAFTA-MERCOSUR theme of this Paper, the two most important measures (which also go beyond current WTO obligations between Argentina and Brazil) are Article 604 which explicitly prohibits export taxes and Article 605 which entails a tighter discipline more fully guaranteeing the security of supply of energy goods.[79] The MERCOSUR parties are currently looking at ways to coordinate national energy legislation but have not have yet agreed to any measures affecting energy.

Government procurement is an important area where MERCOSUR has not yet worked out its policy. Chapter Ten of the NAFTA contains significant disciplines on procurement above a certain threshold of value by government entities covered by the Agreement.[80] NAFTA parties must not discriminate against goods and bidders from other Parties. Technical specifications cannot be written to exclude bidders from other Parties. There are significant disciplines imposed on the tendering process to ensure that it is fair and transparent. Moreover, joining NAFTA must involve concrete access commitments whereby certain government departments and agencies are subject to these transparency provisions with regard to purchases for their own use. The MERCOSUR mfn principle for goods could well apply for any Argentine government entities made subject to NAFTA Chapter 10. On the other hand, government procurement has traditionally been considered a carve-out from trade rules where disciplines apply only as the result of a "conditional mfn" procedure based

[79] Note that the NAFTA (through Article 314) prohibits export taxes on all goods, not just the energy products subject to Chapter 6. The language of the Treaty of Asunción is more general but it seems to prohibit export taxes by calling for the elimination of any charge on reciprocal trade related to fiscal matters. According to the Economist Intelligence Unit, Argentina presently levies no export taxes except a 6% levy on soy beans. Economist Intelligence Unit, Investing, Licensing and Trading Conditions Abroad, Argentina 1994, p. 27.

[80] Note that neither Argentina nor Brazil is a party to the WTO Agreement on Government Procurement.

on negotiated reciprocity. Argentina could make this case if challenged by Brazil on procurement following a NAFTA accession.

There are a number of other Chapters of the NAFTA which liberalize trade in goods in less sweeping ways. These include measures to: improve customs procedures (Chapter Five), allow for the temporary admission of goods (Article 305), provide for the duty-free entry of commercial samples and printed advertising materials (Article 306) and allow for the duty free re-entry of goods after repair and alteration. On acceding to NAFTA, Argentina would have to consider offering to Brazil these benefits unless MERCOSUR has measures which create the same obligations. These measures, however, should not be particularly controversial as they represent good commercial practices, not major new changes in course.

MERCOSUR also has a working group on duty drawback and deferral, but has not yet developed a policy in this area.[81] Argentina has a temporary admissions regime which allows for the duty-free importation of raw materials and intermediate inputs for incorporation into export goods.[82] NAFTA places significant restrictions on the use of duty drawback and deferral. Again, Argentina would, in principle, be obligated to give Brazil concessions in this area to the extent the NAFTA provisions were more favourable than those which may eventually be developed by the MERCOSUR partners. At the time of writing, it is unclear whether Argentina's temporary admissions regime is in fact used for exports to Brazil.

8.2 Investment

Trade in goods is not the only area in which Argentina's membership in MERCOSUR could create technical/legal difficulties for Argentina's accession to NAFTA. The 1994 Protocol of Colônia and the 1994 Protocol of Buenos Aires are the MERCOSUR instruments that govern investment. Colônia covers intra-MERCOSUR investment, while Buenos Aires sets out the conditions by which investment from third countries will be treated in the MERCOSUR area. The goal of Buenos Aires is to establish uniform conditions in all the member states. Article 1 of Buenos Aires attempts to guarantee a common standard by prohibiting any member state from offering third country investors conditions more favourable than those outlined in that

[81] Duty drawback is a system whereby the import duty on a good is reimbursed if the good, for example, is incorporated into another product that is subsequently exported.

[82] Economist Intelligence Unit, Investing, Licensing and Trading Conditions Abroad, Argentina 1994, p. 13.

Protocol. A key feature of the Buenos Aires is that it offers less favourable conditions for investors than either the NAFTA or the Protocol of Colônia.

