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ARGENTINE-BRAZILIAN INTEGRATION IN A  
HISTORICAL PERSPECTIVE

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CLAUDIA B. SANCHEZ BAJO

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Members of the Examining Committee

Dr. Patricio Silva  
Dr. George Irvin

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**Enquiries:**

*Postal Address:*

Institute of Social Studies  
P.O. Box 90733  
2509 LS The Hague  
The Netherlands

Telephone -31-70-351 0100  
Cables SOCINST  
Telex 31491 ISS NL  
Telefax -31-70-354 9851

*Location:*

Baduisweg 251  
2597 JR The Hague  
The Netherlands

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## Table of Contents

	Page
1. Introduction	1
1.1. Statement of the problem	
1.2. Objectives of the study	
1.3. Methodology	
2. Argentine-Brazilian Integration in a Historical Perspective	7
2.1. Introduction	
2.2. The export-import period, 1880-1930	
2.3. The import-substitution period, 1930-1964	
2.4. The bureaucratic-authoritarian period, 1964-1985	
2.5. The democratic period, 1985-1991	
3. The Argentine-Brazilian Economic Integration Programme	35
3.1. Introduction	
3.2. Theoretical aspects	
3.3. Evolution of the ABEIP	
3.4. Scenario	
3.5. Results	
3.6. Problems	
3.7. Conclusion	
4. Democracy and Integration	57
5. References	65
5.1. Newspaper articles	
6. Annexes:	
6.1. A. Tables	77
6.2. B. Protocols signed under the ABEIP	91

## 1. INTRODUCTION

### 1.1. Statement of the problem

Four periods can be distinguished in the bilateral relations and the process of integration between Argentina and Brazil. Each period of the undertakings has been dependent on the national development policies as well as the international economic insertion of the two countries.

The first one was between 1880-1930 when both countries had an export-led economy of primary goods to the central markets and achieved important development. Both became the most important actors in the area and competitors for sub-regional leadership. Isolation rather than integration was the favoured strategy towards each other.

The second period refers to the events between 1930-1960. National populisms developed in both countries oriented towards industrialization via import-substitution and the creation and expansion of domestic markets. The difference can be found in their foreign policies.

The third corresponds to the period 1964-1985 with military governments, reinforced rivalry, and geopolitical considerations. Finally, the fourth, 1985-up to now, is defined in terms of the redemocratization processes in an unfavourable economic and international situations, including the debt crisis that commenced in 1982.

As a consequence of the crisis within the last ten years, it has become evident that past models of economic development, namely, export of primary commodities and industrialization through import-substitution have failed. The region is confronted with the impossibility of generating sustained economic growth and an equitable distribution of its results within a relatively stable context.

Since the 1960's there has been a contradictory situation where the conditions set up by their national development policies and their international insertion change relatively fast, but the different organizations and mechanisms created in the region to promote integration survive and become overlapping. Two consequences can be observed: an accumulation of isolated, anarchic and sometimes obsolete integration policies, instruments and projects; and ambivalence and contradiction between direct agreements at the highest levels of decision-making and institutional

structures poorly or not utilized at all.

The debt crisis severely affected the subregional integration processes prompting import limits and crisis in the payment mechanisms. However, since the mid-80's, there has been a renewed impulse on integration and cooperation in the whole region which has taken place in the political and economic spheres at the same time (IADB-INTAL, 1989: 26-41).

Paradoxically, it seems to arise out of the 'disintegration' of previous schemes through concrete and more flexible actions. First, it happens within the internationalization of their economies, which the countries see as irreversible, and the formation of regional blocs such as the EEC and the North American free trade area. Second, there is a negative perception of the international economic context's consequences for the sub-region. Third, the external debt with its perverse effects has influenced the attitudes of Latin American countries towards greater coordination. Fourth, The reestablishment of democracy created a stronger regional solidarity and interest in integration.

The Project of Europe 1992, plus the recent integration of East Germany in the EEC, together with changes in East Europe and the Soviet Union, do not predict a positive prospect: not only because capital investment would move to the East, but also because East and West Europe will be more competitive with Latin American exports, manufactures as well as agricultural products (Sideri, 1991). The United States has created a Free Trade Zone with Canada and Mexico. It seems that Latin America should not wait for an unlikely locomotive. It should rather look for its own forms and mechanisms to trigger development.

Among the existing alternative development strategies in the sub-region, integration may be the way to regain the path of development and consolidate democracy. There is the conviction that a bigger market with trade creation and preferential access, specialization and cooperation in the financial, technological, business, education and cultural sectors, free movement of persons, goods, services and capital, and political agreements, could help to overcome the tendencies towards excessive autarchy, confronting the present crisis and obtaining a more symmetrical international insertion. Integration could attract foreign investment and develop a political, social and economic climate favourable to national investment at the same time.

The strengthening of the process of regional integration in Latin America is seen as an economic and political imperative, in the light of

external and internal changes and the threats to the present and the future (Integración Latinoamericana No.161-162, 1990: 85).

On July 19, 1986, the Presidents of Argentina and Brazil signed the Argentine-Brazilian Integration Act plus twelve Protocols, which are the base for the economic integration. Protocol No.1 establishes the objective of a customs union for capital goods. In December 1988 a Treaty was signed and approved by the Senates of both countries, and in 1991 the Mercosur broadened the process formally including Uruguay and Paraguay. It is a process oriented towards the creation of a sub-regional system characterized by the predominance of a cooperative relationship, a democratic political system, the development of intra-Latin American solidarity and the search for a more effective and symmetrical insertion in the world system.

### **1.2. Objectives of the study**

It was often alleged that the most important obstacle to integration was the lack of political will. It seems now that this assertion is very firm in the context of democratic systems. However, the deep crisis in the region presents a complex situation that can halt the current integration and democratic processes.

This study attempts at analysing the inter-relation between economics and politics in the integration process during the different historical periods, and the periods of economic integration, cooperation and 'concertación' and their impacts on the process. Secondly, it deals with the formulation and implementation of the current Programme of Integration and Cooperation since 1985, and finally, the relationship between democracy and integration. The main objective is to identify the limits and obstacles in a process whose central aim is to create effective, stable and symmetrical interdependencies among the countries in the subregion.

### **1.3. Methodology**

Chapter 2 has a specific political economy approach in a historical perspective. Political economy understood as a field that includes the inter-relations of politics, economics and international relations, and the way in which one shapes the other. This study will be concerned with the relation between the economic and political spheres for two reasons: first, to understand the limitations and failures of the past, and second, to find the structural differences, if any, of the process during the 80's. Some

conceptual tools are defined in this section for clarification.

### Concepts

a) Integration is concerned with the removal of all trade obstacles between the participating nations in the scheme and with the establishment of cooperation and coordination policies between them. The latter is a result of the decided form of integration. Properly conceived economic integration could enhance economic gains and welfare due to increased efficiency in production, increased size of the market and economies of scale, a better international bargaining position, and technological change. But the most important would be the dynamic gains, a higher rate of growth of GDP through increased investment and higher productivity (El-Agraa, 1985, chapters 1 and 6). In Latin America, the concept has been predominantly associated to trade and reduction of tariff barriers. Initially the importance of institutional structures was not considered. The participation of political actors like parliaments, parties, and social groups received much less attention. This was the restrictive vision of integration. As a result of this rigid conceptualization and the limits and failures of integration, a new concept -cooperation- was used.

b) Cooperation is broader, more flexible and is used in the different sectoral initiatives to increase intra-latin american interdependence. It is used to define principles and criteria to regulate economic, technological and other types of relations between nation-states. It promotes complementary and sustained development not only through trade preferences, but also through improved infrastructure, more efficient systems of payments, more access to credit, interrelated institutional systems, greater mutual awareness among economic agents, more technical complementarity and a greater integration in the productive sectors. The type of cooperative actions are multiple and diversified:

. sectoral: in transport, energy and natural resources. This has been the case of the River Plate basin and hydroelectric projects;

. entrepreneurial: public and private. The best example has been LATINEQUIP (Latin American multinational in capital goods).

. functional: health, education and culture;

. commercial: export promotion, information, import-coordination. There are regional organizations such as Multifert (fertilizers), Geplacea (sugar) and COMUNBANA (bananas);

. technological: there is the Latin American technological information



network (RITLA) at the regional level. There have been other initiatives in the Andean Group and in the ABEIP;

. financial: there are regional institutions such as ALIDE and FELABAN (banks) and sub-regional ones as the Fund of Cuenca del Plata.

The main trend in cooperation is flexibility which found institutional expression in the two presently most important regional organizations: SELA and ALADI. SELA (Latin American Economic System) is since 1975 the regional organization for consultation, coordination, cooperation and economic and social promotion. It includes all countries, even Cuba and English-speaking Caribbean states. It has two functions: coordination of Latin American positions in the external relations (previously performed by ECLA) and promotion of cooperation. Its main instruments are the Action Committees created for specific purposes for a limited period of time and which function with considerable autonomy.

ALADI (Latin American Association for Integration) was established in 1980 as a continuation of LAFTA. The main characteristics are: flexibility, pragmatism, convergence, pluralism and multiplicity. Its main objective is the creation of the Latin American Common Market. There is an area of economic preferences comprising a regional tariff preference; regional scope agreements and partial scope agreements which bind only those member countries that adhere to their terms. The latter limit the effects of the most-favoured nation concept within ALADI while keeping the convergence goal. Therefore, homogeneity and compensation rules facilitate a more equilibrated result. These partial agreements can legally deal not only with trade but with other topics that had developed under the cooperation concept as well. The ABEIP belongs to the type of partial agreements.

c) Political Consensus appeared during the 80's. It is a recent regional tendency to abandon isolated positions. The last creation has been the Mechanism of Consultation and 'Concertación' in 1987, now called Río Group, which in 1988 issued the political manifesto of the Acapulco Compromise for Peace, Development and Democracy. It is handled at the summit levels in eleven Latin American countries (Vacchino, 1989).

Felix Peña and others argue that these concepts are the same in practice, used interchangeably by political negotiators. On the contrary, I agree with Vacchino that the concepts have different scope and are useful to analyze different levels of the process (Vacchino, 1989: 5-6).

On the political dimension, the study is still restricted to the

analysis of the nation-states' foreign policy. Foreign Policy is understood as the particular area of governmental political activity that includes three dimensions: diplomatic-political, military-strategic and economic, and that is projected to the outside, in front of a variety of actors and organizations, governmental and non-governmental (Russell, 1990: 255). Taking into account the characteristics of the political and economic systems, the behaviour and response of governmental organizations and non-governmental actors along with the decision-making process in the ABEIP are analyzed.

Civil society is the "sphere of activity encompassing economic, political and cultural aspects of human behaviour falling outside the field of the official" (Giner, 1985: 247-67). It is heterogenous and complex containing a) elements that include universality, legality, communication, freedom of coalition, mechanisms for mediation among different interests, mechanisms to protect society from state power and to mediate between them, market and property, and b) dimensions embracing individualism, privacy, market, pluralism and class.

This study supports the assumption that regional economic integration could play a very important role in the region's development. However, it will not be the panacea for all the problems. The stagnation of integration mechanisms in Latin America has not been the result of a crisis of integration but of development, and there should be a policy of mutual adaption and reinforcement between integration and cooperation on the one hand, and the national development strategies on the other, in a given international context.

## 2. ARGENTINE-BRAZILIAN INTEGRATION IN A HISTORICAL PERSPECTIVE

### 2.1. Introduction:

The perceptions that decision makers in Argentina and Brazil had of each other's policy objectives have affected the tone of their foreign policies. In every case the ideological setting and the type of regime would exert influence on the strategy towards the neighbour country taking into account the economic and geopolitical factors.

Historically, the relationship has been conflictive and based on mutual distrust, prejudice and rivalry where the linkages of each country with its own metropolis or the centre was the determinant factor in their international insertion and relations with the other countries in the region (Halperín Donghi, 1983: 18-9; Lanús, 1984: 283-4). Both based their objectives on geopolitical and nationalistic considerations strongly espoused by the military. In the 19th century, there were two main issues of conflict between Argentina and Brazil: the control over the River Plate Basin and the border delimitation. Up to the 20th century, the relationship was characterized by the formation of each of the States and the definition of the relationship with the other units (States) in the region. During the 20th, century the two States have added two new political objectives in the region: to sustain their own security and to obtain a sub-hegemony in the Southern Cone as a consequence of the national development, a competition that apparently has been stopped for the first time since 1985.

The geo-political rivalry that has characterized the relationship comes from the colonial period when Argentina belonged to Spain and Brazil to Portugal (Etchebarne, 1990: 130). The two colonial empires were struggling over the territories of Uruguay and the north of Paraguay and Argentina. The fundamental motive was the control of the Plata-Paraná-Paraguay river basin which had great importance economically as well as militarily (Boersner, 1982: 38-42). At that time, this fluvial system was the best point of access to the interior of the South American continent. Until the mid-1980's, the successors of Spain and Portugal, Argentina and Brazil, continued the geopolitical struggle for the influence over Uruguay and Paraguay. This struggle became openly violent during the war from 1824 to 1828 for the possession of Uruguay. Moreover, when they felt their control over the River Plate Basin was

threatened, they fought together with Uruguay against Paraguay in the War of the Triple Alliance (Keegan, 1988: 14-8). The issue of limits was settled in the Agreement of 1857 which was not ratified by Brazil and finally submitted to the arbitration of the President of the United States of America. The border between both countries was finally set up in 1904 (Keegan, 1988: 18-9).

During the present century, there have been four periods in the process of relations and integration between Argentina and Brazil, 1880-1930; 1930-1964; 1964-1985; 1985- until now. Between 1880 and 1930 the elites were embarking all energies in state building and modernization. They were most interested in establishing liberal constitutions and defining the power relationship between the central and regional powers (states and provinces) in order to create the framework necessary to attract foreign investment, capital, technology and labour (immigration), delegitimizing private political violence as well as threats coming from the hinterland ('caudillos') or from ideologies like anarchism. State building took place through the creation of railroads (transport systems) and telegraphs (communication systems), public schooling system for socialization, the national army and national obligatory military service (for education and socialization of the new adults and nationalized immigrants). The political system was oligarchic, with limited political competition and the elites dominating the state and the public policies.

The power of the military with the always present antagonism and competition for the sub-regional hegemony and the still undefined international borders, were the bases for a conflictive relationship. The key for foreign policy decision-making, which was considered crucial for the national development, was the definition of the international borders of the States, and specially the type of relationship and control over the River Plate Basin.

Dependence on only one or two commodities made impossible any thought about integration. There was almost no trade between both countries and the main commercial and financial ties were with the northern countries. On the other hand, in 1906 Brazil was beginning to protect the national production of coffee by State intervention (Halperin Donghi, 1969: 303). Protectionism would develop after the 1929 crisis in both countries and become another obstacle to integration. The chosen development strategy, that of export-import growth, along with the hegemony of the agrarian elites, did not leave any space to think of an alternative such as integration or cooperation

between both countries. Neither could think of alternatives for international insertion. The gains from the existing model and its apparent success with the rapid growth and modernization of both countries, led to a strong defense of the then prevailing development strategy.

During the second period (1930-1964), two attempts were viewed the most important, though weak, to deepen the interrelations between both countries. In both cases, the presidents shared similar economic and political ideas. Perón and Vargas had a similar political style. Kubitschek and Frondizi shared a developmentalist economic strategy. In the first case, both Vargas and Perón had a populist style, incorporating the popular masses into the political arena. They challenged the elite's monopoly of government and created a sense of national political purpose, based on a multi-class alliance of urban-industrial interests (Collier, 1979: 24). They did share a similar situation: the means of securing office was by elections for both when the initiative towards integration was taken by Perón. Economically, their main objective was industrialization via import-substitution.

In the second case, Frondizi and Kubitschek faced greater instability and military pressures. There were pressures for another type of international insertion and the opening of the economy to transnational companies and foreign investment. At the same time, there was increased social mobilization and unrest, while in Argentina the main political party (Peronist) was outlawed. In both countries, the contexts were highly unstable: a military coup deposed Frondizi in 1962 while the military took government in Brazil in 1964.

During the bureaucratic-authoritarian period (1964-1985), there was a strong commitment to each State's 'national security interests'. This was clearer during military governments and their 'geopolitical' strategies. The bilateral relation at the civil society level (people to people) has never been relevant to either rivalry or integration. Finally, the influence of the hegemonic power in the area (USA) did not favour regional cooperation or integration. The societies have had stronger ties with the countries of the North (USA and Europe) than with each other.

There were some cooperative aspects in their relationship (increasing trade, hydroelectrical and nuclear energy and after the 1982 war between Argentina and the United Kingdom). However, the military were still against any type of integration when they were trying unsuccessfully to overcome the problems in the late 1970's and early 1980's (Hirst, 1989: 36-9). Thus the

main obstacle to the integration process has been the military, their geopolitical thinking and war hypotheses, competition and distrust, and their need to tightly control the State. Others were the transnationals' and big business' attitudes, particularly in Argentina, directed towards safeguarding access to the internal markets. In each State there have been subsidiaries of the same company, thus reinforcing the countries' competition. The traditional explanation to the failure of integration schemes based on the lack of political will is insufficient. "The evolution of the development strategies...and the increasing heterogeneity that arose among them...constituted a main problem" (Tomassini, 1985: 221).

The change in the bilateral relations occurred during the new democratic administrations that took power in Argentina in 1983 and Brazil in 1985. With the new democracies, the issue of security and the geopolitical assumptions diminished, while the reappearance of neglected demands for greater equality and living standards reopened the social issue, and the need for a new strategy of growth and development.

## 2.2. The export-import growth period, 1880-1930:

This was a period of expansion based on an intellectual rationale that justified Latin America's integration into the world economy. The predominant ideas were liberalism and free trade, faith in an unilinear progress and Comtean positivism, and the belief in a restricted elitist government which maximized individual liberties as the best political regime (Skidmore et al., 1989: 45). The elites believed that the international division of labour and the role of primary goods' exporters for Latin America was 'natural' and therefore optimal and static. The free trade dogma was applied as the most significant economic policy in 19th century in Latin America<sup>1</sup>.

