REGIONAL INTEGRATION AND GLOBAL INSERTION: THE LATIN MERICAN CASE

(Draft Version)

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Introduction

Over the past two decades developing countries are becoming increasingly focused on greater involvement in the global economy. Latin American countries are prime examples of this involvement at both the regional and global level. This is exemplified by their role in the establishment of regional trade blocs such as MERCOSUR, CAN, and NAFTA, as well as their participation in the GATT/WTO rounds of negotiations. While some of these countries have benefited from these trade bloc strategies on a regional basis, very few have benefited from these same trade blocs on a global basis and thus most of Latin America is still not inserted into the global economy at any significant level. This begs the question "What strategies should Latin American countries pursue in order to solidify and promote their position as significant economic participants at the regional and global level?" The main objective of this paper is to analyze how economic integration has taken shape in Latin America to date and how cooperation within and between the major trading blocs of the region could bolster the capability of Latin America countries to insert themselves into the global economy. This paper argues to the complementary of regional and global strategies for successful participation in economic relations on both a regional and global level.

While regional integration has been stimulated through the promotion of closer trade relations among Latin American countries, integration into the global economy has been persuaded by deepening and diversifying economic relations with countries outside Latin America. In order to determine how Latin America promotes its insertion into the global economy, this paper will first review the globalization process as a whole followed by a short overview of the participation of the region in the global economy throughout the last two decades. It will then discuss how economic integration has taken shape in Latin America to date

focusing mainly on the case of NAFTA and MERCOSUR. The paper will then compare the regional and global economic strategies used by Mexico and Brazil in order to evaluate the success of each country's strategy with respect to global insertion. According to the previous review, the paper will finally attempt to demonstrate how both regional and global strategies could bolster the capability of Latin American countries to insert themselves into the global economy.

As many scholars still analyze the impacts of the trade strategies undertaken by Latin American countries for economic integration both on a global, and on a regional level, academic literature to date suggests that agreements, such as MERCOSUR, may be beneficial for building up a regional economic integration in Latin America. This argument is based in the idea that as regional blocs contribute to an increase in regional cooperation and national economic progress among country members; this in turn improves the international competitiveness of the bloc and its member states. Greater competitiveness is very important to ensure the successful insertion of the Latin American Economies into the world markets. However, there are other scholars who believe that regional integration is a force that fragments the world-wide reach of the new global economy. Academic literature suggests that multilateral agreements are more powerful than regionalism in the construction of economic policies across the world encouraging the evolution of global free trade.

History

During the last two decades, Latin America, a region of the world that contains some of the most dynamic and newly industrialized emerging economies of the world such as Mexico and Brazil has experienced profound economic transformations. During the 1980s Latin American countries embarked on a series of economic policy reforms that marked a shift from

inward oriented economic policies into outward oriented open-marked based policies. Prior to 1980, the initial strategy followed by Latin American countries was based on the Import Substitution Industrialization (ISI) whose goal was to promote South-South trade and cooperation only within Latin American Countries, and to maintain high tariffs with the rest of the world. The fact is that Latin America had always been characterized by its great economic dependence on the industrialized world in terms of imports of manufactured goods, and raw material exports. However, during the Great Depression, when the worldwide demand for raw materials started to decline, the prices and quantities of Latin American exports dropped tremendously, and the imports of manufactured goods became very restricted because the production in the industrialized world was mainly directed towards war needs (Hufbauer and Schott 1994). As a response to this situation Latin America engaged in a strategy to expand regional markets, break down that economic dependence, and develop an internal industrial base to achieve economic development, by carrying out the ISI strategy (ISI). This strategy however brought really negative effects for many Latin America countries especially in terms of exports as many Latin American countries became marginalized from the GATT trade process. As Fischer and Meller (2001) observed, "at the overall level, Latin American exports had an annual average export growth rate of 3.2 percent during the 1960-80 period; this rate was much lower than the 6.1 world export growth rate (Fischer and Meller, 77).