Buenos Aires, because of Article 1, could pose an obstacle to Argentine accession to the NAFTA. Yet there is a tension between the MERCOSUR investment instruments themselves. The Protocol of Colônia states in Articles 2 and 3 that Argentina must offer most favoured nation treatment to its MERCOSUR partners in the area of investment. This implies that more liberal results may be achieved by a MERCOSUR member with a non-member at some point and thus provides for the extension of this treatment to other MERCOSUR Parties. This is at odds with Article 1 of the Protocol of Buenos Aires described above which is crafted to try to prevent such better treatment for non-MERCOSUR investors and investments in the first instance. Indeed, the Protocol of Buenos Aires also seems at odds with the Argentina-U.S. Bilateral Investment Treaty (BIT) and the Argentina-Canada Foreign Investment Protection Agreement (FIPA) in that it specifies a lower level of treatment for third-country investors (i.e., Canadians or Americans) than is agreed to in these treaties. For example, Buenos Aires allows expropriation for social interest, a broad term, while the BIT and the FIPA allow expropriation only for "public purpose".

Consequently, Article 1 of Buenos Aires may not be a major issue in practice. Rather, the most favoured nation treatment provisions of Colônia may encompass the greater challenge with regard to Argentine accession to the NAFTA. Argentina would be bound to give its MERCOSUR partners any benefit in the area of investment that the NAFTA provides to its members. There are a number of articles in the NAFTA which go beyond the provisions of the Protocol of Colônia.

The definition of an "investor" is more expansive in the NAFTA in that Colônia specifically excludes real persons who are nationals of one Party who are living in another Party's territory permanently unless the funds for the investment can be proved to have come from outside the territory in which they are invested. For example, Colônia does not apply to an Argentine living permanently in Brazil unless he can prove that the funds for the investment came from outside Brazil. NAFTA is more inclusive.

Under NAFTA, any company legally established in a NAFTA country (even a company controlled by non-NAFTA interests) is considered a NAFTA investor, although the benefits flowing from this can be denied if the company does not have substantial business activity in the NAFTA country where it is incorporated. Under Colônia, the company also must have its headquarters in the territory of the Party where it is established. At the least, this appears to mean that a <u>branch</u> operation controlled by foreign interests is not an "investor" for purposes of Colônia, although it would be an "investor" in NAFTA terms if Argentina acceded. Presumably, the "headquarters" requirement of Colônia would cover a fully incorporated subsidiary with a separate board of directors, even though the subsidiary is ultimately controlled by non-Member interests, as does the NAFTA.

NAFTA goes beyond Colônia in its prohibition of performance requirements linked to the establishment or operation of an investment in that the prohibition applies also to non-Party investors and includes a broader range of requirements than covered by either Colônia or the WTO Agreement on Trade-Related Investment Measures to which both Brazil and Argentina are parties. The NAFTA also goes beyond Colônia in that it prohibits certain performance requirements linked to "advantages" (i.e., subsidies) given to investors.

While Colônia includes investor-state dispute settlement, NAFTA is somewhat stronger in this regard as it specifies in detail the procedures to follow if a dispute is referred to arbitration under provisions of the ICSID or UNCITRAL.[83] These procedures include provisions governing interim protection and enforcement.

NAFTA, unlike Colônia, sets out valuation criteria for compensation to investors whose property is expropriated by the host country government.

The NAFTA provision governing the transfer of capital and profits goes beyond Colônia by prohibiting a Party to force its investors to repatriate funds associated with an investment in another Party.

In summary, NAFTA's investment provisions go beyond those of MERCOSUR, although the latter has crafted a fairly advanced instrument through the Colônia Protocol. Argentina would, on acceding to NAFTA, be bound by its MERCOSUR obligations to offer a package of investment-related liberalization guarantees to its MERCOSUR partners that is moderately more advanced than the Colônia instrument. Such an approach could be seen as positive, as it would underline the greater security of investment, including Brazilian investment, in Argentina, thereby helping to attract more.

[83] ICSID means the International Centre for Settlement of Investment Disputes; UNCITRAL means the United Nations Commission on International Trade Law.

8.3 The Common External Tariff

The hurdle that is most frequently raised by trade policy specialists with regard to possible Argentine accession to the NAFTA is the issue of breaching the MERCOSUR common external tariff (CET). In discussions of the prospects for wider hemispheric free trade arrangements involving the MERCOSUR countries, including NAFTA accession, the CET is often raised as an almost insurmountable barrier. The CET, as the sine qua non of a common market, is assumed to be inviolable. However, this issue is less daunting than it might first seem.