Since the 1850's, and specially after the 1880's, the economies became fully integrated into the international system centered in Europe and the United States. The context was one of global expansion in which both countries had essentially a subordinate position (Halperín Donghi, 1983: 280-6; Skidmore et al., 1989: 43). The economic development brought about transitions in the social order and class structure, and in turn affected the political regimes. In this period, there was the initiation and expansion of the export-import growth strategy of development. At the end of the century, industrialization in Europe created a strong demand for raw materials and foodstuffs. Argentina became an important producer of agricultural goods such as wheat and beef

thanks to the natural resources of the pampas. Brazil was famous for coffee, specially after 1890, and for rubber until 1913. The exports of primary goods were accompanied by imports of industrial manufactured ones from Europe (Skidmore et al., 1989: 70-4, 149-51). Investments flowed to both countries specially from England. In Argentina, from 1900 to 1929, 35 per cent of the total fixed investment was foreign, first from England, then from France and Germany. The most important investments in both countries were in railroad construction in order to export goods, communication (telegraph) and shipping (Skidmore et al., 1989: 44).

The debates about economic strategies of development were largely restricted to the national elites who were very small (about 5 per cent of the population) and had the control over the economic and political decision-making at the local, provincial, and national levels. The ethnocentric elites believed in the racial inferiority of the indigenous populations and followed racist theories proposing European immigration as the solution to the lack of skilled labour. In Argentina as in Brazil, with large extensions of land and relatively low population figures, immigration was considered fundamental for development. Between 1857 and 1930 Argentina received a net immigration of 3.5 million. By 1914, 30 per cent of the population was foreign-born. In the 1880's Brazilian coffee plantations badly needed labour force and Sao Paulo, the most important region for it, attracted immigration as wage labour, which reached a peak of 6.4 per cent of total population in 1900 (Skidmore et al., 1989: 71, 150).

The success of the development strategy became apparent in both countries at the end of the 19th century and the beginning of the 20th (Waisman, 1989: 61-3). From 1860 to 1914 Argentina's GDP grew at an annual average rate of 5 per cent (Skidmore et al., 1989: 72). From 1881 to 1912, exports of grain, beef and wool to world markets grew tenfold, from 11.6 million pounds to 96.1 million pounds. In 1925 the agricultural production reached a limit after increasing 240 per cent in physical volume since 1900. After 1915 it only grew 50 per cent in volume and it maintained it during the next 30 years (Sábato, 1989: 118-9). This phase was accomplished through land extension. When technology was introduced, it served to enhance labour productivity as opposed to capital or land. The Argentine economy slowed after WW I from an annual rate of growth of 6.3 per cent (1900-13) to 3.5 per cent during 1914-29.

Brazil, until the 1920's, was a small open economy. Its imports and

exports averaged 23 per cent of GDP. The country was too dependent on coffee as it accounted for 73 per cent of total export revenues between 1924 and 1929. A powerful coffee lobby obtained credit, fiscal and exchange rate preferences (Simonsen, 1988: 286). The economy was vulnerable to the possibility of overproduction, competition from abroad (Africa and other Latin American countries), the important price fluctuations, and the concentration of the demand and sales in three countries: the USA, United Kingdom and Germany.

Modernization was taking place at a fast pace. Industrialization was starting, there were textile, leather goods, beverages, food processing and construction materials industries. The most dynamic sectors were transportation, government bureaucracy, commerce and finance. There was a great urbanisation trend though late and slower in Brazil (Sábato, 1989: 118-9; Simonsen, 1988: 286; Skidmore et al, 1989: 72).

Essentially, the economies remained agrarian and highly dependent on the sharp fluctuations from abroad which influenced prices and trade, thus restricting or expanding the domestic money supply. Even the new professionals in the cities were dependent on the agrarian sector as these were the clients, customers and employers of the former ones. Industrialization did not advance much and indigenous manufactured products had little chance to compete with the imported goods from the industrialized economies not posing any threat to the basically agro-export oriented economy.

But there were two small differences between both countries: firstly, in Brazil in 1890 there was official encouragement to industrialization with a tariff granting some protection to local production, while lowering that for capital goods necessary for the local industry (Skidmore et al., 1989: 153). In 1925, a governmental report stressed the importance of the internal market. Secondly, Brazil was opting to change from the British to the United States's sphere of influence (McCann, 1981: 4-7) <sup>2</sup>.

There were political changes: this was the period of the final formation and institutionalization of the nation-state in both countries (Waisman, 1989: 64). The elites, since the 1880's, pursued political power and took direct control of the regional and national governments, basing their legitimacy on a national constitution copied from the one in the United States. Political competition was restricted, and voting was not secret and subject to all kinds of manipulation. They were oligarchic semi-democracies (Collier, 1971: 23; Diamond et al., 1989: 4) where political competition



preceded the expansion of participation. Stability, order and social control were considered the keys to attract foreign investment. Therefore, one of the goals was the centralization of power and the creation of a powerful nation-state. This is quite a contrast with today's views on the need of decentralization and state reform.

Centralism was a powerful tendency in both countries: in Argentina after the establishment of Buenos Aires as a federal district in 1880 separating it from the Province of Buenos Aires. Buenos Aires became the transport node, the banking, commercial and administrative center of the country, and the base for the future wide regional differences within national development. In Brazil, the emperor Dom Pedro II made a significant movement towards a more centralized and effective nation-state, provoking a counter-reaction which led to the establishment of the Republic in 1889 and the later decentralization. By 1894 the new Brazilian regime had gained in stability at the price of recognizing the states' regional power. In each state, a powerful political machine was formed. This was known as the 'politics of the governors' at national level and the 'politics of colonels' at the regional one (Lamounier, 1989: 120). The legislative and judiciary branches were of little importance and state wide single political parties or machines became the rule. The constitutional decentralization permitted the states to grow in autonomous development and power to bargain for the different national posts, the main one being the national presidency (Skidmore et al., 1989: 47-8).

The rapid expansion led to changes in society. The development created inequality, not only regionally but also socially. First of all there was the transformation and modernization of the elites. The social structure, in both Brazil and Argentina, included the landowners at the top, but with difference. In Brazil, there were usual competition and divisions among the elite, sometimes using the means of the State for their benefit. So there was specialization in production in the various groups since Brazil has undergone a sequence of dependence on commodity exports at different times in a pattern of boom and bust in different areas of the country. During the 20th century, an industrial elite also appeared as a new powerful group competing with the others (Halperín Donghi, 1983: 60-73, 273-4, 301-3, 310; Knox et al., 1989: 327).

The characteristics of the dominant class in Argentina have been hypothesized by Sábato and Schvarzer: a) this class was formed and consolidated in the late 19th century and though possessing latifundios (big

land extensions), had diversified activities and its main base for socio-economic power was dependent on the control over commerce and finance; b) given its evolution and characteristics, it had a great unity with minimal competition among themselves due to a lack of differentiation among the groups; c) given the control on finance and commerce, it had greater flexibility to adapt to opportunities and undertake different activities simultaneously (from agriculture and cattle raising to industry, services and urban and rural speculation). This provoked a high concentration of economic and political power, creating a highly flexible system, capable of surviving permanent fluctuations (Sábato, 1988). The best examples would be 'Banco Tornquist' and Bunge & Born (Azpiazu et al., 1989: 22-7) and the life-stories of Teodoro de Bary, Vicente L. Casares, Antonio Devoto, Samuel H. Hale, Miguel Alfredo Martínez de Hoz, and Nicolás Mihanovich among others (Sábato, 1988: 181-203).

The consolidation of the model brought about new situations: the emergence of a middle social class and a working class formed by immigrants. New professionals, merchants and lawyers gained in importance and assumed fundamental roles in determining the institutional frameworks (Skidmore et al., 1989: 48-53). The incipient working class created new organizations such as mutual aid societies and labour unions. Workers' activism increased in the context of both economies, because they were important in the infrastructure sectors that supported exports (railways and docks). At the beginning of the 20th century, there was an upheaval of labour mobilization under anarchist, anarcho-syndicalist and syndicalist influence (Waisman, 1989: 66). However, because of national or ethnic origin, the working class did not gain any political power. Immigrants were not entitled to vote unless they were naturalized so there was no effective threat to the political power of the elites. Very few politicians tried to create a labour relations system or cooptation. Conservatives denied in principle any right of the workforce to organize while anarchists feared cooptation by the system.

The workers organized important strikes after 1910 and met heavy drastic repression in both countries (1918-9 in Argentina). After that, two ideological currents became stronger among the workers: socialism and communism (Waisman, 1987: 79-81), facing the same policy of repression. By 1921 their leaders had been deported or had lost power (Skidmore et al., 1989: 76-8, 80, 159), and by 1930 the workforce was without clear leadership.

As a result, the elites permitted certain political reform believing

they would gain the support of the new middle classes (Diamond et al., 1989: 8). In Argentina, in 1912, they established the universal secret vote for males (Halperín Donghi, 1981: 296-7). In Brazil, the overthrowing of the Empire permitted limited electoral politics. Professional politicians appeared for the first time and the political parties and machines became important.

According to Waisman, in Argentina, the rise of liberal democracy depended on three factors: a) development of consensus within the elite; b) demonstration effects of capitalist democracies such as UK and USA; and c) the opportunity to integrate the country into the world economy following the export-import growth strategy. This one had two variables: internal (land and labour through immigration) and external (European industrialization and urbanisation (Waisman, 1989: 83). The stability of the regime was due to the sustained rate of growth that created social mobility and high standards of living; and the elite's choice to include the middle class interests in the political system, while the agrarian and cattle raising upper class remained hegemonic. This meant tolerance for the Radical and Socialist parties (this one was evolutionist). The Radical party neither threatened the economic system nor the social order. Yrigoyen and the popular movement showed two trends that would be characteristic: the relationship with a leader and the impact of economic prosperity needed to carry out a moderate distributionist policy. However, the State's vulnerability to the world market brought the 1929 disaster. When Depression hit Argentina, the elite hegemony was endangered, and the upper class choice was to turn away from democracy (Waisman, 1987: 82-5).

By the beginning of the century, the conflictive bilateral relationship took the form of a military race and each country had each other as the principal war hypotheses. Since 1902 the armament race was related to the construction or possession of the biggest naval power (Keegan, 1988: 22-5). That was the reference point for a balance of power which would guarantee national security. Because of tensions with Argentina, a third of the Brazilian army has been traditionally stationed in Río Grande do Sul. This meant keeping Argentina away from the dream of reconstructing the Viceroyalty of the Río de la Plata (McCann, 1981:2). The Foreign Minister, Jose María da Silva Paranhos, the Baron of Río Branco, set the direction of 20th century Brazilian policy. He stayed in office between 1902 and 1912, creating the Itamaraty tradition. He increased Brazil's territory and the size of the Brazilian fleet. Moreover, Brazil's participation in World War (WW) I and the

divergent stand taken towards the regional power would create in the next period a deeper gap between both countries in their international insertion and their economic development restricting the type of bilateral relations, whether they be cultural, social, technological or political, while these were being deepened with the North. At the end of WW I, Argentina did not take part in the League of Nations while Brazil received a temporary seat at the Council. Brazil had chosen the path of pragmatism improving its relations with the United States.

This period would correspond fairly well to the modernization theories when it seemed that these countries were following a similar path to the one of the industrialized countries, starting with a capital accumulation process and economic progress and then continuing with political development towards liberal democracy. The modern-traditional dichotomy was expressed in Sarmiento's expression: modernization or barbarism.

### 2.3. The import-substitution period, 1930-1960:

After 1930 the Argentine-Brazilian relationship was based on competition in industrial and technological development while the military governments reinforced the nationalistic rivalry (Hirst, 1988: 192-3).

The 1929 crisis had two effects: a drop in prices for the primary sector and a drop in volume of production in the industrial sector. The new situation was influenced by the deterioration of terms of trade and the lack of new foreign credit. Exports dependent on one product could not sustain the drives of economic development. The State tried to control the production and export rhythms, buying stocks and harvests to control prices (Halperín Donghi, 1983: 359-67). The agricultural sector was subsidized by the State thus benefitting the landowners. New resources were drawn from import taxes. Industrial protectionism was arising but still state intervention was limited (Conesa, 1989: 3-5). There was a new relationship between state and economy, while the idea of diversification of production was being welcomed (Skidmore et al., 1989: 53-6) <sup>3</sup>.

Cereal and wool prices dropped by was one-half compared to the 1920's although volumes remained constant (Conesa, 1989: 4). In Brazil, coffee prices collapsed because of less external demand, domestic overproduction and the lagged response to the prices of the previous decade. Export earnings declined by 60 per cent between 1929 and 1932. At first, import substitution was to equilibrate the balance of payments caused by trade disruption. New financial

institutions channeled funds into transport systems and investments in steel, cement, capital goods, oil and electric power (Skidmore et al., 1989: 153).

The 1929 crisis was the beginning of a period of instability and alternating civilian and military political regimes (Waisman, 1989: 69). In 1930 democratic governments in both countries were removed by military coups.

The main effect in Brazil was the irreversible tendency towards a stronger centralized power in the Presidency until the end of the 1980's. Vargas had freedom to integrate Brazil in the capitalist world-system by moving towards war on the side of the Allies. In return he obtained help from the United States to modernize the economy and equip the armed forces. There were two factors on which the strategy towards a more centralized Brazilian state was based: the charismatic leadership of Vargas and the invention of symbols of national identity for the first time (Lamounier, 1989: 123-4). However, Vargas' leadership did not lead to a confrontation with the elites and the system's element of limited pluralism and elitism (Wynia, 1984: 138-46). The emergence of a cultural policy was linked to the process of nation-building and had permanent influence in Brazil. It created certain perceptions in political culture: that a zero-sum conflict would not be possible in Brazil, that there were increased equality and mobility in the society, and that politics as a reflection of the social system would always be flexible and realistic (Lamounier, 1989: 124) <sup>4</sup>.

McCann states that Brazilian diplomats were dreaming at that time of joining an 'economic confederation' in the continent (McCann, 1981: 8). During World War II, two of the main objectives dealt with the consolidation of Brazil's preeminence in South America and the creation of an intimate solidarity with the United States. Brazil's participation in the war increased Brazilian nationalism and permitted Brazil to advance its position in South America, specially in Paraguay and Bolivia (McCann, 1981: 11).

The 1939-45 War stimulated industrialization via substitution, when the industry lacked the competition from the industrial powers. The use of import tariffs, quotas, export subsidies and import permits spread worldwide. The protectionism put a barrier to economic growth through trade. The alternative was to expand the internal market. This industrialization, together with an underdeveloped infrastructure and transport system, reached 1945 with a disequilibrated productive structure. Meanwhile, the agrarian system remained quite untouched by modernization.

Apart from the military, in Argentina, the other most important actor

at that time was the work force which was lacking organization, leadership and effective political representation. The work force was 90 per cent literate and articulated, most of its members just having arrived from the countryside. Perón's rise to power took place in certain socio-economic conditions: economic post-depression, a diplomatic and 'prestige' type conflict with the US State Department, a working class without leadership and an elite which had shown its decay during the 1930's (Escudé, 1989). He used important sources of authority and resources to mobilize support <sup>5</sup> creating a political alliance completely unprecedented in Argentina: a union of workers, managers and the military. Since trade was monopolized by the governmental 'Instituto Argentino de Promoción del Intercambio' (IAPI) and their production was bought at low and fixed prices, the main losers were the landowners. The main objectives were national economic autonomy ('economic independence') and a major improvement of workers' welfare ('social justice') (Wynia, 1984: 146-63)<sup>6</sup>. During WW II, national manufactures increased by nearly 25 per cent, and the accumulated foreign exchange earnings went to buy railway infrastructure, port facilities, power supplies, banking and insurance that were in foreign hands. Capital goods imports or production were not encouraged. However, light industries, mainly small-scale, and concentrated in the greater Buenos Aires, were assured of a protected market. The inadequate size of the home market led to high production costs while heavy industrial development was retarded by limited energy resources or peripheral national location. Under the trade unions' growing power, wages were pushed ahead of productivity and internal consumption of agricultural products at the expense of exports (Mountjoy, 1982: 184-7). Inflation grew and conservative political and economic responses created 'pendulum' type of development, between the expansionist/populist and the orthodox/neoclassical policies (Diamand, 1986: 129-65).

The large anti-export bias introduced in the Argentine economy remained as a permanent characteristic. During 1956-1984, the determinants of the exchange rate and the big fluctuations resulted mainly from the inconsistent economic policies. It was a period of stagflation related to the cyclical policy-induced variations in the real exchange rate, which played an essential role in the recurrent balance of payment deficit (Cavallo, 1988: 267-85).

During this period, two stages can be distinguished in Brazilian industrialization: a) during WW II, Brazil accumulated large foreign exchange reserves by exporting raw materials without a corresponding increase in imports; and b) after the war (1950-62) a rapid rise in imports depleted

exchange reserves leading to import restrictions. These coincided with global expansion of transnationals which began to establish branch plants in order to avoid limitations on sales. A major example has been the automobile manufactures (General Motors, Volkswagen, etc.) (Knox et al., 1989: 326-7). From 1947 to 1961 manufacturing output increased at an annual rate of 9.6 per cent compared to 4.5 per cent for agriculture (Skidmore et al., 1989: 153).

At the end of WW II, both countries underwent similar economic and political processes: industrialization through import substitution, the stronger role of the State as an entrepreneur and populist politics. Both Vargas and Perón initiated the debate over industrialization, its value and means of promotion. They organized the labour movement which became a close supporter of their policies. As the state activities and scope were extended, so was the public bureaucracy. Three reasons were behind: the promotion of economic growth, the provision of social services and the provision of patronage to their followers. By doing this, they created a new political actor: the public sector employees. Other actors like poor farmers and rural laborers were more or less ignored. Neither Perón nor Vargas really threatened the rural power structure though Perón did pass some laws to improve their situation. Ideology for both had a role but there was little content, the principles were simple and the emphasis was on nationalist and populist symbols. The relationship developed during this period between economics and politics would be predominant for four decades. Oriented towards the internal market and industrial protectionism, it was based on the Keynesian theory which supported the positive interrelation between production and consumption, facilitating the compromise between capitalism and democracy (García Delgado, 1990: 87).

Both countries had a different insertion in the international system influenced by their different stand towards the continental hegemonic power, the United States. Brazil had maintained close relations with the USA since the 1930's after taking a policy of 'automatic alignment' towards the US (Silva, 1989: 85). US-Argentine relations were harsh and distrustful, with Argentina resisting US influence in the area (Boersner, 1982: 359). In the 1930's Brazilians formulated their 'subhegemonic' theses in the Brazilian 'geopolítica' while Argentine military turned to nationalist attitudes (Halperín Donghi, 1983: 388-90). Since 1946 Brazil had a great moment in the international sphere when it was given a non-permanent seat on the Security Council of the UN, while Argentina was neglected because of its internal

political situation and its vacillation to declare war on the Axis powers which it finally did on 27-03-45.