It was not until the mid-1980s that Latin American countries moved away from the protectionist policies of the ISI into today's export oriented strategies by embarking on a series of free-market reforms. This was largely due to both the economic crisis faced by Latin America and to the increased global interdependence brought about by the globalization phenomenon. As Spero and Hart (2003) discussed, the debt crisis of the 1980s played an important role in the

rethinking of development strategies. The need to generate new sources of exports to service the debts accumulated in the 1970s crested enormous incentives to adopt export oriented development strategies and to abandon the ISI policies of the past (Spero and Hart, 186). By the 1990s, most Latin American countries began to pursue a unilateral trade liberalization process that included the elimination of tariffs and non-tariff barriers independently (Fischer and Meller 2001, 77). Latin America also embarked not only on a regional integration process to achieve both political and economic cooperation, and to promote the participation of member countries in the multilateral trade liberalization, but also on a series of bilateral free trade agreements during this period. As Rodriguez M. and Kotschwar (1997) mentioned:

> These new trade policies enabled Latin American countries to advance their regional economic integration goals and participate more intensely in multilateral initiatives such as the General Agreement on Tariffs and Trade (GATT). The GATT Uruguay Round negotiations, launched in 1986, occurred while most Latin countries attempted to recover from the debt crisis. They actively participated in these negotiations because they viewed the multilateral agenda as a means to consolidate their recent domestic reforms and strengthen their engagement in the world economy. The multilateral commitments undertaken during these negotiations have reinforced the unilateral liberalization measures implemented in the region (Rodriguez M. and Kotschwar, 40).

The fact is that the shift toward liberalist trade strategies in Latin America resulted on this region's active participation and engagement in the multilateral trading system. Today, as most Latin American countries are a lot more open, the current economic policies of the region rest on the conviction that the region's future depends on an improvement in its international competitiveness, along with further integration into the world economy (Gereffi and Hempel 1996, 4). Not only have they followed the path of regionalism, but they have also pursued formal trade agreements with other countries in the hemisphere and the rest of the world. Currently, most of the countries in Latin America and the Caribbean are involved in a great number of trade negotiations, and most of them are participating in multilateral, hemispheric, and

regional/bilateral negotiations with countries or group of countries outside the Western Hemisphere (da Motta Veiga 2001, 3). For instance, Mexico has signed agreements with Bolivia, Venezuela, Colombia Chile, Brazil and Uruguay as well as with the EU. Brazil has now opened the country to new economic relations with other Latin American countries and the world, and MERCOSUR is negotiating a trade liberalization agreement with the EU. Trade tides have been built with other nations of the continent such as the United States and Canada, as well as other regions in the world such as the European Union, and China. As discussed by Rodriguez M. and Kotschwar (1997), Latin America now boasts an unprecedented level of economic openness and cooperation by establishing regional trade and integration arrangements while creating new and dynamic multilateral commitments (Rodriguez M. and Kotschwar, 39).

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Globalization

Throughout the last two decades the world has been experiencing the growing globalization of national economies. The era of globalization came about due to the liberalization of the world economies, and the revolution on telecommunications and computing technologies which led to a deep interrelationship between economies through the flows of goods, capital, investments, and services. Thanks to the technological revolution, different countries began their incorporation into the global economy through international production, trade and financial networks, which resulted on greater open markets for goods and services, global firms producing and distributing products in multiple markets, and global financial markets for the trade of capital (Spero and Hart 2003, 5). Thus, globalization led countries to become highly interdependent and extremely sensitive to economic policy and events outside their national economy. Bernal-Meza (2002) defines globalization as an ideological concept that implies

developing countries to adjust their economic policies to these new realities by opening up their domestic markets to the imports of goods and services, inflows of direct investments and other kinds of capital and technology flows (Bernal-Meza, 154). However, while globalization offered great opportunities for economic development and trade expansion to different countries in the world, it also brought about an increased competition on global markets. As stated by Spero and Hart (2003), countries that were able to attract foreign investment, technology and to expand exports prospered, while others, unable to compete were left behind (Spero and Hart, 8). Nonetheless, there is a global acceptance of the economic benefits that free markets represent.