It should be recognized that the CET is, in fact, already breached to a significant extent. The MERCOSUR common tariff has fairly extensive exceptions which will not be completely phased out until 2006. The Inter-American Development Bank estimates that exceptions to the CET comprise 12 percent of the tariff schedule (i.e., tariff lines or items) and 23 percent of the value of total imports of the MERCOSUR countries.[84] In 1994, 22% of Argentine exports to and 17% of Argentine imports from the other MERCOSUR countries were not covered by any trade agreements within the ALADI framework.[85] The MERCOSUR agreement is, of course, one of the most important agreements which has flowed from the 1980 Treaty of Montevideo. The Association of Brazilian Companies Interested In MERCOSUL (ADEBIM) has estimated that 23% of Brazilian imports by value were exempted from the common external tariff using 1994 trade data.[86] Much of this trade is subject to administrative procedures applying rules of origin to determine which tariff rate should be applied on trade within MERCOSUR.

The fact is that rules of origin are already applied on a regular basis to a substantial part of Argentina's trade with its MERCOSUR partners. Moreover, rules of origin are imposed because of a fear of trade circumvention through the partner with the lowest tariff on non-Member imports (in this case, Argentina with its zero duty on North American goods following NAFTA accession). Industries in the Member retaining a higher tariff on third party imports (in this case, Brazil through the application of the CET on North American products) that feel threatened by such

---

[84] Organization of American States/Trade Unit, Toward Free Trade in the Americas, Report to the Special Committee on Trade, (Washington D.C. 1995), p. 40. The IDB used 1993 import statistics and the initial list of exceptions to the CET.

[85] Based on Table A.5.4 of Economic Report No. 12, The Argentine Economy in 1994, by the Argentine Ministry of the Economy and Public Works on the Ministry's World Wide Web homepage.

[86] US$ 7.5 billion out of total Brazilian imports 1993 US$33.2 billion

possible circumvention might demand a rule of origin (in this case, a good exported from Argentina to Brazil would have to demonstrate that it was substantially transformed within the MERCOSUR area before entering Brazil duty free - otherwise, Brazil could charge the full CET).

But the fact is that the products where the greatest Brazilian sensitivity lies with regard to North American competition are by and large those products where the CET still does not apply (e.g., capital goods, telecommunications and infomatics products). Consequently, each MERCOSUR member retains its own individual duty level on third country imports of these goods for the time being. Thus intra-area trade in these products is already subject to a rule of origin with its added transaction costs and inconvenience for the private sector. If Argentina were to join NAFTA, there might be pressure to create MERCOSUR rules of origin for a few additional product groups, but the most likely candidates (again, reflecting Brazilian sensitivities about North American competition) are precisely those already caught in the CET transitional process. An entirely new régime would not have to be constructed - there already is a rule of origin requirement, even if some fine-tuning might be sought following Argentine accession to the NAFTA.

Moreover, if Brazil sticks to its Miami Summit commitment of hemispheric free trade by 2005 then this issue should be relevant only for a limited time, as hemispheric free trade must mean that the MERCOSUR CET would not apply in any event to imports into any MERCOSUR country from the NAFTA countries. Consequently rules of origin within MERCOSUR would not be required on internal trade because all members would be charging the same import duty at their respective borders (the CET on non-hemispheric goods; a zero duty for imports from each other and the rest of the hemisphere including North America).

8.4 Quid Pro Quo

On acceding to NAFTA, Argentina might be expected by Brazil to extend a number of trade and investment liberalizing measures to its MERCOSUR partners. It is unlikely that Argentina would be willing to provide liberalizing measures without receiving something in return from its MERCOSUR partners. There is a strong argument for reciprocity in practice. Reciprocal adoption of these measures would be in the interest of the MERCOSUR parties because it would help ensure the success of the agreement by creating stronger disciplines in a number of areas. Southern Cone integration would benefit from such deeper reciprocal commitment. Also, a convergence of the NAFTA and MERCOSUR to a high common standard in the liberalization of merchandise trade and investment would represent important steps towards the establishment of the free trade area of the Americas, a process that is in the real, long-term interest of both Brazil and Argentina.

The real obstacles to Argentine accession are likely to be political rather than technical. Brazil's vision of itself as a potential world power is linked closely with its desire to be the dominant member of a regional trading bloc. Argentine accession to the NAFTA would effectively end the Brazilian dream of building a South American trade bloc around MERCOSUR and under its leadership. Given sufficient flexibility on the part of the MERCOSUR members, the agreement could survive and even be strengthened by Argentine accession to the NAFTA. However, a MERCOSUR which is evolving towards convergence with the NAFTA might be perceived by some in Brazil as a less effective vehicle for Brazilian ambitions than MERCOSUR as it presently stands. Brazil might well take a hard-line stance against the evolution of MERCOSUR which would accommodate an Argentine interest in NAFTA accession. In this case, Argentina would want to take a hard look at which arrangement better served its national interest.