The bilateral relationship had deteriorated. Itamaraty, the Brazilian foreign ministry, was concerned with Perón's Government and the possibility of reviving the dream of resurrecting the Viceroyalty of the Río de la Plata. Though it never came true, the Vargas' Government used the 'Argentine threat' to secure additional USA military aid to build up a stronger military presence in the southern frontier (McCann, 1981: 11).

It was in the 1950's, under Vargas, that Brazil began to diversify its foreign relations. During this period there was an improvement in relations with Argentina although Vargas' contacts with Perón did not go beyond protocol. The relation with the USA was colder due to US policy changes and increased nationalism in Brazil (McCann, 1981: 14-5) <sup>7</sup>.

Perón was promoting a regional pact of political unity, issuing a 'third position' in the bipolar post-war world (Keegan, 1988: 32). He expressed that there was a lack of support from the Brazilian Chancellery because any change towards Argentina could be seen as an unfriendly act towards the USA. Further, for Brazilian foreign policy, the relationship with Washington had a greater priority than the relationship with Argentina. The USA, after the Monroe doctrine of 1823, has always seen Latin America as its sphere of influence (Keegan, 1988: 32). Thus it has never welcome any attempt that could lead to the creation of a Southern Cone pole.

Since WW II, Brazil's policymakers chose high growth rates as the basic goal of economic management (Lamounier, 1989: 126). Many of the infant industries of the 1950's and 1960's would become internationally competitive in the 1970's and the 1980's. Brazil did not experience the Argentine limitations of economies of scale. Therefore, it did not necessarily require a regional economic integration to continue its import-substitution strategy. The special incentives offered by Kubitschek (1959-60) diversified industrial production to automobiles, trucks, consumer durables, and capital goods with impressive results (Simonsen, 1988: 287). The problem was that the policy could not keep a proper balance between industrial protection and comparative advantages in international trade. Nevertheless, this economic performance further opened the gap with Argentina's development thus increasing Argentina's fears (Moneta et al., 1981: 148-50).

The Argentine Frondizi Government (1958-62) chose the developmental reformist path common to other democratic reformers in Latin America such as



Frei in Chile or Kubitschek in Brazil. The economic objectives were the acceleration of industrialization, stimulation of agricultural production and exports. Credit would come from abroad and state intervention reduced (Skidmore et al., 1989: 92-4).

Frondizi supported the coordination of common policies in the region and outside it in order to expand the negotiating capacity at the international level. There was the idea of restructuring the relationship between Argentina and Brazil incorporating the project of industrialization. However, Frondizi considered national development a priority against any attempt at integration or formation of a customs union (Keegan, 1988: 33-6).

Consultations with Brazil took place until the end of Kubitschek's period. Frondizi and Quadros signed the Declaration of Uruguayana on 22-04-63 which had eight points: they would have a common international policy towards South America, would support the democratic system and would coordinate actions to carry out the Panamerican operation already considered by the US programme 'Alliance for Progress' (Boersner, 1982: 296-7; Lanús, 1984: 289-96).

In the 1950's, bilateral agreements had been signed by Argentina, Brazil, Chile and Uruguay with the purpose of perpetuating the reciprocal trade that was running the risk of considerable decline after the growth it experienced during WWII when it represented 90 per cent of intra-Latin American trade (Mairal, 1989: 68). With the creation of GATT and the movement towards multilateralism, the Southern Cone countries, advised by ECLA (Economic Commission for Latin America), conceived the alternative of organizing a free trade zone, within the GATT framework, to maintain the previous granted preferences (Rosenthal, 1989: 143).

During the 1950's and 1960's there was a new understanding of the capitalist world and of development strategies. The ECLA and its structuralism had an important role in defining it with its ideas of centre-periphery as a holistic view of the capitalist world, the deterioration of terms of trade and the problems that the acquisition of technology could provoke in peripheral countries. The ECLA's model was associated with the prevailing type of external links that Latin America had at that time within the international division of labor: as peripheral economies they had the role of producers and exporters of foodstuffs and raw materials, and the central economies play the role of suppliers of manufactured and capital goods to the periphery. The relationship implied a continuing deterioration in the terms of trade for

Latin America due to greater income elasticity of manufactures. To alter it, industrialisation together with the development of complementary activities (transport, trade and services), would be carried out by import-substitution which meant primarily 'inward looking growth'.

Prebisch criticized the modernization assumptions, the free trade and the concept of unilinear progress. He did notice the limitation of the import-substitution strategy and therefore was the first to rationally promote a Latin American Integration process (Salazar, 1990: 161). As import substitution attempted to go beyond the first stage for more complex products, the lack of economies of scale was a serious barrier. With few resources to finance development, the model was incapable of generating the external resources needed and had enormous difficulties to reduce imports as well for the countries had to import capital and intermediate goods to deepen their development and these could not be produced locally.

Economic integration seemed to offer the solution to this problem and it was recommended to continue regionally the import-substitution strategy, giving preference to capital goods, automobile industry, and some consumer goods that needed extended markets in order to specialize. Thus economic integration was a requisite of the development model applied since the 1930's in the region. Moreover, the common market would tend to reduce the costs of production and therefore the need for industrial protection against the rest of the world (ECLA, 1959: 135; Villanueva, 1989: 100). The attempt failed and the solution would later be sought through bureaucratic-authoritarian military regimes.

This was the period of regional schemes (1960's), with explicit objectives, institutions, instruments and goals. The Montevideo Treaty in 1960 established the LAFTA (Latin American Free Trade Association). The fundamental collective goals were: firstly, industrialization, and secondly, greater autonomy as a result of a stronger bargaining situation (ECLA, 1959: 141). The key principle would be reciprocity: the possibility of buying industrial goods in the region and paying for them with an export-growth in volume to the other members. In reality, it was a promotion of reciprocal exports. It also recognized the differentials in development and distinguished among member countries, applying non-uniform reductions and accepting exceptions to them.

LAFTA finally placed more emphasis on the need to contribute to the improvement of the balance of payments rather on the benefits that might

accrue from the advantages of economies of scale and a better combination of the factors of production in a genuinely enlarged market. As a result, it particularly stressed the commercial aspects, and trade expansion was more important than integration (Manzetti, 1990: 111). The institutional structure was not given much thought and the participation of political and social actors (political parties, parliaments and so on) was not considered relevant. Until today, this tension underlies all integration attempts including the ABEIP and Mercosur.

During the second half of the 1960's, when the outward oriented strategy was gaining in importance, some Latin American countries began to change, most notably Brazil. Under Quadros and Goulart, the administration included the objective of broadening Brazil's markets via tariff reductions in Latin America and intensification of commercial relations with all countries. (McCann, 1981: 17). Those were the first attempts to diversify economic relations.

At the same time, the international system within which the development strategies and integration schemes were designed, was being modified, entering into a state of transition or structural crisis (Tomassini, 1985: 216-23). Major changes were introduced in both external links and internal strategies in Argentina and Brazil which led to greater divergence and heterogeneity of the countries' policies, creating new obstacles to integration. At that time the role of regional integration was modified focusing less on the 'external barrier' and commercial aspects.

#### **2.4. The bureaucratic-authoritarian period, 1964-1985:**

In the 1960's, a new economic model is developed: export-oriented and open to transnational companies. The internationalization of capital followed the same process in production. The emphasis was on the external and manufacture sectors (Moneta et al., 1981: 144). This required lower costs and a passive (controlled) labor force, an asymmetrical growth which was imposed under military-technocratic regimes. The driving forces were the financial sector, particularly in Argentina, big national farming and industrial interests or 'gran burguesía', transnational companies, and had the support of the non-wage-earning workers<sup>8</sup>. The State action was clearly supporting oligopolic groups and the project was to modify the characteristics of society, to create "once and for all the conditions for stable and sustained capitalist accumulation" (Lehmann, 1989: 187), dismantling the welfare state and

affecting the interests created during the previous period: those of the labour unions, state employees, businessmen oriented towards the internal market, and the middle class professional sector.

Bureaucratic-authoritarian regimes were established in Brazil from 1964 to 1985 and in Argentina from 1966 to 1973 and from 1976 to 1983. The new authoritarianism could hardly be understood with the hypotheses of modernization theory (Collier, 1979: 19). O'Donnell speaks of a new type of State, but I would prefer to explain it in terms of a political regime in a capitalist state (Silva, 1988: 4). They pursued common policies: economically, they believed in price mechanisms and the free market. They tried to control inflation, raising taxes, reducing the money supply, suppressing wage demands, and imposing orthodox stabilization plans. The examples are Videla in Argentina and Castello Branco in Brazil. (Foxley, 1983; Hartlyn et al., 1986: 38-51; Skidmore et al., 1988: 175-6). O'Donnell argues that it was the result of the crisis of the import substitution model or inward-directed development. The solution sought was a new process of capital accumulation within a more open economy, as part of 'deepening' process of a peripheral and dependent capitalism characterized by extensive industrialization (Lehmann, 1989: 196; Silva, 1988: 3).

Its preconditions were political repression and discipline of the society, the disappearance of politics and an autonomous civil society, to render the space to a technocratic elite under military support (Lehmann, 1989: 197). Under these circumstances, the State could be described as Bonapartist in the Gramscian sense (Silva, 1988: 4). The populist regimes were seen unable to deal with inflation and wage demands while the military were regarded as necessary to bring the desired 'order' that would end the multi-classist alliance of populism (Lehmann, 1989: 191). Their role was to exclude the already activated urban popular sectors (working class and lower middle class) from the political arena and the economic benefits (Lehmann, 1989: 195; O'Donnell, 1973: 53). It is a fact that one of the most terrible consequences of the regimes' acts have been the concentration of income in both countries, marginalization of large segments of the population and increased poverty.

O'Donnell added that the impact of the Cuban Revolution and the increasing social unrest, plus the doctrine of national security, were at the core of the new role of the military (Lehmann, 1989: 196). Marini argues that Brazil developed a sub-imperialism, with its national bourgeoisie as partners of international imperialism to solve the limitations of the internal market,

broadening its domination on the neighbouring countries in the region (Kay, 1989: 147-8). In fact, as a result of economic interests in Bolivia, Paraguay and Uruguay in trade, investments, joint ventures, aid, transport and communication, Brazil altered the balance of power as regards Argentina, attracting these countries to its area of influence (Moneta et al., 1981: 145).

Argentina was immersed in stop-and-go cycles as a pendulum between the expansionist/populist and the orthodox/neoclassical poles (Diamand, 1986: 129-147). On the one hand, conservative forces backed traditional agricultural exporting interests. On the other, industrialists were seeking exemption, special ad hoc legislation on tariffs, taxes and foreign exchange permits, when the potential for import-substitution was being exhausted. The society was far more polarized than in Brazil (Cavallo, 1988: 279-82; Skidmore et al., 1989: 96-9). In the mid-1970's, the military government introduced trade and financial deregulation accompanied by over-valuation of the local currency. As a consequence, exports were inhibited, the market situation changed drastically and the industrial capacity was destroyed (Porta, 1990: 270; Schvarzer, 1984: 129). De-industrialization plus oligopolic concentration were the results (Azpiazu et al., 1989).

Meanwhile, in Brazil, president Castello Branco (1964-7) reversed the policies of his predecessors. He made important concessions to foreign firms but encouraged them to become more export-oriented. The Brazilian ties with the USA were strong in many areas, but already military officers were seeking the way to acquire locally produced armament and participated in the steel industry, hydroelectric projects and petroleum research (Wynia, 1984: 217-23). By 1977, when Geisel broke the military alliance with the USA, the Brazilian military had freed themselves from arms dependence on that country. In fact, it was becoming an arms exporter (McCann, 1981: 19-20). The Brazilian military regime was 'instrumental', using high rates of growth to legitimize an exclusionary political system (Hirst, 1990-1: 6) (see tables 1, 3). The economic dynamism was characterized by external borrowing, expansion and diversification of external commerce (see table 11), industrial transnationalization, expansion and modernization of State intervention in the economy and a stronger private sector in national industry and finance (Foxley 1983: 23-33; Simonsen, 1988: 287-8, 304-6). The economic growth, sometimes called 'the Brazilian miracle' (an annual average of 8.9 per cent in 1968-81, in Knox et al., 1989: 327), preceded the transition to democracy, which

began with a liberalization in 1974 and finished in 1990 (Lamounier, 1986: 180-90; Skidmore et al., 1989: 178). However, the industrialization has had certain features such as the inegalitarian consumption structure, the geographical concentration of factories (in 1970 70.9 per cent were in the South-east region), debt and very high percentages of foreign firms' share of Brazilian industry (see tables 24 and 25) (Knox et al., 1989: 328-330).

Even though in Brazil there was important economic growth, both countries have suffered the consequences of the policies adopted in the 1970s that led to the debt crisis (Handelman et al., 1991: 2). The oil crisis and the new protectionism in the developed countries raised new arguments in favor of integration, but external financing helped to dilute their negative effects. The countries did not coincide on investment priorities nor on the search of long-term competitiveness. Exchange rates remained overvaluated particularly in Argentina, and the increase in non-tariff protection reinforced the anti-export bias. All this had an impact on the priority given to integration.

During this period Brazil followed an autonomous foreign policy, supported by competent technical personnel sharing a high consensus, conceived by Ambassador Araujo Castro. Brazil's foreign policy had three main characteristics: the revised relationship with the United States, a neutrality towards the ideological West-East conflict and a closer relationship with the Third World. The Foreign Ministry implemented it with a high degree of autonomy and continuity. In May 1980, Figueiredo visited Argentina, the third time in the century that a Brazilian president had visited Argentina (the other two were Campos Sales in 1900 and Getulio Vargas in 1935). The presidents exchanged private telephone numbers and, more important, promised nuclear cooperation (Moneta et al., 1981: 157).

The cooperative aspects, therefore, should not be forgotten for bilateral trade was quite significant and both governments shared common positions on many economic and political issues in the North-South negotiations and in regional and international fora. Castello Branco favored an Argentinian-Brazilian common market, a topic discussed at ministerial level, and the formation of multinational enterprises such as a steel mill at Corumba, Mato Grosso do Sul, that would involve Brazilian, Argentine, Bolivian, Paraguayan and Uruguayan participation. Two advisers who had a great impact on him, Ernesto Geisel and Joao Baptista Figueiredo, would be presidents between 1974 and 1984, and the three would have the same adviser:

Golbery do Couto e Silva, Brazil's most important geopolitician (McCann, 1981: 18-9).

During the 1960's and 1970's Argentina achieved trade surpluses with Brazil, with the exceptions of 1971 and 1975. Since 1980, the situation was reversed mainly due to the liberalization policies followed by Martínez de Hoz, the Argentine Minister of Economy. Until 1985 Brazil has had a positive trade balance with Argentina. Argentine governments tried to limit Brazilian imports to restore the balance and Brazilian governments responded with more restrictions. As a result, trade decreased significantly (Hirst, 1987: and Manzetti, 1990: 113-4) <sup>9</sup>.

The moment of change in the bilateral relationship took place through a process beginning in 1976, during both military regimes, and ending with the ABEIP during the new democratic regimes in 1986. Since 1976, bilateral trade increased significantly until the debt crisis: from 760 million dollars in 1976 to 2 billion in 1980 (Martins, 1991: 45). The years 1979 and 1980 were a landmark in two aspects that had been the symbols of the rivalry in the 19th and the 20th century: the control over the River Plate basin and the nuclear development (Hirst, 1990-1: 72; Martínez-Vidal et al., 1990-2: 343).

The last Argentine military regime, fully aware of the differences in economic and military power since the 1970's, accepted solutions to key issues that would not be acceptable to certain factions of the military alliance but were considered preferable to further losses to Brazil if they remained. The example was the Argentine policy on the Itaipú-Corpus Hydroelectric Agreements. The River Plate Basin was the most important issue settled during this period. It has been the historical landmark that made possible the integration initiatives of the 1980's (Keegan 1988: 36-40, 46; Moneta et al., 1981: 148-50) <sup>10</sup>. Nuclear cooperation was agreed through the Buenos Aires accords.

The Malvinas war dissolved the inter-American defense system (TIAR) and the Argentine military saw its own limitations, being more willing to military cooperation with Brazil. Argentina turned to Latin America from this moment, while Brazil was its representative before the United Kingdom. (Hirst, 1989: 36-9).

The previous integration scheme LAFTA stagnated as a consequence of the changes in the divergent development strategies and international insertion of the countries concerned. The liberalization cum stabilization policies practically abolished preferential treatments with member countries and

weakened LAFTA as an organization. Sub-regional cooperation efforts appeared without any mention to political integration or democracy. Instability and diversity of regimes until the mid-70's was another problem for integration policies. In the Southern Cone a modified structure of relations was designed in new political-economic schemes: Rio de la Plata Basin Treaty, led by Argentina; and the Amazonic Pact, led by Brazil (Moneta et al., 1981: 145).

The first form of integration ended by 'disintegrating' into diverse forms of economic cooperation. New trends appeared in the region: sub-regionalization (e.g. Andean Group), sectorization, bilateralism and flexibility. The new forms have been called cooperation, based on specific and sectoral actions, and projects agreed by pair of group of countries. It is described as informal integration that took place in fields such as trade and finance, infrastructure, energy and productive sectors. It can be bilateral or multilateral. Bilateralism has been much more frequent in trade, border zones' services, and energy. This type of cooperation has been included in many of the Protocols signed between Argentina and Brazil.

#### 2.5. The democratic period, 1985-to the present

In 1983 Argentina experienced a return to democracy. In 1985, Brazil entered that last stage of its transition, indirectly electing a civilian as president. The transitions to democracy took different paths in both countries. In Argentina, the causes were internal (the economic mistakes of the military) but it mainly happened after an external shock (Malvinas war and the military defeat) in 1982. In Brazil, the process has been continuous since 1974 ending with the direct presidential election of 1990. Thus the political processes carry on different heritages and their foreign policies, closely related to the political processes, have implied a rupture in Argentina and legitimation of the democratic government, while in Brazil, it has continued with the previous regimes' policies (Hirst, 1990b: 5). The transitions have taken place in a general context of democratization in Latin America, where all countries for the first time are sharing the same political regime (Moisés, 1991: 141).

Until now there have been political liberalization processes, redefining political rights and guaranteeing individual rights included in the liberal tradition (O'Donnell, 1986: 7). At the same time, there has been a shift of decision-making from corporative organizations towards the Presidential branch, the political parties and the parliament (Silva, 1988: 23). Both



transitions are considered complete but the consolidation of the democratic regimes is still uncertain (Moisés, 1991: 149). The political regimes are doing the transitions first, without the replacement of the old state model from the previous period (Silva, 1988: 25). Now, during the present governments (Menem's and Collor's) the economic strategies, the international insertion and the State, are being redefined. The type of the State would be capitalist but the new form has not taken place yet.