In order to take advantage of the process of globalization, improve access to major global markets and to successfully integrate national economies into the world system, countries have different bargaining approaches available. In the trade arena, countries can follow multilateral, regional or bilateral strategies to either promote or control trade flows (Aggarwal and Espach 2004, 6). The multilateral approach in trade negotiations involves different countries working together on trade negotiations and it is principally institutionalized by the GATT/WTO negotiations. As John Ruggie (1992) defines it, multilateralism refers to coordinating relations among three or more states in accordance with certain principles (Ruggie, 568). While the multilateral agenda is seen as the optimal scenario for advancing trade, is also a very problematic area. As Rodriguez M. and Kotschwar (1997) discussed, the WTO does not include all countries of the world and trade barriers remain very high in both developed and developing countries (Rodriguez M. and Kotschwar, 41). The problem is that since multilateral agreements involved many countries working together, negotiations are filled with complexities, and without effective leadership by powerful countries, and legitimized enforcement of norms problems of collective action are very hard to overcome under the WTO discipline (Aggarwal and Espach 2004, 16).

Another strategic approach to trade countries can undertake is regional integration. Regional trade agreements serve as a tool for countries to reduce barriers to trade among neighbors while maintaining flexibility over which sectors to liberalize and which issues to negotiate. Bernal-Meza discusses how regionalism is a form of construction of larger cross-national geographical spaces that enable the mobilization of economic, social and political forces on a much larger scale than it is possible within a single national economy (Bernal-Meza 2002, 155). A principal benefit of regionalism, as Aggarwal and Espach observed, is that "in negotiations, it is relatively easy for like-minded countries to agree on norms and rules, and the potential industrial complementarities and economies of scale are more clear and predictable at the regional – rather than transregional or global – level (Aggarwal and Espach 2004, 23)." However, as many scholars argue, like bilateral negotiations, regional agreements could not only result on trade diversion, but they could also lead to protectionism and to the potential erosion pf the multilateral trading system (Rodriguez M. and Kotschwar 1997, 40).

The last strategic option to trade is pursuing bilateral negotiations which are agreements between two countries or blocs offering preferential treatment to one another. These negotiations can be between countries either geographically concentrated or dispersed. Bilateral negotiations do not only permit governments tactical flexibility in setting terms, conditions and scheduling of tariff reductions, but they are also easy to start and usually politically less complicated than are multilateral or regional negotiations (Aggarwal and Espach 2004, 20). In addition, by signing bilateral agreements countries can improved their access to the world's most lucrative markets while opening their economies to the world's fiercest competition (Aggarwal and Espach 2004, 22). The major disadvantage of bilateral agreements is the possibility of significant trade diversion. Another negative characteristic of bilateralism, as Aggarwal and Espach mentioned, is

that "bilateral agreements are a poor option for small countries as it forces them to negotiate one-to-one with larger nations from a disadvantaged position, since smaller-country producers stain to gain more from access to larger markets than do large-country consumers or producers from access to the smaller market (Aggarwal and Espach, 20)."

The fact is that in a world that has not only become so interconnected and interdependent, but also where, due to the process of globalization and liberalization, many nations now face difficult challenges as they deal with increasing worldwide competition, it has become imperative for countries to improve their access to the major markets of the world. The question that we have to answer is what could be the best strategic path that Latin America as a region should follow in order to improve and strengthen economic ties or relations and to take advantage from the trade benefits. The answer to this question greatly depends on the trade preferences that each country has due to the diversity of interests and economic structures that Latin American countries present.

Multilateral System

As previously mentioned, during the 1980s and 1990s, in an attempt to integrate into the global economic system, most Latin American countries shifted their trade strategies. It was during the 1990s, that many Latin American countries that remained outside the GATT/WTO joined this multilateral organization. During the 1980s, the Latin American and Caribbean countries began to open up their economies when the Uruguay Round was underway and the implementation of the corresponding agreements complemented and supported the reform efforts being undertaken in the region (ECLAC, 2004, 51). Latin America then began to participate actively in multilateral trade negotiations. Since the Uruguay Round, when many of the developing countries became full members of the WTO, most Latin American countries have