9. Is the Game Worth the Prize?

Why would Argentina want to pursue NAFTA accession given the technical obstacles that would have to be overcome and the political tension with Brazil that might accompany the negotiations? I would argue that, for Argentina, NAFTA accession is well worth the price. Argentina would gain in four ways: by securing access to a large developed market, by making immediate and longer term economic gains from greater trade liberalization, by getting the NAFTA "seal of approval" for its foreign investment environment and by strengthening its position for future international trade negotiations.

9.1 Secure Access

Joining NAFTA provides secure access to a sophisticated, prosperous market with more than $7 trillion of GDP. Although the NAFTA area is not Argentina's predominant export destination today, it is one of the most promising markets for Argentine export expansion. Argentina exporters are becoming increasingly competitive as they change to meet the demands of the country's newly liberalized economic environment. This improved competitiveness gives Argentina's exporters the potential to increase exports substantially to the U.S. and the other NAFTA countries. Accession to the NAFTA will provide secure access for competitive Argentine exports. Most probably, accession would result in both a significant increase in Argentine exports in absolute terms and an increase in the share of Argentine exports going to the NAFTA countries. Indeed, accession will itself help promote industrial competitiveness by reducing business risk and allowing business to make long-term plans and investments which will improve productivity.

9.2 Economic Benefits

Economic analyses of the affects of trade liberalization in the western hemisphere show that all countries participating make significant economic gains. Most notably, a 1994 study by Drusilla Brown and her colleagues looked at the results of NAFTA extension by examining the effects of tariff removal. This study showed that each country added to NAFTA made significant gains in terms of GDP growth.[87] Although the model used in this study does not capture many of the additional dynamic effects of trade liberalization and does not consider FDI and the cross-border movement of workers, it does show that Argentina would make economic gains from NAFTA accession just from the basic step of removing import duties. When all factors are considered, including the longer-term benefits created by more secure access, it is clear that Argentina would profit from NAFTA accession.

9.3 Seal of Approval

NAFTA accession will increase foreign investment in Argentina by reducing foreign investors' risk. Although Argentine domestic investment law, the Argentina-U.S. Bilateral Investment Treaty (BIT) and Argentina-Canada Foreign Investment Protection Agreement (FIPA) provide protection for Canadian and U.S. investors, NAFTA's investment provisions provide better security as they are part of a larger, more comprehensive agreement that underpins the central principles of non-discrimination and transparency that lie at the heart of creating a predictable business climate.

9.4 Playing on a Big League Team

The MERCOSUR countries have agreed in the Treaty of Asunción to develop a common commercial policy toward third countries. Clearly, one of the MERCOSUR countries' aims is to band together to present a common front in international trade negotiations. But is the MERCOSUR area really significant enough in economic terms to have much clout? As presently constituted, the MERCOSUR countries represent roughly 4% of world GDP. This is considerably less that the share of the NAFTA

[87] An Assessment of Extending NAFTA to Other Major Trading Countries in South America, Drusilla K. Brown, et al. (Ann Arbour, Michigan: University of Michigan, Institute of Public Policy Studies, 1994).

economies (25%), the EU (20%), Japan (9%) or China (9%). Expanding MERCOSUR to create a South American Free Trade Area would not increase the economic size of the bloc significantly, as the rest of South America has a combined share of only 2% of world GDP. MERCOSUR is not, and cannot become big enough to play hard ball in international trade and investment negotiations.

If becoming part of a powerful trading bloc is Argentina's aim, it would be much better off joining the NAFTA. Not only is the NAFTA larger and more powerful than MERCOSUR, the NAFTA countries' trade policy interests are much closer to those of Argentina than to those of Brazil. Argentina has committed itself more clearly to liberal economic policies and will benefit from the increasingly free movement of goods, capital, technology and information across international frontiers. Brazil, in line with its ambivalence about the value of economic liberalization, has shown a marked tendency, in many cases, to oppose measures in multilateral trade negotiations which would encourage greater economic liberalization. Clearly, in trade policy terms, Argentina's strategic interests are closer to those of the NAFTA countries than those of Brazil. There are advantages to being inside a big tent, influencing policy development from within, rather than attempting to do so from a distance.