The economic situation during the whole decade (the 'lost decade') has been the worst since the depression of the 1930's (Ferrer, 1991: 135-144; Moisés, 1991: 142-8). The Southern Cone has been unified by the crisis, the external debt, the economic stagnation, the capital flight (particularly in Argentina) <sup>11</sup>, the inflation, the unemployment, and the increasing social inequalities (Trindade, 1991: 322)(see tables 1, 2, 4, 5, 6, 21, 23). The Argentine State is in a fiscal crisis after the statization of the foreign debt, limiting the management capacity of the public sector (Bouzas, 1990: 32-3). In fact, both countries are now net exporters of capital, with dangerous consequences for their economic development as well as for their political stability (García Delgado, 1990: 88).

Both States are going through a crisis that has three dimensions: a) governability; b) the nation-state understood as a national economic space; and c) the nation-state as a political design (Weffort, 1991: 167-80). Governability refers to a crisis in the political system. The democratic presidents that governed during the transition and started the ABEIP, Alfonsín and Sarney, benefitted from a large electoral consensus, but finally the power shifted to the opposition parties reflecting their mediocre economic results and their incapacity to solve the crisis. The same has taken place in Uruguay. The national economic space is being divided into a double track, with 'islands of modernization', directly linked to the international markets, and a marginalized sector. According to Weffort there are basic functions that the nation-state in the Southern Cone cannot provide any more, coming closer to a Hobbesian state of nature (Weffort, 1991: 176-9).

In the midst of the debt crisis, the idea of the 1960's and the 1970's suggesting a basic incompatibility between economic austerity and stable democratic governments has been challenged. Democratic governments have imposed structural adjustment policies and austerity programmes, orthodox and heterodox, all along the 1980's, within the still surviving democracies (Handelman et al., 1991: 5-8).

Surprisingly, there is a low level of unrest now. In Argentina, there are three factors: economically, the de-industrialization and the shift to the informal sector have reduced the strength of labour unions; politically, the country shares with Brazil the strong will to prevent the return of the military in a context where the fear persists (Bacha, 1990: 49; Di Tella, 1990: 53; García Delgado, 1990: 96); and socially, the extremely painful costs of the military governments plus the recent hyperinflations rest on the social unconscious, making the people accept any cost to avoid unrest that could destabilize the formal democracy, even when disenchantment with the latter (like in Brazil) is widespread, specially after 1987 (García Delgado, 1990: 96; Fiori, 1990: 102). The political culture has undergone several changes. Pluralism and competition, role differentiation, the private sphere and the market, efficacy and individual autonomy, are now important values. The conflict exists between these values and the reduced social mobility and cohesion.

The social dimension influences both transitions differently. In Brazil, the organization of the civil society is more spontaneous, hardly channelled through the political parties, and had power to determine the relationship between work and capital in the National Constitution of 1988 (Hirst, 1990b: 8-9). In Argentina, under Alfonsín's government, the State relationship with the civil society was restricted mainly to the relations with labour unions and food aid programmes, such as PAN. These relations have been dismantled under Menem's administration.

Cammack and Silva argue that both democracies have become more restricted and elitist (Silva, 1988: 23-4). What has taken place is a political conservative modernization and liberalisation (Trindade, 1991; García Delgado, 1990: 89). The democratic projects have evolved towards the elites' interests and the new articulation with the international economy, rationalizing the structures inherited from the military governments. An increasing tension between the political and the social can be observed. Borón argues that there are two simultaneous tendencies: on the one hand, there is a political discourse level that addresses the inclusive democratic impulse of political participation, on the other, the economy excludes the majority of the populations, based on oligopolies, privileges, inequalities and exclusion (García Delgado, 1990: 85-99).

Reasons for this are that, firstly, the military have exercised a high degree of control over the process of democratization (though less in post-

Malvinas Argentina); secondly, there are continuous archaic political practices (corruption, clientelism and so on); and thirdly, the heterogeneity and insufficient political organization of popular sectors help to sustain the state's identification with private interests (Moisés, 1991: 150).

It may be interesting to say that this last period seems to share, mutatis mutandi, certain aspects with the first one of 1880-1930, particularly in the economic sphere, while it could develop similar political governing styles of the populist period in the 1930-1960's.

It may coincide with the neo-conservative restrictions imposed during the 1980's, but in Argentina, it also corresponds to a now predominant thinking within the elite on the returning to the growth strategy of the beginning of the century. The ideal of going back to the lost development path has a correlation with the political elitist thinking similar to that first period, and the acceptance of a liberal democracy and a restricted State. During and after the last military period, both the State and the Civil Society lost power. This one seems to reside in restricted powerful economic groups that now have important linkages with transnational companies. For the second time in the 20th century, "a civilian elite is emerging capable of ruling on behalf of the dominant classes with the consent of the majority, and perpetuating its rule through the mechanism of competitive party politics" (Silva, 1988: 24).

Economically, there is a return to the free trade dogma and integration is seen as a means to a better access to the world markets and to the protected markets of a customs union. Three important Argentine authors see integration compatible with the opening of the economies, cf. Villanueva, 1989; Cavallo, 1986; Conesa, 1989, while two of them propose to go back to the structures and political system of that of the period 1880-1930, cf. Conesa, 1989; Waisman, 1987.

In Brazil, since 1988, the governors have regained the capability to mediate in the political and social system, recreating the competition and alliances among them. This is causing some trouble in the economic external relations when it comes to negotiations on external debt (Medeiros, 1991), and it may be a condition to be taken into account in the integration process.

The idea of neo-populism is based on the political styles of Menem and Collor, and the marginal situation of millions of people in both countries, if the political parties fail to adapt and to canalize their interests and needs (Trindade, 1991: 333; Camargo, 1990: 83; García

Delgado, 1990: 97). There has been a political rupture in both countries, but not at the economic level. Until now, there is no alternative development model. The democratic consolidation rests on the new relationship between economics and politics, between the threatened interests of the largest sectors of the populations and the urgent demands for stabilization (García Delgado, 1990: 89). Within this context, integration appeared as the only alternative of change.

The debt crisis showed that the past models of integration were definitely and intrinsically in crisis too. The crisis of the traditional import substitution model is today clearly admitted by ECLA (Faynzylber, Rosenthal and others) and by ex-supporters of an inward-growth model such as Bitar and Faroppa. Thus in the 1980's, the objective for ECLA was to promote cooperation and regional integration as a means of a more active insertion in the world market (Mármora et al., 1990: 156).

The phenomenon of reappearance of integration after the mid-80's in Latin America is mainly due to the negative perceptions of the actual international economic situation, the difficult access to the international markets, plus the present protectionism of the industrialized countries. This imperatively implies competitiveness and development of alliances, negotiations and preferential economic relations, that are bringing a revalorization of the economic spaces and the regional and sub-regional markets. There have been two parallel tendencies: the appearance of new forms of political consensus called 'concertación' and the adaption of formal schemes to the new reality. The first one was initiated in the context of the debt and the Central American crisis, with the Contadora Group and its Support Group, the Cartagena Consensus Group and the Río Group. The second one developed into the creation of ALADI (Latin American Association for Integration) as the continuation of LAFTA, its Regional Round of Negotiations, the search for solutions for the intra-regional debt, and within ALADI: the bilateral or partial agreements that include the ABEIP (Argentine-Brazilian Economic Integration Programme) and Mercosur (South Common Market). There has also been a great development along the borders between countries, even creating bilateral parliamentary assemblies or joint committees to deal with local legislation and problems. Argentina-Brazil-Uruguay-Paraguay has been one of the sub-regions developing faster in this sense and this sector has been included in the ABEIP Protocols (IADB-INTAL, 1989: 190-202).

External factors have promoted integration: the formation of regional

blocs such as Europe and NAFTA (North American Free Trade), and the globalization trends in the world. Eventhough, the return to democracy in the Southern Cone can be identified as the main promoter of the revitalization of the region's integration process, building a new dimension in intra-Latin American relations. The governments found common ground in the diagnosis of the origins of the Latin American crisis, in the identification of common problems and in a shared view of desirable policies to be pursued in the search for solutions.

There is a belief that the possibility of solving the deep crisis in the Southern Cone rests on the integration process and the creation of effective, stable and symmetric interdependencies among the countries in the region, given the limits that nation-states are facing and the current characteristics of the international economy (Weffort, 1991: 179-80).

#### **Notes**

1. Apologists in Argentina were Juan Bautista Alberdi and Juan Domingo Sarmiento and in Brazil the Visconde de Maua. The term in the Brazilian flag 'Ordem e Progresso' and the same expression used by the Argentine governments were quite symbolic. In Argentina the elite shared Spencer's idea of 'natural selection' to justify their power. Those politicians would later be known as the 'Generation of 1880'. Brazilian military was also influenced by Comtean positivism and republican ideas from the 1870's onwards, starting the long tradition of military politicization (Lamounier, 1989: 119).

2. The main customer was the USA but Brazil was tied financially to Britain, which was holding the 1898 'Funding Loan' note. By 1925 Brazil owed Britain over \$100 million and in 1930 British accounted for 53 per cent of total foreign investment in the country. Rio Branco, the foreign minister, sought to diversify the ties towards the USA, which allowed Brazil, in the Vargas' period (1930-45), to eventually shift to the USA financial orbit.

3. State intervention in the economy was legitimized. For the first time there were restrictions on foreign ownership of land. There were high level of investment in public enterprises, currency devaluations, import controls, increased wages and a mild economic nationalism. In Brazil, alien participation in professions such as law and medicine was forbidden, marketing cartels of cocoa, coffee, sugar and tea were created, and state enterprises such as the National Motor Factory.

4. His politics conciliated the interests of exporters as well as of industrial newcomers based on a State intervention which favored workers very moderately. However, he did not consider the traditional rural Brazil and the problems of an industry which needed to import metals and fuel, recreating a disequibrated balance of payments.

5. He was under secretary of war (June 1943), minister of war (February 1944), secretary of labor and social welfare (October 1943) and Vice-President (July 1944). However, the precipitating event was on October 17, 1945, when the demonstration by labor supporters forced the military to release him and passively accept Perón for candidacy. He was elected President in honest elections, February 1946, with a 56 per cent of total votes. Two-thirds of the Second Chamber and all but two seats in the First one were Peronist as well. Eva Perón complemented Perón's strategies with her charisma and social welfare initiatives, and together

they build an important political machine. When she died in 1952, she became a powerful image in the collective memory binding together the Peronists.

6. Labor's share of the national income increased by 25 per cent between 1946 and 1950, and the workers' standard of living rose sharply.

7. During Perón's government, Argentine Vice-President Hortensio Quijano travelled to Brazil when Vargas was reinstated President and arranged a meeting between both officials. There was never a Brazilian reply. In 1953 Perón signed a Treaty of Economic Union and a Commercial and Financial Convention with Chile, as part of an 'ABC strategy' to reach an agreement among Argentina, Brazil and Chile. The Brazilian Ambassador in Buenos Aires Lusardo tried to get both governments closer but faced important opposition in Brazil (Lanús, 1984: 286-9). He was accused of supporting an independent South American block hostile to the USA (Keegan, 1988: 30-1).

8. The non-wage earners share in the national income grew from 50,1 per cent in the first half of the 1970's to 67,7 per cent in 1975-80. The industrial worker's real salary, between 1976 and 1980, fell 33 per cent (Schvarzer, 1984: 131).

9. Argentina's total exports to Brazil fell from 765 million US\$ in 1980 to 496 million US\$ in 1985, and Brazil's exports to the former from 1.1 billion dollars to 611 million in the same period (Manzetti, 1990: 113). The composition of trade changed in Brazil, where agricultural exports dropped from 34.5 per cent in 1975 to 16.3 per cent in 1984. In the Argentine case agricultural exports remained at the same level, accounting for more than half of the total trade (Hirst, 1988). Argentina fell from sixth to ninth in the rank of exporters to Brazil between 1975 and 1984, while Brazil rose from the fourth to the second place (Manzetti, 1990: 114).

10. In the basin there are three main rivers: Uruguay, Paraguay and Paraná. The Delta covers an area of 3 million square kilometers. Hydroelectric exploitation and navigation have been the central issues in the relation among the region's countries. Negotiations were started in 1966 but from then until the late 1970's the bilateral relation was difficult, plagued with political and juridical conflicts and dominated by geopolitical criteria. One of the key points was that Brazil has the upper waters and Argentina, having the lower waters could be damaged in many ways. Meanwhile Brazil had begun its own projects. During the military governments in both countries one of the key issues was agreed upon: Corpus and its compatibility with the Itaipú project. A tri-partite Agreement, concluding Paraguay, was signed on 19-10-79 on Corpus and Itaipú.

11. Capital flight in 1989: in Argentina it was \$US 45.900 million and accounted for 77 per cent of the total foreign debt. In Brazil it was \$US 31.200 million and accounted for 26 per cent of total foreign debt (Matsumoto, 1989).

### 3. THE ARGENTINE-BRAZILIAN ECONOMIC INTEGRATION PROGRAMME

#### 3.1. Introduction:

In July 1986 a new period began for the Argentine-Brazilian relationship as Presidents Raúl Alfonsín of Argentina and José Sarney of Brazil signed the Argentina-Brazil Economic Integration Programme (ABEIP), which would unite two of the largest South American markets with more than two-thirds of the region's industrial and agricultural production as well as of its population (Manzetti, 1990: 109).

The motives were economic and political. Politically, both countries had democratic regimes and the ABEIP was seen as a means to reinforce democratic consolidation. Brazil's motives were a combination of diplomatic and economic reasons: the increasing importance of Latin American markets for Brazil, and the priority that the United States gave to Mexico rather than to Brazil in Latin America since the Reagan's administration, influenced Brazilian government and foreign ministry to pursue closer economic and political ties with its neighbours (Manzetti, 1990: 115). An integration with Argentina would serve the Comisión de Política Aduanera's (CPA) goal of diminishing protectionism (Hirst et al., 1990: 76). In March 1985, Sarney, the new democratic president, stated that integration was one of his goals, and in 1988, the new Constitution included an article establishing Latin American integration as a fundamental objective. Both countries perceived the integration process as a means of achieving their goals: becoming less dependent on fluctuations in the international market, boosting economic growth, bringing stability to bilateral trade, enhancing international negotiating capability (eg. in the GATT) and attracting foreign investment (Ferrer, 1991: 143-3; Mármora et al., 1991: 157). The economic situation, that was felt as a pressure because of its negative effects not only in the economic but in the social and political spheres as well, are described in paragraphs 2.4 and 3.6.

They saw at the same time the regional tendencies in the Europe and North America which, in front of the accelerated technological advance, look for cooperation and integration to compete in better conditions. Regional integration could also improve the relationship with the EC<sup>1</sup>. Both governments shared the idea of a common role in the region: together they

would lead a definitive Latin American integration process (Hirst, 1990b: 9).

The conditions for such an agreement were the best ones: there was no more border disputes and the issue of Del Plata Basin was settled, Argentina had acknowledged Brazil's prominent political and economical role in Latin America (Manzetti, 1990: 115), both had a democratic regime and favored demilitarization of the South Atlantic, and were pursuing the same macro-economic policies, heterodox stabilization plans and foreign policies of autonomist style in relation to the United States (Hirst, 1990: 74). The ABEIP was not preceded by any debate in any of the countries or pressure from industrial or agricultural interest groups. In fact it was the beginning of such debate. The main drive behind was the political will and the converging political interests of the Sarney and Alfonsín administrations (Chudnovsky et al., 1990: 115).

The initiator of the process was the Argentine President, Alfonsín, who gave integration a top priority during his government, as part of his administration's new development strategy. His advisers thought that the strategies of import-substitution followed between 1930 and 1976 and of neo-conservatism from 1976 to 1982 had failed (Hirst, 1990a: 76). The reorientation of the economy towards an export strategy of manufactures could be achieved through bilateral agreements in the region, given the failure of multilateral integration attempts (Hirst, 1988: 8). It was logical to look towards Brazil, the neighbour country, whose market was four times that of the Argentine's, and that accounts for 15 per cent of total imports (Porta, 1990: 266). Besides, with a GDP of \$US 280 billion in 1986, Brazil is the eighth largest market economy in the world (Knox et al., 1989: 327).

Consultations at diplomatic level ended with the signature of the Iguazú Act that affirmed "the strong political will to accelerate the process of bilateral integration in harmony with the efforts of regional development and cooperation" (Integración Latinoamericana No.110, 1986: 70-90). The foreign ministries were in charge of the coordination and implementation. In Argentina, the Ministry was joined by the new 'Secretaría de Industria y Comercio Exterior', while the Economic Ministry assumed a passive role (Hirst, 1988: 10). On the contrary, in Brazil all departments related to the economic sphere were more or less involved along with the foreign ministry. The most active were the foreign ministry, the 'Banco Central do Brasil' and the 'Comisión de Política Aduanera' (Hirst, 1988: 6-7). In the first period, the



bi-national inter-bureaucratic articulation acted as a very dynamic decision-making unit.

### 3.2. Theoretical aspects:

In an orthodox approach, free trade is the best choice in terms of international resource allocation. Customs unions are the second-best alternative if they lead to free trade. The theory assumes perfect competition and constant yields to scale, explaining trade patterns in terms of tastes, available technologies, the factors of production and the natural resources.

There is a so-called 'new' theory of international trade (Helpman and Krugman) that incorporates oligopolistic competition and economies of scale in differentiated products as key explanations of trade patterns, especially between industrial countries. These two aspects facilitate economies of specialization and trade within industries. The 'new' theory uses the concept of 'strategic trade policy' to justify the protection of certain industries that are research and development intensive, though keeping the free trade as the main goal (Chudnovsky et al., 1990: 119). These concepts are important in the Argentine-Brazilian case because both have a significant manufacturing sector and want to modify the existing trade pattern to make their economies more competitive. There is another similar type of argument: that of 'public collective goods' such as industrialization (Robson, 1980) that has always been present as a motivation for Latin American integration and in the ECLA thinking (ECLA, 1959: 141).

The importance given to integration will be based on the importance given to industrialization in the development process, the possibilities of exporting manufactures to the world markets instead of the regional ones, the degree of the foreseen economies of scale, the localization of markets in the member countries and the costs of transportation (Robson, 1980: 158).