become very active participants in trade negotiations among other developing countries. As Michalopoulos (2002) stated, "the Latin American and Caribbean countries participation in the WTO is far greater and probably more effective than on average for developing countries as a whole (Michalopoulos, 27)." However the levels of participation differ from country to country and large/rich countries retain greater participation as opposed to the small and poor economies. Due to the fact that developing countries have always have a very limited voice in the multilateral system or WTO, many countries considered necessary to form coalitions to gain a greater voice in trade negotiations and to advance their interests. The major concern on developing countries is that the process use in the Rounds to develop consensus ignore their interests and most small economies, such as the Caribbean countries are often excluded form the meetings. Latin American countries participation in the WTO mechanism is therefore through various informal groups comprised of developed and developing countries as a way to reach consensus in sensitive areas. Among these informal groups we see the Cairns Group which is one of the major coalitions representing the interest of both developed and developing countries in the area of agricultural trade (Michalopoulos, 30). In fact, countries such as Brazil who have criticized U.S and the Europe's commitment to open markets and a level playing field in international trade, have began to support blocs or coalitions promoting collective bargaining and active participation in international institutions such as the WTO (Tulchin and Espach, 13). For instance, during the WTO Ministerial in Cancun held on September 2003, developing countries were able to play a major role on the negotiations as a result of their effective coalition formation. The strongest coalition that was formed before the Cancun Ministerial was the G20 which came together after different groups realized that the U.S and the EU had jointly agreed on a text which made minimal commitments on agriculture. As Narlikar and Tussie (2004) stated,

"with China aboard, the group (G20) became one that combined (arguably) all the emerging powers from the developing world (Narlikar and Tussie, 952)." It is important to mention that Brazil played the major leading role on the G20 coalition.

Regional Integration

As a way to compete at the global level countries have been forming alliances with their neighbor countries promoting economic and political cooperation and seeking to improve economic development within their region. Regional agreements are seen in Latin America as means to overcome the inherent scale limitations of each country's domestic market, assist industries to be come competitive on a regional level, and encourage industrial development within a cooperative framework (Rodriguez M. and Kotschwar, 41). Thus regional economic integration is a phenomenon that has been taking place throughout the Latin America as a way to achieve both economic and social development goals in various countries of the region. However, some agreements have been more effective than others. The Central American Common Market (CACM) established in 1960 and the Latin American Free Trade Association (LAFTA) which started in 1961, are among the earliest regional agreements that took place throughout Latin America. The problem with the early strategy was that it obstructed rather than facilitated trade liberalization since "it excluded entire economic sectors from the agreement's trade liberalization schedule as countries resisted opening their protected sensitive sectors ((Rodriguez Mendoza and Kotschwar 1997, 49)." A third scheme was the Andean Common Market which was approved in principle in 1966 by the leaders of Chile, Colombia, Ecuador, Peru and Venezuela with Bolivia added in 1967. Finally the Latin American Common Market scheme was promoted by the Economic Commission for Latin America (ECLA) and obtained approval by eighteen countries. The goal of the Latin American Common Market was to carry

out the transition of member countries to a common market by 1985 and in the process absorb both the CACM and LAFTA (Felix 1970, 87). The disappointment with LAFTA rose when the agreement appeared to be benefiting mainly Mexico, Brazil and Argentina (Adkisson 2003). Due to the disappointment with LAFTA, the Andean Pact, currently Community of Andean Nations, was established by Colombia, Peru, Bolivia, Chile, and Ecuador with the Cartagena Agreement in 1969 (Adkisson 2003). The Caribbean Common Market (Caricom) was established by the end of the 1960s. However, in the late 1980s, after many years of relative stagnation Caricom began a new surplus of activity and started to take steps toward economic integration" (Hufbauer and Schott 1994). The major goal of these agreements was to avoid exclusion from the global economy.