10. Conclusion

If this Paper is correct in its argument, over the next several years Argentina's leadership will make important decisions about its national interest. Broadly, the question is how to match Argentina's trade policy with its liberal domestic economic policy? Specifically, Argentines will have to consider whether MERCOSUR in its present form is an arrangement that truly encourages economic growth and stronger connections to the world economy and whether it is sufficient to meet Argentina's medium to longer term needs and aspirations. This Paper has argued that without radical and swift reform in Brazil, MERCOSUR could become a drag on Argentina's development. Moreover, even if MERCOSUR continues to consolidate gradually, a supplemental link to the NAFTA through accession would bring major benefits.

I believe that if Argentina maintains its present domestic economic policies it must, at some point, choose international trading arrangements that match more closely its domestic policies. NAFTA accession is not the only option, but given the current state of evolution of the international trading system, it is the most logical.[88] Many in Argentina consider NAFTA accession to be an option worth serious consideration. In April 1994, Domingo Cavallo, the Argentine Economy Minister, said that Argentina would negotiate an accession to the NAFTA even if the other MERCOSUR partners were unable to take part in the negotiations.[89]

Pursuing NAFTA accession earlier rather than later is in Argentina's national interest. Early accession will likely be technically easier than later accession. Argentine accession, or even an Argentine declaration of interest, would send a powerful signal and help to move the hemispheric free trade process forward. It might even move the process in a direction that would encourage Brazil to pursue broader, significant trade and economic liberalization measures. This is all in Argentina's national interest. NAFTA accession should be actively considered by Argentina.

[88] For a discussion of the paths forward to western hemisphere free trade, see Keith Christie's forthcoming Policy Staff Paper, The Four Amigos and Beyond: Towards the Free Trade Area of the Americas.

[89] "Argentine Eyes NAFTA With or Without MERCOSUR", Reuter News Service, 26 April 1994.

POLICY STAFF PAPERS/DOCUMENTS DU GROUPE DES POLITIQUES

Recent Papers on Economic and Trade Policy Issues/Récents documents sur des questions économiques et de politique commerciale:

A) TRADE POLICY SERIES

1. Globalization and Public Policy in Canada: In Search of a Paradigm, by Keith H. Christie. 93/01 (January 1993) * SP19

2. Trade and the Environment: Dialogue of the Deaf or Scope for Cooperation?, by Michael Hart and Sushma Gera. 92/11 (June 1992) SP18

3. Globalization: The Impact on the Trade and Investment Dynamic, by Dennis Seebach. 93/07 (June 1993) * SP25

4. Merger Control Under Trade Liberalization: Convergence or Cooperation? by Nicolas Dimic. 93/09 (August 1993) * SP27

5. Technology Consortia: A Prisoner's Dilemma? by Rhoda Caldwell. 93/10 (August 1993) * SP28

6. Optimal Patent Term and Trade: Some Considerations on the Road Ahead by I. Prakash Sharma. 93/12 (October 1993) * SP30

7. And the Devil Take the Hindmost: The Emergence of Strategic Trade Policy by I. Prakash Sharma and Keith H. Christie. 93/14 (December 1993) * SP32

8. Stacking the Deck: Compliance and Dispute Settlement in International Environmental Agreements by Keith H. Christie. 93/15 (December 1993) * SP33

9. Financial Market Integration: The Effects on Trade and the Responses of Trade Policy, by James McCormack. 94/01 (February 1994) * SP35

10. The New Jerusalem: Globalization, Trade Liberalization, and Some Implications for Canadian Labour Policy, by Rob Stranks. 94/02 (February 1994) * SP36

11. Competition Policy Convergence: The Case of Export Cartels, by William Ehrlich and I. Prakash Sharma. 94/03 (April 1994) SP37

12. The Day After: An Agenda for Diversifying Free Trade, by Keith H. Christie. 94/04 (January 1994) * SP38

13. Global Strategies and Foreign Direct Investment: Implications for Trade and the Canadian Economy, by Julie Fujimura. 94/07 (March 1994) * SP41

14. Delivering the Goods: Manufacturer-Retailer Relations and The Implications for Competition and Trade Policies, by I. Prakash Sharma and Prue Thomson with Keith Christie. 94/11 (December 1994) SP45

15. Le libre-échange nord-américain, les subventions et les droits compensateurs: la problématique et les options, par Gilbert Gagné. 94/13 (Juillet 1994). SP47