The sources of economic gains in a customs union would be: a) efficiency in production by specialization due to comparative advantage: Argentina has a comparative advantage in skilled-labour products, while Brazil has unskilled-labour intensive ones (Chudnovsky et al., 1989: 120); b) increased production from economies of scale in an expanded market; c) improved international bargaining position, leading to better terms of trade; d) more economic efficiency brought by enhanced competition; and e) technological advance affecting the quality of factors of production (EL-Agraa, 1985: General Introduction). These were taken into account by the ABEIP's decision-

makers.

The static gains would come from the difference between trade creation and diversion but the essential gains should be the dynamic ones: an increased rate of growth of GDP through better productivity growth at a given investment ratio or through increased investment itself.

The most relevant points of the theory of customs unions to the case would be: a) trade creation and diversion, b) arguments favoring industrialization and c) economies of scale and specialization. In the first point, from Argentina's point of view, the access to the market protected by a customs union plus the lower transport costs of exporting to a neighbouring country, provides a positive prospect (Chudnovsky et al., 1989: 119). In the second point, a customs union reduces the costs of protection granted to industrialization in a context of rapid technological change, compared to individual (national) action. In the third point, customs unions help to achieve economies of scale that are impossible in relatively small national markets.

Now that these were included in a project of a common market called Mercosur, there would be new factors: a) mobility across the border of member nations; b) the need of coordination of macroeconomic, monetary and fiscal policies; and c) the goals of full employment, high rates of economic growth and better income distribution.

Other reasons are the creation of jobs and new investment opportunities, the mobilization of resources not yet exploited, external economies and achievement of experience and discipline in the regional market first to use it as a transition to a more open economy.

However, the most important gains should come from an improvement in the economic welfare of those concerned. "This welfare criterion can be expressed in terms of the ...growth in per capita output, the efficiency of reallocation and utilisation of factors of production, the stabilisation of levels of economic activity, employment and income, the equitable distribution of income, balanced regional growth and the provision of a healthy physical and social environment" (El-Agraa, 1985: General Introduction).

Given the goal of industrialization and since the initial situation for both economies was that of a closed economy, , customs union should be compared to protection, not to free trade. There would be important benefits from trade creation, a gradual opening and increased competition, which could serve as a learning process. Even the trade diversion could be offset through the

reduction of the production costs that existed under the import-substitution and more closed economy strategy (Martirena-Mantel, 1990: 3).

Chudnovsky and Porta recognize that it does not mean that a customs union is more advantageous than importing high-tech products from industrialized countries (Chudnovsky et al., 1990: 122). Kay argues the same, since advanced technology can be purchased in relatively competitive prices (Kay, 1990: 213). This is true in the short run. However, it is uncertain if this situation will persist in the long term. There are negotiations on intellectual property in the GATT that could end in a new type of barriers to access to new technology. In the same way, the Initiative for the Americas includes certain unfavourable aspects related to it (SELA 1990b), and Brazil has already faced conflicts with the USA on the computer and pharmaceuticals industries.

Cline estimated in 1981 the potential benefits of integration among the six major Latin American countries using a stylized model of trade deregulation with conventional assumptions. The exercise calculated the net social returns in: "excess of 1 per cent of the aggregate GDP of the six countries" (Chudnovsky et al., 1989: 122). Moreover, 90 per cent of the benefits of trade creation and 68 per cent of the net social benefits would be contributed by Argentina and Brazil's participation. The benefits would represent 1.34 per cent of GDP for Argentina and 0.45 per cent for Brazil. The difference was due to the fact that the opening up of the regional market would produce a higher growth of Argentine exports. Static benefits would be higher for countries capable of entering the Brazilian market. Cline recognized that the estimated values could be criticized. However, the model has pointed out the possibility of static and dynamic gains, and the importance of Argentina and Brazil for generating them. In fact, both countries have accounted for between 75 and 80 per cent of the total trade within ALADI in the last 15 years (Chudnovsky et al., 1989: 123).

Another study by Tavares de Araujo in 1987 affirmed that trade diversion hypotheses were linked to a pattern of inter-sectoral complementarity, according to which 80 per cent of Argentine exports would be farm and agro-industrial products and 80 per cent of Brazil's processed metal goods. Chudnovsky and Porta provide a more detailed analysis of the performance complementarities and asymmetries when comparing the production profiles, which due to a lack of space is not possible to include here (Chudnovsky et al., 1989: 124-6) (see tables 1, 3, 11, 20). Based on static comparative

advantages and Riccardian type trade, as a result of deregulation between Argentina and Brazil, the model would create an inter-sectoral pattern through increased trade: agro-foods from Argentina and manufactures from Brazil. On the other hand, there would be dynamic effects creating intrasectoral advantages. The Protocols aim at intra-industrial trade. There is a relatively diversified and mature industrial sector and similar per capita income levels in both countries that could be the base for an expansion of this type. Capital goods were chosen because of their high added value and incorporated technology. It was considered that the public sector was an important demand for capital goods so that the state could also dynamize the process (Porta, 1990: 275). It offered many possibilities of joint research and investment and the great number of small and medium national enterprises in this area could give a margin of political autonomy to the process (Hirst, 1990a: 81).

The ABEIP formula broke with the traditional schemes of the classical integration theory and of the GATT, because of the method of the protocols and the explicit objective of preventing inter-sectoral specialization (grains for machines) (Martirena-Mantel, 1990:1). The method implies that not all capital goods enjoy free trade, but only those included in the common list in Protocol 1.

An argument that has gained ground in the debate is the blaming of the high level of protection of the internal markets for the present economic crisis. The alternative proposition to a customs union is total and unilateral economic deregulation as a means of integration in the world market. Free-trade apologists have always seen customs union as a second-best alternative and mutually exclusive with regard to free trade. Such attempts have already been carried out in Argentina in 1979-81, which did de-industrialize the country and little to promote genuine manufacturing competitiveness (Chudnovsky et al., 1989: 130): the 1981 Argentine industrial production was lower than in 1970 in absolute terms (Schvarzer, 1984: 129). On the other hand, it is recognized that permanent protectionism has not developed productivity.

It is then essential to restructure the industrial sector in order to generate dynamic comparative advantages and integration could be of great importance to achieve it. Regional integration could open economies further and faster, since multilateral negotiations' results under GATT are still uncertain and moving "at the pace of the slowest" (Dornbush, 1991). An expanded market would reduce the level of protection under more gradual and

controlled conditions, while concerted efforts in technology and science could make feasible an increase in export competitiveness.

The decision-making process and the dynamic of negotiations are multiplied through many processes functional to each project (protocol or accord) undertaken. Hirst uses the concept of international organization to describe the ABEIP, since it does not have an institutional framework. The decision-making and implementation is mainly informal, depending on the will of politicians, bureaucrats and businessmen. The decision-making regime regulates, formally and informally, the cooperation at three levels: a) intra-bureaucracies in each State; b) inter-bureaucracies between both States; and c) between the bureaucracies and the private sectors of each country. The main decision-making unit was based on two autonomous national teams that could not take unilateral decisions. These teams recognized each other as legitimate and supported the ABEIP as their common interest, believing that its success meant an internal and external political success for both (Hirst, 1990a: 71-2).

### 3.3. Scenario:

Brazilian business was concerned with pragmatic aspects. It focused on Argentine tariff barriers reduction and eventually going back to the export levels achieved in 1980 (Manzetti, 1990: 116). The differing attitudes of the Argentine and Brazilian entrepreneurs reflected in part the size of the respective markets and their potential for expansion (Camilión, 1987: 8). Some Brazilian exporters considered the Argentine market too small and unstable and believed that North America and Europe offered better prospects. Those who produce for the internal market feared that they would lose their market share. Generally, Brazilians argued that the difference in the two countries' financial and industrial infrastructure, capital accumulation, investments, competitiveness and economic capacity would pose costs too high for Argentina to bear (Manzetti, 1990: 116).

Argentina has been less worried than might be expected about being swamped by its neighbour, while the Brazilian Foreign Trade Foundation representative at the signature of Mercosur explained that Brazilians are brought up with the idea that they "don't want to be thought of with other Latin American countries. We always said we'd rather be bottom of the first world than top of the third" (Financial Times, 27-03-1991). Paradoxically, many Argentinians think in the same way, and the idea of belonging to the 'first and white world' has been one of the motives to disregard integration

or closer relationship with Latin America.

#### 3.4. The evolution of the Agreements:

On July 30 1986, in Buenos Aires, Sarney and Alfonsín signed twelve Protocols which have constituted the core of the Programme. Until now, there have been 24 protocols (see 6.2. Annex 2) and many other agreements and declarations. Some protocols, such as the capital goods, are framed within ALADI regulations, leaving open the possibility of other ALADI members to join in after negotiations. The 'Acta de Integración' included six major points:

1. The programme would adopt a gradualist approach in yearly stages according to the decisions taken by a bilateral commission that would meet twice a year. This commission would control the implementation and negotiate new accords. At each stage, a certain number of new projects would be developed on capital goods and the service sector. There would also be presidential meetings every sixth months.
2. It would aim at intra-sectoral specialization, through a quantitatively and qualitatively balanced trade exchange.
3. It would foster technological modernization to promote efficiency in allocating resources through preferential treatments clauses with third parties.
4. It would be selective, giving priority to capital and agricultural goods, where there was already a high degree of intra-sectoral integration. This meant negotiations product by product.
5. It would lead to progressive harmonization of the economic policies of both countries.
6. It would depend on the active involvement of the private sector through consultation with the governments and economic incentives.

Both countries would agree on three points: first, on reduction of tariff and non-tariff barriers, second, on a common external tariff for third parties, and thirdly, on granting capital goods not included in the list the same treatment as that given to a third party for purchases in the public sector.

The differences between Argentine and Brazilian production costs and exchange rates led to the establishment of corrective measures: when either

country had a deficit exceeding 10 per cent of total transactions, there would be a trade loan financing up to 200 million dollars. If the deficit exceeded 20 per cent, a binational investment fund created by Protocol 7 would finance investments of the country suffering the deficiency to increase its capital goods production and exports to the other partner.

The most important Protocol was the No.1 on capital goods, creating a customs union for a number of goods included in a list that would be negotiated periodically (Manzetti, 1990: 117). Protocol No.2 created a joint commission to coordinate the national policies on producing, distributing and transporting wheat. The objective was to set up a quota for Argentine exports to Brazil as a means of compensating the trade imbalance. Argentina planned to sell 2 billion tons of wheat by 1990.

When compared to previous attempts, the Argentine-Brazilian Programme seemed to be more pragmatic, emphasizing gradualism rather than establishing a grand integration scheme. The ABEIP chose to promote trade liberalization for certain sectors considered best to meet the needs of each other's market: capital goods. It had preferential treatment clauses to promote trade and investments, and a compensation mechanism to balance bilateral trade. It set up the basis to gradually include third parties after some time and a timetable for periodic contacts between government officials. The ABEIP took into account the lessons of past integration experiences following the bilateral and sectoral trends. In the past, there were sectoral agreements without considering the existing parallel industrial structures. The protocols, instead, have focused on reindustrialization and that is the reason why Protocol No.1 is the most important, considered as the 'engine' of the industrialization process. They are expected to create new dynamic comparative advantages through the expansion of the market, economies of scale, technological modernization and intra (not inter) sectoral specialization. It has taken into account Prebisch's theses of gradual, balanced (reciprocal) and selective integration, as well as the notions of flexibility of ALADI. The concepts of cooperation and 'concertación' are well developed and included in the Protocols. There are new areas of cooperation: biotechnology and computer technology, and most important, those areas that in the past were the symbols of the long standing rivalry: nuclear and aerospace industries, energy and armaments (Hirst, 1990b: 13-5; Martins, 1991: 48). The method of lists of goods is a heritage from LAFTA, where the basic instruments were national lists that converged into a common one after

a multilateral round of negotiations. Then the lists were broadened through a convened schedule, to finish with a degree of liberalization at the end of the transitional period. The difference with LAFTA is that the periods are much shorter and the goals less ambitious. In four years, there was supposed to be free trade for 50 per cent of the initial universe of the common list (Martirena-Mantel, 1990: 7). Another direct antecedent from LAFTA have been the efforts directed to intra-industrial expansion. This was the main dynamic element if the scheme after the negotiations for tariff reductions stagnated (Martirena-Mantel, 1990: 10).

The most successful period of the ABEIP has been between 1986 and 1987 (Hirst, 1990a: 79) <sup>2</sup>. After 1987, the euphoria created by the 1986 Argentine trade surplus with Brazil was vanishing. Argentinians were complaining that import controls adopted by Brasilia (when the Cruzado Plan was failing) and the instability of the Brazilian economy were risking the integration process. The Viedma meeting of 1987 extended the 1986 agreements until 1999, developed biotechnology cooperation establishing an Argentine-Brazilian school, and created a new currency named 'gaucho' <sup>3</sup>. In November 1987, an agreement on petrochemicals was signed to take effect in 1989, including bilateral tariff concessions and a 20 per cent ad valorem tax on imports of the same product from a third country.

The first country to join the ABEIP was Uruguay, given its geographical location and its traditional commercial ties with both Argentina and Brazil. Since May 1987, Uruguay signed four Decisions joining the Protocol on Transport and reaffirming the will to become a member of the Programme (Martins, 1991: 55-8). In April 1988 it was formally integrated into the ABEIP. Officials of all three countries saw the agreement as the initial step towards a Latin American common market.

At that time the countries signed a pact for peaceful use of nuclear energy and regular exchanges of information on nuclear technology. This accord was fundamental to stop fears of a new rivalry and race for sub-regional supremacy and has led to a close cooperation and presidential visits to each other's nuclear plants. After that Alfonsín and Sarney signed 16 more agreements. The most important have been Protocol No.21 on the motor vehicle industry, and Protocol No.22 on food industry.

After March 1988, negotiations slowed down. There was a widening Argentine trade deficit, while integration became for Alfonsín and Sarney a secondary goal, in the midst of high inflation, political opposition to their



economic policies in both countries, and military coup attempts in Argentina. Lacking the strong presidential leadership, the two negotiating teams became isolated within their administrations. In November 1988, in an attempt to revitalize the ABEIP, the Treaty of Integration, Cooperation and Development was signed in November 1988 by the Governments of Argentina and Brazil to create a common market (Manzetti, 1990: 120), that seems a recourse to the orthodox integration model (Salgado, 1990: 145), and which, according to Chudnovsky and Porta (1990) and Salgado (1990: 139), it would be a free-trade area between both countries. Approved by both Parliaments in August 1989, it establishes a 10 year period to dismantle all trade barriers. Interestingly, there was a provision for the first time to create a bilateral Parliamentary Commission to supervise and participate in the process. This has been the closest attempt to anything like an institutional political supranational space but the Commission members have never been appointed. The Treaty was so vague that the Protocols have remained as the core of the ABEIP. There was also a new protocol No.23 on development of border regions which takes into account the development of Border Joint Committees during the 1980's.

In August 1989, the new Argentine president, Menem, signed with Sarney 15 agreements. The most important was Brazil's concession of a 500 million dollar credit for importing Argentine foodstuffs and technology to restore the trade balance (Manzetti, 1990: 120). There were agreements to harmonize the electric systems, to study the feasibility of Garabí, a new hydroelectrical project in the Uruguay River, to exchange nuclear materials and equipment. Both presidents have designed similar stabilization policies, long-term economic strategies of international insertion, though implementation showed certain differences (Ferrer, 1990: 136). On 3 and 4 September 1990, nine technical support teams were created to coordinate and harmonize macroeconomic policies (Integración Latinoamericana No. 161-2, 1990: 78). The lack of technical support has been one of the major drawbacks, and it is only now that it is being addressed.

On March 26 and 27, 1991, Argentina, Brazil, Uruguay and Paraguay signed a Treaty on a common market in the Southern Cone to be established on January 1, 1995, which would be called Mercosur. A new schedule for tariff reductions would end on December 31st, 1994, with total liberalization of bilateral trade. The issue of the external debt is not to be treated with a common stand (Segré-Bocco, 1990: 61). The macro-economic policies would be gradually harmonized; and sectoral agreements and a common external tariff

would be adopted. The administration and political decisions will be taken by a Council composed by the foreign affairs and economy ministers. The common market would be 12 million square Km (60 per cent of South America) with 190 million people. The direct antecedent and its base is the ABEIP, now included in the Mercosur, and it gives one more year to Uruguay and Paraguay for integration (Mercosur, 1991). The negotiation method of protocols had been criticized as excessive, leaving little space for the market (Bresser Pereira, 1990: 224-5). Thus, the Mercosur is reducing tariffs uniformly.

This agreement was welcomed by the European Community (European Report No.1673: 7). According to Gross Espiell, the Uruguayan foreign minister, the project was decided personally during the meeting Menem and Collor had in July 1990 (El País, 28-03-1991). He affirmed that the process should not be compared to that of Europe, since the treaty is brief and there was no creation of supranational organizations that could only be discussed after 1994.

All foreign ministers agreed that such project was unconceivable during the last days and that everything was extremely fast (El País, 28-03-1991). Others see it as a political alliance rather than a real commitment to economic integration while multinationals in the automotive industry see the Mercosur as an opportunity. "The head of Autolatina, the holding company for Ford and Volkswagen, in Brazil and Argentina, explained: in many ways we have been positioning ourselves for this for years" (Financial Times, 27-03-1991). This reveals a change in transnational companies' attitudes from the early stages. Petrochemicals are forging links as well, where privatisation is going hand in hand within the integration process. Negotiations are taking place at industry and individual company level. One example is Polibrasil and Petroken, where Shell is a shareholder in both (European Chemical News, 10-12-1990).

### 3.5. Results:

The first protocols were signed when both countries were undergoing heterodox stabilization plans (the Plan Austral in Argentina and the Plan Cruzado in Brazil). The initial success of the Cruzado Plan boosted demand for Argentine goods and led to an increase of 25 per cent increase in bilateral trade in 1986 over the previous year (Manzetti, 1990: 121)(see table 12). But when inflation arose again, the Cartera de Comercio Exterior (CACEX) initiated import restrictions as part of stabilization policies and resisted applying

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the preferential treatment clauses approved within the ABEIP throughout 1987. Thus, when capital goods and wheat agreements came into effect, they faced a changed situation <sup>4</sup>. Common tariffs for third parties were postponed turning the ABEIP into a free trade area for capital goods, though now with the Mercosur, it should be heading towards a common market. In 1990, the bilateral trade accounted for 3 billion dollars and, though is still small compared to total trade, especially for Brazil, it constitutes the most dynamic segment in both countries (Ferrer, 1990: 143).