Due to regional development and changes in economic structures taking place in Latin America, the regional agreements made prior to the 1980s did not succeeded. The fact is that as the world becomes more interdependent and globalized, Latin America has been working towards open regionalism by promoting trade not only within the region, but also with third countries or those that do not belong to the regional agreements. Among other major priorities of the new regional integration in Latin America is to attract foreign direct investment and promote country members participation in multilateral cooperation. Today, the two major regional agreements in Latin America are Mercosur and NAFTA, both of which have had tremendous impacts on trade liberalization and trade growth within the region and with the rest of the world. MERCOSUR, whose member nations are Brazil, Paraguay, Uruguay and Argentina, is the largest and most dynamic trade bloc in Latin America, established in 1990 (Rodriguez M. and Kotschwar, 44). Due to the fact that during the 1990s the world was becoming increasingly regionalized as a result of the formation of trade agreements such as NAFTA, MERCOSUR was

created in a attempt to guarantee access to world markets and to improve bargaining power vis-à-vis NAFTA and the EU as a way to facilitate integration into the world economy (Bevilaqua, Catena and Talvi, 153). With an established common market, the goal was to "reinforce and consolidate already existing economic reforms and to expedite the competitive insertion of its members into the world economy (Rodriguez Mendoza 1999, 840)." MERCOSUR is coming into its own as a trade entity and as one of the main actors on the trading landscape of the Americas and it has also accomplished several key goals. For instance, trade is mostly free among the members, and a CET is in place. Since its creation, Mercosur has eliminated most restrictions to intra-Mercosur trade, trade among members have increased tremendously as well as exports with the rest of the world. As Peter Smith (2001) discusses:

> MERCOSUR's internal trade has expanded at impressive rates, climbing from $4.1 billion in 1990 to $17.0 billion in 1996. In the same period intra-MERCOSUR trade as a share of total exports increased from 11.1 percent in 1991 to 22.7 percent in 1996. By 1995 MERCOSUR had combined GDP of $714 billion, making it the world's fourth largest integrated market, after NAFTA, the EU and Japan (Smith, 48).

Notwithstanding these achievements, the Mercosur as a unit and its member countries faced several important challenges. One major aspect regarding MERCOSUR is that this trade arrangement is characterized by a large and dominant trade partner with which the smaller countries have a large trade concentration (Bevilaqua, Catena and Talvi, 163). Brazil has become increasingly important as a trade partner for Paraguay, Uruguay and Argentina and therefore it is the dominant partner in the agreement. This condition makes Paraguay, Uruguay and Argentina very vulnerable and excessively dependent on the Brazil as an export market and import source. As Bevilaqua, Catena and Talvi discussed, "a key feature of MERCOSUR is that the dominant trade partner (Brazil) is both very large and potentially very volatile, and it is the focus of a large concentration of trade for the smaller countries (Bevilaqua, Catena and Talvi, 162)." Not only

has Mercosur generated great interdependences among its member states, but it has also created growing asymmetries within this interdependence.

The North America Free Trade Agreement (NAFTA), between Mexico, Canada and the United States entered into force in 1994. Building on a bilateral free-trade accord between Canada and the United States NAFTA established the largest trading bloc in the world with a combined economic production of approximately $6 million (Smith, 41). Just as Brazil is the most important export market for Uruguay, Paraguay and Argentina, the United Sates is by far the most important intraregional market for both Canada and Mexico (Bevilaqua, Catena and Talvi, 162).

The Latin America regional integration process have been successful in the sense that it has reduced trade barriers as well as achieved greater trade flows both within the region and with the rest of the world. Today, trade flows in Latin America are freer than ever before. Trade is almost fully liberalized among members of the various sub-regional groups such as MERCOSUR and NAFTA, and is also being freed through numerous bilateral agreements. Moreover, as countries have moved to reduce trade barriers with their partners and achieve initial integration goals, a series of intra-group negotiations have been launched, aimed at expanding the scope of regional trade liberalization. This trend follows the path of the prevailing model of *open regionalism*, a strategy in which countries are able to participate in different trade and integration arrangements, simultaneously liberalizing trade with member countries and the rest of the world (Rodriguez M. and Kotschwar, 43).