16. Dangerous Liaisons: The World Trade Organization and the Environmental Agenda, by Anne McCaskill. 94/14 (June 1994) SP48

17. Damned If We Don't: Some Reflections On Antidumping and Competition Policy, by Keith H. Christie. 94/15 (July 1994) SP49

18. Pandora's Box?: Countervailing Duties and the Environment, by Robert T. Stranks. 94/19 (October 1994) SP53

B) TRADE DEVELOPMENT SERIES

1. From a Trading Nation to a Nation of Traders: Towards a Second Century of Trade Development, by Andrew Griffith. 92/05 (March 1992) SP12

2. Exports and Job Creation, by Morley Martin. 93/06 (June 1993) * SP24

3. The Impact of Exports: An Input-Output Analysis of Canadian Trade, by James McCormack. 94/24 (December 1994) SP58

C) REGIONAL TRADE AND ECONOMIC SERIES

1. Different Strokes: Regionalism and Canada's Economic Diplomacy, by Keith H. Christie. 93/08 (May 1993) * SP26

2. Japan Trading Corp.: Getting the Fundamentals Right by I. Prakash Sharma. 93/16 (December 1993) * SP34

3. Canada in the Americas: New Opportunities and Challenges, by Conrad Sheck, Colin Robertson, Jamal Khokhar, Nicolas Dimic, and Keith Christie. 94/06 (April 1994) * SP40

4. China 2000: The Nature of Growth and Canada's Economic Interests, by Steve Lavergne. 94/10 (May 1994) SP44

5. The Japanese Way: The Relationship Between Financial Institutions and Non-Financial Firms, by James McCormack. 94/16 (July 1994) SP50

6. Towards Regional Economic Blocs: Are We There Yet?, by Julie Fujimura. 95/01 (February 1995) SP 59

7. Changing Partners: Trends in Canada's Regional Economic Relations, by Steve Wilson. 95/02 (March 1995) SP60

8. Fact or Fancy?: North Asia Economic Integration, by Steve Lavergne. 95/03 (March 1995) SP61

9. With or Without You: Argentina, Brazil & NAFTA, by Stephen Wilson. 95/09 (August 1995) SP67A.

D) OTHER ECONOMIC PAPERS

1. World Population Growth and Population Movements: Policy Implications for Canada, by Michael Shenstone. 92/07 (April 1992) SP14

2. Pour des sanctions efficaces et appropriées, par Jean Prévost. 93/04 (mars 1993) * SP22

3. Black Gold: Developments in the World Oil Market and the Implications for Canada, by Sushma Gera. 93/05 (February 1993) * SP23

4. Determinants of Economic Growth in Developing Countries: Evidence and Canadian Policy Implications, by Rick Mueller. 94/08 (April 1994) * SP42

5. Still an Albatross? The LDC Debt Crisis Revisited, by Rick Mueller. 94/09 (May 1994) SP43

6. Pro-Active Sanctions: A New/Old Approach to Non-Violent Measures, by Dr. Nicholas Tracy. 94/17 (June 1994) SP51A

7. A View of the Forest: Environmental Stress, Violent Conflict, and National Security, by Rob Stranks. 95/05 (April 1995) SP63A

8. The Geographic Distribution of Canada's Bilateral Assistance: Alternative Approach, by Nicolas Dimic. 95/11 (August 1995) SP69A.

POLICY STAFF COMMENTARIES

No. 1 The Uruguay Round: What's In It For The Developing Countries, by Robert T. Stranks * (March 1994)

No. 2 Outward Direct Investment: Implications for Domestic Employment, by Robert T. Stranks and Julie Fujimura* (April 1994)

No. 3 Trade and Direct Investment Statistics: The Twain Have Met, by James McCormack * (May 1994)

No. 4 Economic Sanctions: Foreign Policy Foil or Folly?, by Robert T. Stranks * (May 1994)

No. 5 Recent Capital Flows to Latin America: Too Good to Last?, by Richard E. Mueller * (August 1994)

No. 6 Not Out of the (Bretton) Woods Yet: Exchange R Reforms, by James McCormack* (February 1995

No. 7 Takin' Care of Business: The Impact of Deficit McCormack* (March 1995)

No. 8 The Trouble with Numbers: Military Spending McCormack* (June 1995)

No. 9 Unfinished Business: Towards a Global Enviro 1995)

No. 11 Traders in Tennis Shoes: Derivatives, Volatilit McCormack* (May 1995)

* available in English/disponible en français