In 1987-1988, Brazil did not buy 150.000 of the 1.4 billion tons of Argentine wheat agreed upon in Protocol No.2. Since wheat sale (30 per cent of Argentine exports to Brazil) was conceived as a means to balance trade deficits, the importance of the problem is evident. Moreover, there have been disputes because of Brazil's purchases of subsidized wheat from the United States in 1991 (La Nación, 10-06-91: 6).

The Argentine authorities have replied that the results have been positive so far and that the deficit is due to the fact that 60 to 80 per cent of Argentine exports are negotiated, while Brazil has been more effective in promoting exports not covered by the ABEIP. An Argentine newspaper, Clarín, stated that part of the blame should be placed on transnational companies that take the decisions for their subsidiaries after the tariff concessions. For example, Brazil exported 60 million dollars worth of steel while Argentina sold nothing (Clarín, 21-07-1988: 11). According to Manzetti, Protocol No.1 should not be blamed for the Argentine deficit. In fact the deficit resulting from Protocol No.1 of 6 million in 1986 turned into a surplus of 2.4 million in 1988. Protocol No.1 boosted exports in both countries, particularly in Argentina (Manzetti, 1990: 123)(see table 14) <sup>5</sup>. Porta estimated that in 1987, goods traded under this protocol made the 80% of Argentina's total increase and 30% of Brazil's (Porta, 1990: 283). The result is that Protocol 1 creates a more equilibrated trade, tending to compensate the chronic Argentine deficit. Eventhough, there has not been an important modernization of the productive system and the entrepreneurs' attitudes, except in the subsector of machine-tools (Mármora et al., 1990: 162). The most important factor underlying the deficits is the difference in economic policies adopted by both governments (Manzetti, 1990: 124). Brazil restricted imports while Argentina tried stabilization by opening its market during a phase of recession.

There is a lack of precise data on Protocol No.1, on negotiated trade

and the period of implementation of the ABEIP to make a serious assessment, though some tentative conclusions can be exposed: data on capital goods shows that Protocol No.1 supported new Argentine exports to Brazil and a more balanced trade (Manzetti, 1990: 124), and the ABEIP contributed to almost double trade in capital goods: from 6.5 per cent in 1986 to 11.1 per cent in 1987 (see table 15). Capital goods increased the share in bilateral Argentine exports from 1.8 per cent in 1984 to 9.3 in 1987 (see table 18). In 1989 there were 400 products included in the lists, from which machine-tools account for 55.8 per cent of Argentine exports. Nevertheless, the impact is limited for since 1987, bilateral trade in capital goods was only 40 million dollars compared to the target of 300 million, and it is negligible when compared to Brazil's total trade in capital goods (see tables 13, 14, 19).

Some protocols were beginning to be implemented in 1990, encountering opposition from both sides unwilling to compete in an already shrinking market. Moreover, as a result of different policies, Argentine goods can only enter the Brazilian market by negotiating product by product, including them in the accords. Instead, Brazilian goods can enter Argentina without restrictions.

There is no data or assessment yet about Protocols on cooperation in technology (biotechnology, computer industry, nuclear energy). One of the most promising areas was that of binational enterprises and joint ventures. However, until now there were only two examples: a pact between the Associations of Chemical and Petrochemical industries in December 1987, and one in the aeronautical sector to build six hundred CBA-123s civilian transport airplanes. The latter shows the willingness to cooperate among the military, something unthinkable before.

Nevertheless, according to Manzetti, Argentine and Brazilians alike see results promising (Manzetti, 1990: 125). Porta argues that the immediate effects were expansion of commerce, more balanced trade, new export lines and new investments (Porta, 1990: 282-4; Segré-Bocco, 1990: 40): from the Brazilian side, Brahma (beer), Manesmann (steel), Autolatina (automobiles), Petrobras and Odebrecht; from the Argentine side there was investment in Brazilian hospitals, railways and metro. Monica Hirst emphasizes instead the gains in bilateral relations and technological cooperation (Hirst, 1989: 107). The first one seems to be the most important result.

The ABEIP, initiated by the strong political will of Alonsín and Sarney administrations, has created a new period in the bilateral relations.

For the first time, the rivalry and mutual distrust were put aside, though the civil societies were not aware so much. Thus the effect has been mainly on the bilateral relations at the State level, and some productive sectors, particularly at the highest levels of decision-making.

After five years of operation, the ABEIP has produced positive results, especially if difficulties of maintaining such relation through a highly unstable period in both countries are considered. Thus it is still a starting point.

### 3.6. Problems

At first the ABEIP provoked a great deal of enthusiasm but its implementation has been gradually facing a combination of structural, financial, administrative, and political problems that account for the ABEIP's standstill (Manzetti, 1990: 110). Even when there is a new Agreement signed in 1990, this time including Uruguay and Paraguay, which is called Mercosur and has as its main objective the establishment of a common market, those problems remain.

#### a) Structural and economic

According to Manzetti, there are three main structural obstacles: first, the disparities in wages with cheaper Brazilian non skilled sector and cheaper Argentine skilled one <sup>6</sup>. On the contrary, Chudnovsky and Porta argue that this is an advantage for complementarity. Second, the different average index of nationally produced capital goods, with 80 per cent for Brazil and only 35 per cent for Argentina <sup>7</sup>; and third, the tariff structures, with a nominal tariff of 75 per cent in the former as compared with 23 per cent in the latter during 1984 (Manzetti, 1990: 128).

Other disparities include production costs and productivity in capital goods, raw materials, electrical power and fuels, transportation, and capital, with Brazil generally occupying a stronger position (see table 20).

In 1990, both countries were with hyperinflation (20.000 annual per cent for Argentina and 5.000 per cent for Brazil), and deterioration in investment, technology, and living standards. Capital formation during the 1980's fell in Argentina from 22 to 10 per cent and in Brazil from 20 to 16 per cent. The governments are highly constrained by the foreign debt: 60.000 million dollars in Argentina and 110.000 million in Brazil in 1990 (Ferrer, 1990: 135). The latter declared a moratorium in 1987 and Argentina has observed an undeclared one since 1988 (Chudnovsky et al., 1989: 129). In this

context, exchange rate fluctuations and their relative parities have been too great. The imbalances are essentially a result of the debt crisis and to speculative movements according to exchange-rate instability. Since 1982, the countries have had adjustment processes that promoted growth in exports and cut back in imports, while fiscal adjustments restricted public investment. Thus there have been permanent recessions and the gains of the manufacturing sector depend on continuous devaluation of the local currencies, reduction of real wages, and direct and implicit subsidies. It is then the domestic market which subsidizes the export sector. The macroeconomic context and the industrial strategy determine the development of the integration process, in its results, negotiations, trade and new investments (Chudnovsky et al., 1989: 129-30). Incoherent industrial policies in Argentina and divergent macroeconomic policies have reduced the ABEIP to a commercial promotion policy, far from economic integration (Chudnovsky et al., 1989: 132). Moreover, there has been no efforts in macro-economic and industrial policies harmonisation (Chudnovsky, 1990: 232-6).

There is need of studying the situation of each production branch and of the impact that an expanded market would have on competitiveness and level of protection. After the Buenos Aires meeting on September 3 and 4, 1990, both economic ministries would analyze the possibility to ask the World Bank, UNDP, IADB for funding to study all these aspects. Something badly needed is technical support. In that same meeting, the Integration Department of Brazil and the Economic Division for Latin America of Argentina were made responsible of elaborating a project to ask for technical assistance from the European Economic Community (Integración Latinoamericana No.161-2, 1990: 79).

Other difficulties appeared: spare parts for capital goods were to be traded in fixed percentages and state enterprises applied a variety of criteria and procedures to select suppliers. The first factor inhibits any specialization not based on complete products, reducing dynamism in trade and in industrial restructuring. The second one makes access to the other state's purchases difficult and diminishes the totality of eligible products. And capital goods which require special order for their production have been explicitly excluded from Protocol 1 (Porta, 1990: 278-9).

It was impossible to maintain the schedule for enlarging the common list of Protocol No.1 and the process slowed down (Chudnovsky et al., 1989: 132). Compared to 224 products included in 1986, only 126 and 129 were added in 1987 and 1989 respectively (Hirst, 1989: 78). One of the reasons is that



Argentina's list is always concentrated in few sectors and smaller than Brazil's.

Those who have not presented their products to the negotiating national lists include the majority of transnational companies (TNCs). In Brazil, they control the transport equipment, electrical machinery and heavy construction equipment sectors. In Argentina, they control stitched tubes. In both countries, exports of computer equipment and autoparts are a result of atypical integration schemes of TNCs subsidiaries. All these goods are outside Protocol 1 or outside the negotiating lists. TNCs in the capital goods sectors in the two countries seem to base their strategies of investments on protected markets and a supply of more or less similar products. There have been some recent movements towards integration (Protocol 21) but, according to Porta, they should be considered as part of the global TNCs' restructure in the automobile sector and not as induced by Protocol 1. Mercedes Benz, Volvo and John Deere are now interested in incorporating autoparts in the negotiating lists (Porta, 1990: 285-6, 298-90).

The common external tariff has been postponed, and adding the tariff reforms in 1988, the margin of preference for negotiated products is quite uncertain <sup>8</sup>.

#### b) Financial

There are three main problems: the foreign debt, the lack of internal and external financing, and the divergence of exchange rates due to unilateral different stabilization policies (Cavallo, 1986; Dadone and Ingaramo, 1986: 7).

#### c) Administrative

The bureaucracies in charge of the bilateral trade have been slow and inefficient in processing paperwork. Protectionist measures and attitudes developed partly as a result of strong national lobbies: companies protected by the States, those whose products were not included in the Protocol No.1 and firms that were not participating but saw their direct competition across the border doing so (Chudnovsky et al., 1989: 24).

There have been interbureaucratic conflicts with the teams involved in integration from the foreign ministries trying to broaden the lists of goods and the economic teams adopting stabilization policies that restricted such attempts. A third main problem has been the failure to implement compensation mechanisms in case of unbalanced trade. And a fourth one has been the protocols' vagueness: protocol No.1 was not designed to deal with government

subsidies, elimination of non-tariff barriers, distortions created by export incentives and the role that foreign subsidiaries for capital goods would have in the process.

d) Political

Brazil has shown during the democratic governments a low motivation to articulate a strategy in foreign policy. A greater dynamism could be observed in the Presidents diplomacy and the individual performances of the foreign relations Ministers (Hirst, 1990: 10). Compared to Argentina, where foreign policy did legitimase the regime, in Brazil there was no rupture with the previous policy. With the appointment of politicians to Itamaraty, there were conflicts and misunderstandings, along with a whole restructuring of the Ministry, and the need to deal with more actors: media, parliament, governors, and other ministries that were increasingly managing the economic external relations (Hirst, 1990: 11). During the debate on the new Brazilian constitution, foreign relations did not receive much attention. The only difference between Sarney and Collor is that the latter is extremely interested, like Menem in Argentina, in having a greater understanding and trust from the United States. At the same time, both declared their support for the creation of a common market, and integration as a priority in their administrations (Segré-Bocco, 1990: 61).

When the situation worsened in Brazil in 1988 and in Argentina in mid-1989, the process was halted because it still depends too much on presidential initiatives. A characteristic of the country's history and the presidentialist system, the point is that the integration teams, lacking the Presidents' backing, became increasingly isolated. Already in 1987, the Brazilian economy minister, Dilson Funaro, and the Argentine Secretary of State for Commerce and Industry, Roberto Lavagna, two persons favoring the ABEIP, resigned. In 1988 as a direct sequence, Jorge Romero, the Argentine diplomat in charge of the ABEIP, resigned.

The initiatives have not been reinforced by supportive economic and social groups, particularly in Brazil. "Clearly, grass-roots movements, trade unions, and the public at large have been absent from the integration process" (Manzetti, 1990: 133). The presidents, following a top-down approach, believed that the ABEIP alone could create its self-sustaining support. Their advantage is that they have free reign in the short-run but later the policies encounter strong opposition from those affected, which effectively undermine the process and isolate the policymakers. At least in

the short run, gains from integration are not shared equally within countries; it takes time and costs to shift resources from one sector to another; and there are social and labour costs with the possibility of unemployment (Padoa-Schioppa, 1987: 122-4). Creation of jobs is not enough. At least there should be trade-adjustment assistance and skill-building programmes (Dornbush, 1991). There is nothing like that yet, and hardly any involvement of the population in the process. This is one of the main repeated mistakes and partially explains why, after the initial success, the initiatives collapse. If the efforts rest mainly on presidents and few bureaucrats, their success depend on the fortune of the administrations in power. On the contrary, they should encourage the creation of a pro-integrationist lobby and broaden the base promoting the involvement of economic, political and social interests.

Menem and Collor not only broadened the integration towards a common market, including Uruguay and Paraguay, but also seem to promote more firmly the involvement of the private sector, which is beginning to change and show a new will to participate. However, within a context of the debt crisis and adjustment policies, and a generalized economic and political crisis, the interbureaucratic decision-making teams were disarticulated and the negotiations have increasingly been concentrated in the foreign ministries and the private sector, limiting the process to its 'commercial element' and diminishing its capacity to implement an industrial policy (Mármora et al., 1991: 163). The interest on intra-sectoral specialization was vanishing while the transnational companies interests and the traditional sectoral specialization through static comparative advantages were developing in the last protocols (automobiles and food-industry). Until now, it has been impossible to break through the interest lobbies that are clinging to old industrialization model. But those companies that are interested find a lack of structural support: in information systems, public-private cooperation in research, articulation between industry and services, and efficient trading companies.

There are many initiatives at the same time overlapping each other, with no clear priorities and no strategic concept of what integration should achieve in a model of comprehensive openness. All Latin American countries are opening their economies, pressured by multilateral agencies and the debt, structural adjustments, an apology for free trade as the panacea for the region (in a return to the period before the 1930's), and the USA Initiative

for the Americas. The Mercosur has already approved the latter, while the USA has raised its concern on the Mercosur (Manzetti, 1990: 129). The USA has always prevented any possibility of formation of a Southern Cone pole in the Americas. On the other hand, neither the World Bank nor the International Monetary Fund have raised any question on the Mercosur. The discussion is: could indiscriminate openness, pushed by them, to the international economy be reconciled with regional integration? In theory, free trade and customs union are mutually exclusive, while Latin America is following both paths at the same time. It may be necessary to establish a priority when the two processes intensify. In Latin American terms, this means solving the problem of the regional 'margin of preference'. The solution could be comprehensive openness, which seems to be the predominant direction, with selective protection, in principle through import tariffs. It seems that selective integration could be easier to reconcile with the now prevalent trend towards openness (Salgado, 1990: 151-5).

### 3.7. Conclusion

The ABEIP has been a significant initiative whose greatest achievements have been diplomatic. It opened a new period in the Argentine-Brazilian relationship, characterized by consensus and cooperation, leaving behind the traditional rivalry and competition for the sub-regional hegemony. The ABEIP was set up in favourable political and economic conditions, and backed by the strong political will of all Presidents involved, whose periodical meetings set up a new pattern in policy making at the regional level. However, several structural, economic and financial, political and administrative problems limited the progress. The emphasis is still on accelerating the trade element of economic integration, in the context of global and regional openness towards the world market. It may be said that, chronologically, trade with third parties has been liberalized first, so that what has taken place with regional integration until now is only an extension of what was happening in general with foreign trade. The ABEIP may be more accurately described until now as an integration process that began by liberalizing capital goods (Manzetti, 1990: 136). The process started with capital goods and turned to automobiles and agro-industry, choosing an intra-industrial strategy instead of an inter-sectoral one. The Mercosur project appears as a return to the 'orthodox' theory of customs union, but the Protocols remain as the core of the process, creating opportunities to

increase trade, establish binational enterprises and joint ventures, and develop scientific-technological cooperation.

There are three fundamental conditions for success in the integration process: to overcome the economic crisis, to coordinate macroeconomic policies and to mobilize relevant sectors to participate in the process. All these seem to drive towards an integration process. If integration produces growth, boosts exports and its benefits are distributed with equality, it would legitimize democracy in return. But this very complex and difficult process is encountering many obstacles at present. Moreover, in the present critical conditions there is no debate on the impact of the process in the societies and how the interrelationship between economic integration and social and political integration should be.

#### **Notes**

1. During the INTAL XXI Course in November 1989, the representative from the EC in Uruguay has stated that new European investments in the Southern Cone could come only if integration made progress, and since the end of 1990 there has been an institutionalization of a political dialogue between both parts in Rome. The EC has recognized the Mercosur (Europe, 28-03-1991) The EC argued that it would allow the development of cooperation with it, and already in April there was an agreement between the Mercosur representatives and the Commission of the EC on administrative support (European Report No.1673).

2. In December 1986 five new protocols were signed on: steel production, surface transport and phytosanitary controls, maritime transport, communications and nuclear cooperation. In June 1987 two protocols were signed on cultural affairs and public administration.

3. It was expected to insulate trade from fluctuations in the exchange rate and encourage trade. Each central bank would issue gauchos worth 200 million dollars and thus contribute to the 400 million dollar bilateral credit facility created by the protocols.

4. In overall trade, Argentina experienced a deficit of 279 million dollars in 1987 and 398 million in 1988, compared to the surplus of 7.9 million in 1986. Brazil's exports increased from 690 million in 1986 to 819 in 1987 and 971 in 1988. In 1987 and 1988 bilateral trade amounted to 1.4 and 1.5 million dollars, representing 11% of Argentina's commerce and 3.5% of Brazil's (Manzetti, 1990: 121-2). However, at the end of 1989 there was a reversed trend with a surplus for Argentina, mainly due to capital goods and the food industry (Hirst, 1990: 31).

5. Overall, Argentina's exports of capital goods to Brazil rose from 31 million dollars in 1986 to 51 million in 1988 (60 per cent increase), and Brazil's exports increased similarly by 73 per cent from 58 million to 83 million during the same period. Goods exported under Protocol No.1 had a bigger increase: from 3 to 35 million for Argentina and from 9 to 33 million dollars for Brazil.

6. This is a result of the economic policies in the last 15 years. If one compares the evolution of capital goods production, Brazil's grew annually 16.3 per cent between 1970-1987, while Argentina's decreased by 1 per cent during the same time. This generated today's asymmetries in size and diversification of production (Porta, 1990: 269-72).