Having discussed the regionalist path followed by Latin America, it is now important to discuss the strategic trade behavior of two of the major markets of Latin America as a way to asses the economic relations and posture of the region with the rest of the world. Thus, the

following section will describe Brazil's and Mexico's patterns of negotiations and interactions at both the regional and global levels in terms of trade.

Brazilian Trade Strategies

To begin with, Brazil is one of the major emerging markets in Latin America who actively interacts both at the regional and global levels. As Guedes da Costa argues (2001), in terms of trade negotiations "Brazil has adopted a strategy of passing and hedging (Guedes da Costa, 93)." The idea behind Brazil's trade strategy is to retain political and economical bargaining power not only throughout the Latin American region, but also among the more developed economies so as to achieve a greater insertion into the global system. In other words, Brazil's negotiating behavior is clearly defensive:

> Brazil prefers to move gradually and with caution in expanding regional cooperation in order to gain time to establish a general sense of unity and direction for the country and its neighbors in the international arena. At the same time, Brazil must hedge its strategy against possible negative effects in the future. All this while the nation copes with difficult adjustments in its internal politics, tries to increase its capacity to promote its interests abroad, and works to promote its relations abroad and to secure cooperation that is lasting and stable within the turbulent process of globalization (Guedes da Costa, 93).

As a way to achieve greater competitiveness in the global markets, Brazil has pursued dramatic neoliberal economic reforms. Brazil's trade policy shifted tremendously between 1994 and 1995. At the early 1990's, MERCOSUR constituted the first strategic move for development carried out by Brazil in parallel with unilateral trade liberalization. Brazil has taken steps toward liberalization, regional commitments with the establishment of MERCOSUR, and multilateral commitments by signing on the completion of the Uruguay Round (Da Motta Veiga 2004, 177). In Brazil, trade liberalization began to take place during the 1980s with a radical elimination and reduction of tariff and non-tariff barriers to trade. In Brazil, foreign debt was the major catalyst for a change in the economic policy paradigm. The fact is that Brazil used foreign loans to

finance the ISI model in the 1970s and 1980s. In this sense, it was one of the most important instruments for Brazil's emancipation from the need to import manufactured goods from the industrialized nations and to have to export primary goods to them (Schirm 2002, 118).

President Collor de Mello (1990-2) pursued extensive liberal reforms and lowered import restrictions in an attempt to reduce inflation (Schirm 2002, 122). This stability-oriented and liberalizing reform led to Brazil's involvement in global financial markets. "Neoliberal reforms did not reach the depth of the Mexican one and could not be implemented with the same amount of societal control that the Mexican leadership used within that countries' semi-authoritarian system (Schirm 2002, 125)." Presidents Franco and Cardoso continued the liberalization reform (privatization, deregulation and opening up of foreign trade). MERCOSUR, which was considered a continuation of these reforms, served as a mechanism to discipline domestic policy vis-à-vis negatively affected sectors, and as a more efficient means of implementing liberalization as a catalyst for better competitiveness in the world economy (Schirm 2002, 126). In addition, transnational actors (banks) were assured as to the continuity of the new course. The necessity of liberalization and internal reforms are justified by MERCOSUR. "The integration of national economies into global markets essentially triggered the liberal reforms, as a consequence of which competition-oriented regional cooperation became instrumentally attractive (127)." Brazil's goals were successfully realized as there was an expansion in the volume of trade and the country finally got new loans and a large influx of foreign investment. As Schirm (2002) discusses, after China and Mexico, Brazil received the largest influx of capital of all developing countries between 1994 and 1996 and it is difficult to quantify how much MERCOSUR contributed to these investment inflows since the stability-oriented liberalization at

the national level and the privatization already represented motivating factors for investment (Schirm, 128).

Brazil, a dynamic emerging market, is a country that projects a promising future and MERCOSUR serves as its necessary means for it. However, it still very vulnerable to external competition:

> Brazil lacks competitive advantage on key aspects of modern economy, such as telecommunications, computers, pharmaceuticals, transportation, tools and other capital goods. Industries based on the intensive use of high technology continue to prefer to buy packages from abroad rather than from local providers (Guedes da Costa, 106).

The major reason why Brazil has sought to create a regional agreement of MERCOSUR stems from its desire to consolidate its political and economic relevance in Latin America, to increase its negotiating power and to take advantage of trade opportunities in the major world markets such as the EU, China and the U.S. As Guedes da Costa (2001) discussed, MERCOSUR strengthens regional bonding and functions as a springboard for the region to gain ground in global competition and markets (Guedes da Costa, 105). Not only does MERCOSUR strengthen Brazil's ability to negotiate with other countries or blocs in the region, but also, as Costa Lima (2002) mentions, it establishes Brazil's leadership in the South American continent (Costa Lima, 123).

Brazil's trade strategy is also characterized by an uneasiness exchange with the United States reason why it has always opposed to the implementation of the Free Trade Area of the Americas (FTAA) negotiation pursued by the U.S. Brazil prefers to promote cooperation with other Latin American countries in creating an agenda for hemispheric trade (Guedes da Costa, 110). Brazil prefers to develop a negotiating strategy that will result in postponing decisions on

international or regional integration in order to provide more time for its economy to increase competitiveness and adjust to the levels of their key partners (Guedes da Costa, 107).

In terms to the multilateral system, Brazil has always adopted an offensive stance in negotiations on the liberalization of trade taking place in the WTO, specially in terms of agricultural issues, pushing for including in the multilateral agenda goals related to market access and the reduction or elimination of export and domestic support schemes (Da Mota Veiga 2004, 1). Brazil has not only been an active of the Cairns Group, but also "without breaking with the Cairns Group and without giving up its pro-trade liberalization stance in agricultural negotiations, Brazil led the setting of an issued based developing countries' coalition (G-20) aimed at bargaining together during the Ministerial and beyond (Da Motta Veiga 2004, 1)." The G20 is a coalition made up of developing countries that have usually adopted different positions in agricultural negotiations in the WTO. Based on Da Motta Veiga's argument, the major factor in the formation of the G-20 is related to a growing feeling of disappointment toward the Cairns Group as developing countries felt that Austria, the leading country in Cairns, was not playing a relevant role in counterbalancing the EU and the U.S common interest. "The EU-U.S common paper revived the North-South polarization in the area of agriculture and generated concrete risks of marginalization for the interests of developing countries in this central issue (Da Motta Veiga 2004, 7)."

In a way, it can be said that Brazil's trade strategy is based on the idea that regional agreements such as MERCOSUR serve as building blocs for the global trade regime. The fact is that Brazil is a "global trader" as Da Motta Veiga stated, it manages strong trade relations with diverse regions of the world and hosts foreign direct investment originating in the U.S, the EU and Japan (Da Motta Veiga 2004, 175).

Mexico Trade Strategies

To begin with, Mexico along with Chile acts as a hub for bilateral agreements in the Western Hemisphere (Rodriguez M. and Kotschwar, 47). In the discussion of Mexico's trade strategies this paper would utilize the discussion of Guadalupe González on the foreign policy strategies of Mexico (2001). Mexico's trade strategy has been characterized by major complexities. González's paper discusses how the Mexican trade liberalization strategy is characterized by having combined unilateral, bilateral and multilateral elements as a way to stabilize their economy, restore foreign resources, secure market access abroad, and finance economic growth (González, 168). Mexico has gradually moved form an ideologically driven and politically centered nationalist diplomacy to a more economically focused and segmented pragmatic foreign policy (González, 152). The Mexican foreign policy has gone through three different stages of adjustment. Between the years of 1983 and 1985 Mexico undertook a unilateral approach to trade liberalization by pursuing financial negotiations with the World Bank and the IMF as a way to get assistance on dealing with debt problem. The international financial entities' conditionality was trade liberalization. During this time, Mexico began a period of several short-term bilateral trade negotiations with the U.S over specific issues such as foreign investment and trade preferences (González, 152). However, these unilateral negotiations lasted only until Mexico's foreign policy shifted toward multilateralism and openness with the accession to GATT in 1986. The major objective with this accession was diversification of external markets, the opening of new markets for Mexican products and the promotion of foreign investment. As González argues, "By the mid 1980s Mexico's trade negotiation position had changed from a defensive position to a more active participation in multilateral trade negotiations and stronger unilateral trade liberalizations with is main partner and largest source

of foreign capital, the U.S (González, 167).” During the 1990s, due to diversification limits or the increased competition among transitional and developing countries to attract foreign investment and to penetrate international markets, Mexico’s new strategy shifted from unilateralism to active bilateralism. The focus became the economic alignment with the U.S and the increase institutionalization of the bilateral relationship with the U.S.