*7. Brazilian competitiveness resides in non-skilled labour and, at least until 1985, in fiscal and financial subsidies. Argentina's rests in cheaper skilled labour and in lower smelting costs (Porta, 1990: 281).*

*8. Both tariff reforms have not been related to the integration process. Brazil also created free export zones in 1988 (Chudnovsky, 1990: 233-4).*

#### 4. DEMOCRACY AND INTEGRATION IN ARGENTINA AND BRAZIL

The objective of this last section is to summarise the topics already treated and to refer to certain political dimensions. Latin American integration has been conceived as an element of a development strategy, but this one is largely determined by the political regime, the international insertion (the type of external linkages and the international environment), and the degree of development. These have changed at different rates and directions, affecting the national policies, while the prevailing paradigm of integration was not modified to the same extent and the schemes therefore stagnated. The paradox has been that both economies have not ceased to deepen their bilateral relationship while the integration schemes, in which they were members, were often at a standstill.

Historically, military regimes have rejected any kind of integration, though in the last military period there was some cooperation (see § 2.3.). In fact, they have been the main obstacle to integration. Closer inter-relationship has been proposed only during democratic governments, but several factors, internal and external, have contributed to the attempts' failure or stagnation (see Chapter 2). Integration is supported when previous neglected demands of higher standard of living and thus the imperative of growth to attend them, restate the social issue in newly established democracies. In this sense, and as the ABEIP was designed at the beginning, it was part of a development strategy (see § 3.1. and 3.2.).

It redefines international insertion in the sense of creating new solid alliances that could lead to a stronger bargaining position in a world that is increasingly moving towards the formation of regional blocs. The USA has shown concern for the ABEIP and Mercosur (see § 3.6.), but if its transnationals benefit from it, at least it would probably not try to disarticulate it (see § 3.3.). On the other hand, the EC is politically supporting the project (see § 3.1.). Meanwhile, the integration project is going along with the opening of the economies and the acceptance in principle of Bush's 'Initiative for the Americas' <sup>1</sup>.

In Latin America, the concept of integration has been associated with the phenomenon of commercial integration and the abolition of tariffs and non-tariff barriers as the main point. This is a restrictive standpoint. As a result of this conceptual rigidity, the notion of cooperation was

introduced to include all initiatives, predominantly sectoral and bilateral, and has been explicitly included in the ABEIP (in Spanish its name is 'Programa de Cooperación e Integración Económica Argentino-Brasileño'). At the rhetorical level, integration has become an end in itself, and the crisis of integration before the mid-1980's was attributed to insufficient implementation as a consequence of lack of political will. On the contrary, the ABEIP was started by the strong political will and certain space of manoeuvre that the newly democratic governments had around 1985<sup>2</sup>.

Particularly after 1985, in the whole region, there have been important actions towards integration based on common perceptions: the internationalization of the economies as irreversible and integration as a reality that goes beyond traditional political borders. During the 1980's there were three main lines of initiatives: an evolution of integration concepts, structured upon a base of political will and consensus. The reestablishment of democracy has developed a strong sense of solidarity and a renewed interest in integration, so that the relaunching has taken place both at the political and economic levels (Río Group, ABEIP and Mercosur). Secondly, an adaptation of integration instruments such as the ALADI's regional round of negotiations, and thirdly and most dynamic, the bilateral agreements. The ABEIP is included in the last line.

Historically, in Latin America, integration has been given priority when countries face negative economic and international conditions (Villanueva, 1989). The 1980's have been 'perfect' time since they have been the lost decade with the worst crisis for Latin American peoples.

Integration is supported when industrialization is a priority in the development strategy of democratic governments, as it was the case in both countries. This means that there is need for existence of industrial and service groups interested in promoting trade, exports and output, who do not depend too much on state privileges and subsidies, but do need a selective criteria of protection to bring about structural changes and increase their international competitiveness. This requires a certain degree of openness to neighbour member/s of the integration scheme, that could have hardly happened in a populist coalition with an import-substitution strategy, or in the technocratic style of a bureaucratic-authoritarian state, inclined to neo-liberal policies, free trade, unilateral deregulation and opening to the rest of the world (see § 2.1., 2.2. and 2.3).

Under Protocol 1, new productive investments were expected. However,



there is almost no net investment and the fiscal crisis restricts public investment. The standstill was showing that the ABEIP, as previous attempts have proved, was being reduced to re-orientation of trade (Chudnovsky, 1990: 230-1).

The process of integration tends to legitimize the democratic governments since the Presidents display their diplomacy and mutual visits. Each one supports the other. More important, it tends to legitimize them in their search for a path of renewed growth, and expansion of trade and investment. In Argentina, it legitimized the new government of Alfonsín as it represented a complete break with the military's external policies, which had isolated the country. It was an attempt to link the country to the outside world and reinsert Argentina in Latin America. It was also part of a strategy of solving the old rivalries, not only with Brazil but also with others such as Chile, to secure peace in the sub-region and disarticulate the military war hypotheses based on the traditional geopolitical thinking so that there would be a better context for investment and growth.

Meanwhile, the agreements on peaceful use of nuclear energy provide a framework for security and peace, preventing a nuclear and military race. The protocols created the possibility of military cooperation that may professionalize them, conducive to industrial production and reconversion of military industries (there has been a protocol to produce civil airplanes). The policy-makers consciously sought the involvement of the military in the integration process, since they have been the main obstacle to it. In turn this could help to consolidate democracy. However, since the ABEIP has been closely associated with the democratization processes, the military have had a marginal space in its formulation and implementation (Hirst, 1990b: 13). Even when sectoral cooperation exists, there is no common political or strategic military agenda. In fact, the military cooperation is subject to three conditions: a) no military use of nuclear energy; b) no war hypothesis with each other; and c) no military intervention in national politics (Cavagnari Filho, 1990: 330).

The transnational companies' attitudes are changing, supporting and participating now in the integration process, in contrast with the past when they were oriented more towards the internal market. This is part of the capitalist world trend that will make possible the integration but that can also pose problems: for what and whose benefit will integration be? (see § 3.4.).

The problem is that the question of for whom is integration is not addressed. There are no clear strategies of industrialization and restructuring of the production apparatus (see § 3.6.). Thus the integration process can not be articulated adequately enough to an economic and a democratic projects.

In fact, the debate of democratization, which should have taken place after the political liberalization process, has been delayed. Both countries have undergone conservative political liberalisation and are now facing a restructure of their economies and their States (see § 2.4.). The integration has been increasingly decided in the foreign ministries and the private sector (big business that consider they are ready to compete in an open economy, and transnationals), while other actors (political parties, parliaments, social movements) are not participating (see § 3.6.). This is a top-down process at State level, until now, in more restricted democracies, that still depend too much on presidential initiatives. Thus, and specially after 1989, the State is acting as a mediator and supporter of interest oriented parties (see § 3.6.).

Both countries have presidentialist regimes that make the ABEIP and Mercosur too dependent on the fate of the governments. Lacking the support of the presidents, the negotiating and implementation teams become isolated, while the national parliaments do not have real power to intervene, given the 'traditional' authority of the presidential branches in such topics (see § 3.6). This raises the question about the capacity of presidentialist systems and their pattern of state-civil relations to accomplish a complete integrating process that goes beyond a free-trade zone.

There are three main dilemmas affecting democratization. The first one is distinction between liberalization and democratization (see § 2.5.), and the importance of the strategic nature of the actions of the democratic actors since the democratization process is open and may be contradictory.

The second one is the distinction between modernization and modernity. Modernization is explicitly mentioned in the governmental discourses and is an objective of the ABEIP and Mercosur, related to the processes of developing instrumental rationality and the economic organization's model. Modernity, instead, refers to political secularization and participation, the process towards normative rationality, "self-determination and the political and moral autonomy of social and political subjects...(and)...the effective functioning of the institutions embodying... (universal)... values...This is

why the drive towards modernity becomes intertwined with the very process of strengthening democracy" (Moisés 1991: 152/8). Lechner and Touraine argue in the same way.

And third, the distinction between citizens and democratic actors that imply further changes in political culture. The extension of citizenship under a liberalization process should be accompanied by an ethical-political and social dimension that would transform the citizens into actors, participating and upholding democratic values.

All three dilemmas are interconnected for it is necessary to infuse changes in the institutional functioning and its rationality, together with changes in the political culture, to link the democratic political regimes to the citizens as actors, as conditions for a democratic consolidation.

There are no supranational spaces or institutions where there could be exchanges at the civil society level, nor a democratic control of the process that could in turn legitimize it (see § 3.4.). It is true that, historically, civil societies have never been included in this type of initiatives or in foreign policy making in Latin America, though this is not the case now in the Andean Group (Londoño Sánchez, s.a.), but an integration process will potentially change the structures of both countries affecting all spheres of life. On the other hand, the States structures are being reduced and their role of intervention in the economy curtailed, particularly in Argentina (La Nación, 30-09-91: 1). What kind of guide and control would there be in a future common market? How can the task of integrating the countries be undertaken without a solid strategy for strengthening the state capacity to mobilize relevant national forces, without whose participation the goal would not be reached?

The initiative of the ABEIP, now included in the more ambitious Mercosur, was a very interesting one that could have many positive results, economically as well as politically (see § 3.1. and 3.2.). The ABEIP had considered the experiences of the past integration attempts and tried to include the best aspects, while avoiding others (see § 3.4.). However, many problems of economic and financial, administrative and political nature, were halting the process while certain negative trends appeared (see § 3.6.). Meanwhile, other sectors that should have been given more attention were not implemented: binational enterprises, technological cooperation, payment mechanisms, negotiation methods and personnel training, among others. The civil societies are still much more oriented to the North than towards each

other. There is not much interdependence between them but prejudices and distrust as a result of centuries of rivalry.

The decision-makers give importance to efficacy and legality, but not to legitimacy. And this one is linked to political participation in all democratic regimes. The social and political actors through their conviction and participation could legitimize and control the process (Londoño Sánchez, s.a.). Most integration processes have included a parliamentary instance: the EC, the Andean Group, or they are discussing it: the Caribbean countries, the Amazonic Pact. On the other hand, there are the border parliamentary assemblies, such as the Regional Assembly Colombo-Venezuelan between Santander and Táchira created in 1987 (Vachino, 1988: 38-9). The only regional parliament that includes all four countries of Mercosur is the Latin American Parliament, which lacks even a territorial base because it is not related to any integration project in particular.

On the other hand, there are the political consensus or 'concertación' mechanisms such as the Río Group, all supporting the integration processes. However, these are at State, presidential and ministerial levels. There is the Forum of Latin American and Caribbean Democratic Political Parties created in 1986, but again is not specifically related to the Mercosur or the ABEIP. At this point, it is interesting to note that, with the exception of conservative parties, all political parties in both countries include regional integration as a goal in their electoral programmes. There are already Border Assemblies among the countries of Mercosur, but no international institutional space (Vachino, 1988: 80-1).

Participation of political and social actors, specially through a Parliament directly elected, would make the initiatives transparent, favour cooperation and harmonization of national systems, mobilize resources and control the process, connecting the national and sub-regional spheres.

Divergent political regimes with different scale of values have proved in Latin America an important obstacle to any integration process. Therefore, the need arises to consolidate democracy by including it as an indispensable characteristic for any country to be a member of an integration project.

It is important to draw attention to the political and democratic factors of the integration project, to create a social, participative and pluralist democracy shared by both countries. Social, because one of the biggest challenges is the national integration of the poor and marginalized groups (Lamounier, 1986: 190-91); participative, because it may be the only

way to change the paternalistic and authoritarian patterns in both countries; and pluralistic, to permit the tolerance and expression of all sectors. All these are also conditions for a democratic consolidation.

Integration should not be reduced to a purely economic exercise because this would result in the weakening of the process, and integration would not be able to successfully face the challenges of its construction. In Latin America, the political dimension has been disdained in all previous stages. Indeed, such a restrictive point of view could only denaturalize the essence of integration since without neglecting the importance of its economic objectives, it is necessary to inquire into the political and social motivations that lead to integration. The unidimensional model has been changing, incorporating the notion of cooperation and a wide range of common actions. In the 1980's the political dimension was introduced through the concept of 'concertación'. In Latin America, there has been a growing impulse to design solid political-institutional bases to guarantee the democratic system and human rights <sup>3</sup>.

However, in the ABEIP now included in the Mercosur, there is no space for it yet (Southern Cone Report, 17-10-91: 1) <sup>4</sup>. Nevertheless, there is not only discussion on the tension between sovereignty-supranationality and delegation of state functions, but recent acknowledgement of necessary institutional basis for political participation and control of the integration process (De Nuñez, 1991: 160). Just recently, the idea of the 1988 Legislative Committee (see § 3.4.) has been revived. It will include eight deputies and eight senators from the Mercosur countries. It has been called 'Congress' and will meet for the first time on November 15, 1991. There is concern with the double political task of the legislators. The Latin American Parliament has been functioning with the double mandate and there has been nor efficiency nor efficacy. There has always been a very high percentege of absenteeism, while national parliaments hardly deal with integration issues and tend to prioritize their national interests. All those who have worked on the political dimension of the integration process are against committees of national legislators and double mandate (Londoño Sánchez, s.a.: 88; Montoro, 1988: 107; Vacchino, 1989b: 79). They argue for the transformation of the Latin American Parliament, because they do not think it could ever be effective in present conditions. The Mercosur's 'Congress' could share the same problems and criticisms.

For the first time, contrasting with previous periods, both governments

are pursuing similar economic development policies and sharing the same type of political regime, in an international environment favourable to integration (Ferrer, 1991). Both countries are also sharing a similar unfavourable international situation, particularly after 1982. Integration, in the Southern Cone, has been a response to the 1980's crisis of development, and not only induced by external developments in Europe or North America.

The integration process is also related to the issue of state reform and to the context of globalization and economic transnationalization. Reconstructing the nation-state is not enough any more for it would probably not cope with the world's dynamics and the present trend of regional blocs formation (see § 2.5.)<sup>3</sup>. It appears that a democratic political system should operate at a transnational level since that is where capital is at. "Given the absence of an authority which could operate at world level, 'control' amounts essentially to the self-discipline exercised by multinational companies, which naturally act mainly in their own interests. The 'region state' "would improve productive decentralization, and "guarantee the functioning of the market and the distribution of costs and benefits generated by ...(an)...increasingly complex system" (Sideri, 1991: 16). It has been shown that increased interdependence without increased co-ordination can lead to inappropriate policies or even negate the microeconomic benefits of integration (Padoa-Schioppa, 1987: 131).

This raises the questions of the state's regulatory role in a regional market economy and its task of achieving a new social equilibrium in order to obtain a stable democratic system in both countries. The situation is that, right now, as Weffort suggests, "integration appears as the main development strategy available to Latin America if it wants to assure its participation in world economic changes...(in) the risk of turning into a so-called invisible region" (Moisés, 1991: 156).

In the Southern Cone, where life-style is marked by uncertainty, the institutionalization of spaces where both civil societies could participate, such as a Parliament, would satisfy the demand for certainty and meaning (Lechner, 1987: 19; Dos Santos, 1986). Certainly, the development of the political dimension within the integration process would be significant for democratic consolidation as well as for the success of the integration itself.

**Notes**

1. The Initiative was announced in June 17, 1990. It contained proposals for the continent's development in three key areas: foreign debt, foreign investment, and trade relations. Its main objective is to create a free trade zone in the whole American continent (SELA 1990b). It is believed that USA hegemony will persist in the region and therefore the integration process should not appear as a rupture with the hegemonic power (Cavagnari Filho, 1990: 325).

2. Alfonsín was in power since 1983 but in 1985 his party had won the first partial elections of deputies and governors; and both countries were undertaking heterodox stabilization programmes that boosted consumption in the beginning.

3. The Central American Treaty established a regional Parliament, the Andean Parliament will be directly elected, and the Latin American Parliament has been institutionalized (Integración Latinoamericana No.146-7, 1989).

4. Art.18 of Mercosur establishes a meeting in December 1994 to design the institutional administrative structure, as well as the decision-making system (Mercosur, 1991: art. 18), but there is no provision for a parliamentary level.

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## 5.1. Newspaper Articles

Clarín	02-07-88: 11
El País	28-03-91 21-07-91
Financial Times	26-03-91 19-07-91
La Nación	10-06-91: 6
(international edition)	30-09-91: 1
Le Monde	10-09-91
The Economist	27-07-91: 50

## 6.1. ANNEX 1. TABLES

1. Evolution of GDP and investment 1961-1988 in Argentina and Brazil (cumulative annual percenteges).
2. GDP growth 1982-1988 (percenteges).
3. Added value in manufactures, 1960-1986 (\$US million of 1986).
4. Inflation, 1990-1991.
5. How the debt has grown, 1982-1988 (\$US billion).
6. Debt situation at end-1988.
7. Patterns of foreign trade. Who is selling to America, 1980, 1985 and 1988.
8. Share of Latin American market, 1980, 1985 and 1988.
9. Argentine-Brazilian trade in intra-regional (ALADI) exports (\$US million).
10. ALADI: main trade axes (average 1980-1985 in \$US million).
11. Comparison of export profiles (percenteges).
12. Argentine-Brazilian bilateral trade 1975-1988 (\$US million).
13. Argentine-Brazilian bilateral trade as a percentege of total trade, 1981-1987.
14. Argentine-Brazilian bilateral trade in capital goods 1984-1988 (\$US million).

15. Argentine exports to Brazil under Protocol 1 in 1987.
16. Brazilian exports to Argentina under Protocol 1 in 1987.
17. Argentine trade with Brazil 1985-1987. Imports and exports according to type of products (\$US million).
18. Capital goods trade between Argentina and Brazil as a percentage of total bilateral trade.
19. Capital goods trade between Argentina and Brazil as a percentage of each country's overall capital goods trade.
20. Indicators of production costs in Argentina and Brazil (domestic costs calculated in \$US in values typical of the second half of 1986).
21. Magnitude of poverty in urban areas in 1970, 1980 and 1986.
22. Urban population as a percentage of total population in 1960, 1970 and 1986.
23. Minimum wage 1987-1989 (end of period).
24. Foreign firms' percentage share of Brazilian industry in 1970 and 1977.
25. Brazil: multinationals and employment in dynamic sectors of manufacturing, 1980.

Table 1.

Evolution of GDP and investment 1961-1988  
(cumulative annual percenteges)

Variables	1961- 1970	1971- 1980	1981- 1983	1984- 1987	1988
<b>Total GDP</b>					
Argentina	4.1	2.6	-2.9	0.6	-0.5
Brazil	6.1	8.7	-1.7	6.2	-0.3
<b>Manufacturing GDP</b>					
Argentina	5.2	1.6	-3.9	-0.6	-5.5
Brazi	6.9	9.0	-5.7	6.8	-2.5
<b>Gross investment</b>					
Argentina		3.7		-8.5	
Brazil		9.3		-2.7	
<b>Investment rate (I/GDP, %)</b>					
Argentina		21.7		15.2	
Brazil		23.9		16.6	

Source: 1960-1987. IADB 'Progreso económico y social de América Latina 1988' Report, Washington, DC; and ECLA, Economic Panorama of Latin America 1988 (LC/G.1531), September. In: Chudnovsky et al., 1989: 125.