They idea is that by centering the trade liberalization strategy on the U.S, Mexico would not only broaden the access for Mexican exports to foreign markets and stimulate flows of private investment, but would also facilitate the diversification of Mexico’s external markets and its sources of capital in the long run. Mexico also focused its attention on flexible multilateral mechanisms such as the Rio Group and the Group of Three. Forced by the circumstances, Mexico went from being a highly protected economy to one of the most liberalized economies in the developing world with average tariffs lower than international standards (González, 155). As González discusses, since NAFTA includes issues besides free trade, it facilitated Mexico’s quick integration into the key multilateral economic mechanisms (González, 155).

The key purpose in Mexico’s strategy was to use the international market to get a better deal with the United States, and to use the country’s unique relationship with the United States to benefit from the international economy (González, 169). Besides, and as mentioned by Guadalupe González “in contrast to other powers such as Canada and Brazil, Mexico did not explore that alternative strategy of seeking and forming coalitions with a large number of countries such as the Cairns Group, or the Group of Ten to increase its bargaining power in multilateral trade negotiations (González, 169).” Instead of promoting the enlargement of NAFTA though the accession of other countries into the trilateral framework, Mexico took the decision to pursue a series of bilateral and subregional overlapping free trade agreements with

other countries (González, 170). The idea behind this approach was to move quickly and continue to reap the benefits of trade liberalization at the regional and multilateral level without depending on the increasingly uncertain leadership of the U.S. Not only did Mexico become a member of the WTO, the Organization for Economic Cooperation and Development (OECD), and the Asian Pacific Economic Cooperation (APEC), but also the signer of numerous bilateral trade liberalization agreements with the U.S., Canada, Chile, Colombia, Costa Rica, Venezuela, Bolivia, Nicaragua, Guatemala, Honduras, El Salvador, Belize, Panama, Trinidad and Tobago, Peru, Brazil and the EU (González, 168). The increasing importance of trade and the extensive exchange with the U.S resulted on Mexico's trade dependence and Mexico's foreign trade concentration with the U.S, which has constantly increased over time.

Today, the U.S has become the major actor of Mexico's diplomatic efforts. As NAFTA concentrates trade bilaterally, it has increased the dependence of Mexico on the United States. Mexico had to concentrate its time and energy on building their relationship with the U.S while maintaining a more cautious participation in multilateral forums both at global and regional levels (González, 159).

> It is clear that the structural power asymmetry between the United Sates and Mexico has not been changed by the opening of Mexico's economy or the institutionalization of a formal economic alliance between the two countries. The U.S economy is around twenty-five times larger than the Mexican economy and the per capita income gap ratio between the two countries is still one to eight. Although Mexico's economic and geopolitical importance for the U.S has increased, Mexican dependence on the United States is now greater than ever (González, 159).

In Conclusion, while Brazil's trade strategy is clearly defensive, Mexico on the other hand has used a more subtle approach. Brazil has adopted a trade strategy that has allowed it to actively interact both at the regional and global levels. Brazil's trade strategy has always been focused on regional agreements as a means to gain a better position in the international system. In contrast,

Mexico's trade liberalization strategy has combined unilateral, bilateral and multilateral elements as a way to stabilize their economy, secure market access abroad, and finance economic growth. Mexico is now one of the most liberalized economies in the developing world with average tariffs lower than international standards and NAFTA has facilitated Mexico's quick integration into the key multilateral economic mechanisms. However, the increasing importance of trade and the extensive exchange with the U.S has led to Mexico's trade dependence on the United States. So far these findings have not found one strategy to be better than the other. This research is still in progress.

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