Table 2.

GDP Growth 1982-1988 (%)

	1982	1983	1984	1985	1986	1987	1988 <sup>1</sup>	1989 <sup>1</sup>
Argentina	-5.8	2.6	2.2	-4.5	5.8	1.6	-3.1	-8.0
Brazil	0.9	-2.4	5.7	8.4	8.1	2.9	0.3	3.6

Source: ECLA. In: Latin American Special Reports, June 1989: 7.

<sup>1</sup>: Estimates. In: Latin American Economic Report, June 30 1990: 2-3.

Table 3.

Added Value in manufactures (\$US million of 1986)<sup>1</sup>

	1960	1970	1980	1983	1986 <sup>2</sup>
Argentina	8.667	14.374	16.880	14.972	15.724
Brazil	18.366	35.747	84.328	70.630	90.355

Source: IADB, 1987 Report. <sup>1</sup>: Factor cost. <sup>2</sup>: Estimates

Table 4.

## Inflation

	Source	Last 12 months	Jan-Dec 1990
Argentina	Indec	144.4 %	1,343.9 %
Brazil	Ibge	350.5 %	1,794.8 %

Source: Latin American Weekly Report, 26-09-91: 11.

Table 5.

How the debt has grown <sup>1</sup> (\$US billion)

	1982	1983	1984	1985	1986	1987	1988 <sup>2</sup>
Argentina	43.6	45.1	46.9	48.3	51.4	54.7	56.8
Brazil	91.0	98.2	105.3	106.7	111.0	121.3	114.6

Source: ECLA. <sup>1</sup>: included debt with IMF. <sup>2</sup>: preliminary data. In: Latin American Special Reports, June 1989: 7.

Table 6.

## Debt Situation at end-1988

	Total debt (US\$bn)	Debt/GDP (%)	Service/exports (%) <sup>1</sup>
Argentina	59.6	69.4	40.4
Brazil	120.1	35.3	29.7

Source: ECLA <sup>1</sup>: projections by Bank of America. In: Latin American Special Reports, June 1989: 6.

Table 7.

## Patterns of Foreign Trade 1980-1988

Who is selling to Latin America	1980	1985	1988	%var. 1980-88
Source of region's imports in US\$bn				
Total	114.08	72.50	107.51	-5.8
US	36.15	26.35	44.73	23.7
EEC	18.87	13.16	20.75	10.0
Japan	6.74	4.31	6.50	-3.6
USSR + E. Europe	0.94	0.52	0.70	-25.5
LA + Caribbe (%)	14.35	13.48	16.30	

Source: Latin American Special Report, April 1990: 6.

Table 8.

Share of Latin American Market	1980	1985	1988	%pt.var. 1980-88
Source of region's imports in %				
US	31.7	36.3	41.6	9.9
EEC	16.5	18.2	19.3	2.8
Japan	5.9	5.9	6.0	0.1
USSR + E. Europe	0.8	0.7	0.7	-0.1
LA + Caribbe	12.6	18.6	15.2	2.6

Source: Latin American Special Report, April 1990: 6.



Table 9.

Argentine-Brazilian Trade in  
Intra-Regional (ALADI) Exports  
(\$US 1,000s)

Import Country	Year	Export Country		ALADI
		Argentina	Brazil	
Argentina	1980		1091246	2073051
	1982		665932	1530632
	1984		853093	1662135
	1986		681299	1575943
	1988		984973	1775079
Brazil	1980	764972		2731317
	1982	567590		3017162
	1984	478143		2058711
	1986	697858		1740429
	1988	573107		1553242

Source: Statistics Unit at INTAL-IADB, 1989.

Table 10.

ALADI: Main Trade Axis  
(Average 1980-1985 in \$US million)

	Average value of trade	% of total	% Accumulated
1. Argentina-Brazil	2,706.8	14.6	14.6
2. Brazil-Venezuela	2,067.8	11.2	25.8
3. Brazil-Mexico	1,771.9	9.6	35.4
4. Brazil-Chile	1,260.4	6.8	42.2
5. Colombia-Venezuela	1,032.1	5.6	47.8
6. Argentina-Bolivia	885.7	4.8	52.6
7. Uruguay-Brazil	828.4	4.5	57.1
8. Brazil-Paraguay	668.9	3.6	60.7
9. Argentina-Chile	650.9	3.5	64.2
10. Venezuela-Chile	620.4	3.4	67.6
11. Peru-Brazil	452.1	2.4	70.0
12. Argentina-Mexico	442.5	2.4	72.4
13. Argentina-Uruguay	416.0	2.2	74.6
14. Brazil-Colombia	368.2	2.0	76.6
15. Argentina-Paraguay	339.3	1.8	78.4
16. Brazil-Bolivia	281.0	1.5	79.9
Subtotal	14,792.4		79.9
Other	3,741.0		20.1
Total	18,533.4		100.0

Source: Matsumoto, 1989.

Table 11.

	Comparison of export profiles (Percentages)					
	Argentina			Brazil		
	1970	1980	1985	1970	1980	1985
<b>Commodities</b>	59.5	49.0	49.3	64.2	30.3	27.6
Farm goods	59.1	48.5	48.2	57.1	21.3	21.0
Minerals	0.3	0.4	0.2	6.9	8.9	6.6
Fuels	0.1	-	0.8	0.1	0.1	-
<b>Manufactures</b>	40.2	51.0	50.7	35.6	69.5	72.2
a) Resource based	26.5	30.5	33.0	25.0	36.0	33.2
Farm goods	22.4	22.8	23.1	20.5	30.6	21.3
Mining	1.3	4.2	4.4	1.0	2.3	5.4
Petroleum derivatives	2.8	3.5	5.6	3.4	3.0	6.5
b) Non-resource-based	13.9	20.5	17.7	10.6	33.5	39.0

Source: Joint ECLA/UNIDO Industry and Technology Division, empirical base for comparative studies, 1988. In: Chudnovsky et al., 1989: 126.

Table 12.

Year	Argentine Bilateral Trade with Brazil 1975-1988 (\$US million)			
	Argentine Exports to Brazil	Brazilian Exports to Argentina	Total	Balance
1975	213	383	597	-170
1976	422	331	753	+ 91
1977	465	373	838	+ 92
1978	577	347	924	+230
1979	686	654	1,340	+ 31
1980	765	1,092	1,857	-327
1981	595	880	1,475	-285
1982	567	666	1,233	- 99
1983	338	655	993	-316
1984	478	853	1,331	-375
1985	496	612	1,108	-115
1986	698	690	1,338	+ 8
1987	539	819	1,359	-280
1988	573	971	1,544	-398

Source: "Informe de Comercio Exterior, Secretaría de Industrial y Comercio Exterior" Argentina. In: Manzetti, 1990: 113.

Table 13.

Bilateral Trade between Argentina and Brazil as a Percentage  
of Total Trade, 1981-1987

Year	Argentina		Brazil	
	Exports (%)	Imports (%)	Exports (%)	Imports (%)
1981	6.5	9.3	0.8	2.5
1982	7.4	12.5	3.3	2.7
1983	4.3	14.5	3.0	3.0
1984	5.9	18.6	3.2	3.1
1985	5.8	14.5	2.1	3.4
1986	10.2	14.6	3.1	4.9
1987	8.7	14.4	3.1	3.0

Source: 'Secretaría de Industria y Comercio Exterior', Argentina. In: Manzetti, 1990: 114.

Table 14.

Argentine Bilateral Trade with Brazil in Capital Goods  
1984-1988 (\$US million)

Year	Capital Goods			Common List of Protocol 1		
	Exports	Imports	Balance	Exports	Imports	Balance
1984	8.9	65.6	-56.7			
1985	16.2	64.9	-48.7			
1986	31.3	58.5	-27.2	3.0	9.0	-6.0
1987	50.1	100.4	-50.3	18.3	22.2	-3.9
1988	51.0	83.5	-32.5	35.5	33.1	+2.4

Source: for 1984-87, Porta. For 1988, preliminary estimates by the 'Secretaría de Industria y Comercio Exterior' Argentina. In: Manzetti, 1990: 123.

Table 15.

Product Group	Argentine Exports to Brazil under Protocol 1 in 1987		
	Exports FOB (\$US 1,000s)	Protocol 1 Exports (%)	Arg. Exports as % of Brazilian Imports
Machine tools	10,200.7	55.8	16.9
Packaging machinery	1,427.8	0.1	19.7
Plastic and glass machinery	1,287.0	7.0	7.4
Pumps and turbopumps	1,288.5	6.7	5.1
Farm equipment	850.7	4.7	55.0
Electrical equipment	677.6	3.7	9.6
Food processors	575.0	3.1	40.9
Drying machinery	547.8	3.0	24.5
Valves	305.3	1.7	1.5
Drills	256.6	1.4	27.4
Mechanic conveyors	254.9	1.4	71.0
Paper machinery	200.0	1.1	12.0
Selected Subtotal	17,856.9	97.7	
Total	18,272.3	100.0	8.9

Source: Manzetti, 1990: 124.

Table 16.

Product Group	Brazilian Exports to Argentina under Protocol 1 in 1987	
	Exports FOB (\$US 1,000s)	Percentage of exports under Protocol 1
Electric ovens	2,974.5	13.4
Machinery for construction ind.	2,677.8	12.1
Plastic injectors	2,629.6	11.9
Mechanic elevators and conveyors	2,102.8	9.5
Industrial filters	1,048.4	0.7
Harvesters	1,046.8	4.7
Irrigation equipment	868.7	3.9
Cooking and heating equipment	786.5	3.5
Machine tools	739.1	3.3
Pumps for liquids	734.9	3.3
Drills	672.1*	3.0
Industrial refrigerators	642.3	2.9
Manual pneumatic tools	609.7	2.8
Industrial sewing machinery	525.4*	2.4
Industrial ovens	486.5	2.2
Valves	474.6	2.1
Machinery for electric cable ind.	469.0	2.1
Insulators for electric switches	454.9*	2.0
Rolling mill for food industry	327.3	1.5
Selected Subtotal	20,270.9	91.3
Total	22,194.7	100.0

Source: Manzetti, 1990: 125. \*: Products included in the second common list.

Table 17.

Argentine Trade with Brazil 1985-1987:  
Imports and Exports according to type of products  
(\$US million)

Type of product	Exports			Imports			Balance		
	1985	1986	1987	1985	1986	1987	1985	1986	1987
Primary goods	177	315	218	144	166	159	33	150	60
Manufactures of primary origin	147	207	113	15	26	26	132	180	87
Fuels	64	23	0	18	0	31	46	23	-31
Industrial manufactures	109	150	208	435	497	604	-326	-347	-396
Total	496	698	539	617	690	819	-115	8	-280

Source: 'Secretaría de Industrial y Comercio Exterior de la República Argentina, Dirección de Investigaciones Sectoriales'. In: Manzetti, 1990: 126.

Table 18.

Capital Goods Trade between Argentina and Brazil  
as a Percentage of Total Bilateral Trade

Year	Total Trade	Argentine Exports to Brazil	Argentine Imports from Brazil
1984	5.6	1.8	7.7
1985	7.3	3.3	10.6
1986	6.5	4.5	8.5
1987	11.1	9.3	12.3

Source: Manzetti, 1990: 126.

Table 19.

Capital Goods Trade between Argentina and Brazil  
as a Percentage of Each Country's Overall  
Capital Goods Trade

Year	Arg. Exp.	Arg. Imp.	Braz. Exp.	Braz. Imp.
1984	4.3	10.2	3.3	0.4
1985	5.9	10.0	3.3	0.7
1986	16.6	9.5	2.6	0.9
1987	na	11.1	4.0	1.3

Source: Manzetti, 1990: 127.

Table 20.

Indicators of Production Costs in Argentina and Brazil  
(Domestic costs calculated in \$US in values  
typical of the second half of 1986)

	Brazil	Argentine Estimates				
		1a	2b	3c	4d	5e
<b>Basic raw materials</b>						
Steel	100	124				
Steel sheets	100	167				
Bobbin sheets	100	167				
Cold laminated steel sheets (1.5 mm)	100		120		128	
Hot laminated steel sheets (3-8 mm)	100	101	147			
Aluminum alloy	100	189				
Aluminum	100		139	181	143	
Zinc	100		140		133	
Electrolytic tin	100				251	
Natural rubber	115		100			
Synthetic rubber	114		100			
<b>Power</b>						
Kw electric power	100			138	217	
Diesel oil	132		100	105		
Gasoline	100			137		
Kerosene	125		100	102		
<b>Transportation</b>						
Port services	100	621				
<b>Labor Cost</b>						
Unskilled manpower minimum salary	100	154		155		
Hourly minimum wage	100			111		
<b>Capital</b>						
Regulated real interest rate (restricted)	121	100				100
Accessible real interest rate supporting production credit	100					630
Short-term credit	100					1196

Source: Manzetti, 1990: 130.

Table 21.

	Magnitude of poverty					
	Urban areas			Whole Country		
	Percentage of households below the poverty line.					
	1970	1980	1986	1970	1980	1986
Argentina	5	7	12	8	9	13
Brazil	35	30	34	49	39	40

Source: ECLA estimates. In: Cepal Review No.41, 1990: 149.

Table 22.

	Urban Population 1960-86 (% of total population)		
	1960	1970	1986
Argentina	73.6	75.2	84.9
Brazil	45.7	56.1	74.5

Source: IADB, 1987 Report. In: Villanueva, 1989: 231.

Table 23.

	Unit	Minimum wage (end of period)			
		1987	1988	period	1989
Argentina	US\$/ month	159.1	131.8	year	84.0
Brazil	US\$/ month	56.4	56.0	year	57.4

Source: ECLA. In: Latin American Economic Report, 30-06-89: 2-3.

Table 24.

Foreign Firms' percentage share of Brazilian industry in 1970 and 1977

Industry/ product	Fixed assets		Sales		Equity		Employ- ment 1977
	1970	1977	1970	1977	1970	1977	
<b>highest shares</b>							
Automobiles	100	100	100	100	100	100	100
Auto components	58	57	63	54	63	50	46
Chemicals	54	57	55	57	55	42	61
Domestic appliances	76	74	73	76	73	74	64
Drugs	83	82	30	84	80	74	64
Electrical products	81	86	81	79	81	84	83
Glass	53	69	49	76	73	74	79
Industrial machinery	66	51	67	59	67	47	54
Office equipment	96	91	93	73	93	76	65
Plastics	73	42	68	57	68	43	49
Rubber	67	62	71	81	71	68	70
Tobacco	91	99	95	99	95	98	96
Tractors	83	83	80	84	80	61	69
<b>Marked increase from low base</b>							
Footwear	-	26	-	32	-	28	26
Furniture	9	24	9	13	9	19	23
Non metallic materials	3	25	5	42	5	23	32
Vegetableoils	5	52	4	59	4	52	45
<b>Other (trend + or - m = mixed)</b>							
Aircraft (-)	36	7	46	20	46	13	26
Beverages (+)	16	23	13	24	13	17	17
Cement (+)	26	41	25	33	25	25	27
Metallic minerals (+)	18	36	17	21	17	21	15
Metallurgical products (-)	38	29	36	32	36	33	33
Paper (m)	33	20	23	24	23	33	33
Petroleum (m)	10	9	14	36	14	9	14
Shipbuilding (-)	45	34	30	16	30	17	30
Spinning and weaving (-)	39	37	39	34	39	29	26
<b>All sectors</b>	<b>34</b>	<b>33</b>	<b>37</b>	<b>44</b>	<b>37</b>	<b>31</b>	<b>38</b>

Source: Knox et al., 1989: 329.



Table 25.

Brazil: Multinationals and employment in dynamic sectors  
of manufacturing, 1980

Sectors	'Quem é Quem' <sup>1</sup> 1980	Total employment	Industrial Census <sup>2</sup> 1980
	Employment in Multinationals		Total employment
machinery	79,558	211,520	515,237
Electrical equipment	88,997	199,542	242,017
Transport equipment	178,053	327,845	264,853
(1) Subtotal	346,608	738,907	1,022,107
Chemicals, etc.	94,958	262,046	222,688
Plastics	8,987	57,076	117,379
(2) Subtotal	103,945	319,122	340,067
(1) and (2)	450,553	1,058,029	1,362,174

<sup>1</sup>. 'Quem é Quem' does not cover all establishments, but is confined to the large corporate sector enterprises.

<sup>2</sup>. The Industrial Census covers establishments of all sizes. Sectoral classification differences between the two sources and Quem é Quem's estimating procedures where necessary, also account for discrepancies in employment totals.

Source: Knox et al., 1989: 330.

## 6.2. ANNEX 2

### PROTOCOLS SIGNED UNDER THE ABEIP

<u>Protocol</u>	<u>Date</u>	<u>Topic</u>
1	29-07-86	Capital goods
2	29-07-86	Wheat
3	29-07-86	Food provision in case of production deficit
4	29-07-86	Trade
5	29-07-86	Binational enterprises
6	29-07-86	Establish the need of adaption of the payment systems
7	29-07-86	Investment Fund to promote economic development
8	29-07-86	Gas, petroleum and hydro-electricity
9	29-07-86	Creation of a Binational Centre of Biotechnology
10	29-07-86	Creation of a Research Center specialized in both countries economies
11	29-07-86	Assistance in case of nuclear accident/radioactive bombs
12	29-07-86	Aeronautic cooperation
13	10-12-86	Cooperation in the steel industry

14	10-12-86	Surface transport
15	10-12-86	Maritime transport
16	10-12-86	Cooperation in the telecommunications sector
17	10-12-86	Cooperation in the nuclear sector
18	15-07-87	Cultural integration
19	17-07-87	Cooperation in the administration sector
20	17-07-87	Creation of a common currency, the 'gaucho'
21	07-04-88	Integration in the automobile industry
22	07-04-88	Integration in the food industry
23	29-11-88	Development of the Borders, creation of Border Joint Committees.
24	23-08-89	Economic and social planning. Creation of a team to design projects of harmonisation and coordination of macro-economic policies.

Source: 'Integración Latinamericana', INTAL, Buenos Aires, Nos. 116, 122, 129, 136-7, 142 and 152.