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Conclusions

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This volume has explored the motivations behind the trade strategies of Argentina, Brazil, Chile, and Mexico from the reform period in the early 1980s to the present. A comparison of these strategies, which consist of combinations of initiatives at the unilateral, bilateral, regional, and multilateral levels, shows dramatic divergence. The differences in these paths reflect a variety of choices among economic, political, and security objectives, as well as the relatively fixed constraints and opportunities specific to each country that derive from its resources, geography, and history of economic development. The theoretical framework developed in the first chapter presents a categorization of trade accords and explores the reasoning and calculations underlying each country’s strategic trade profile. As a first cut analysis, Aggarwal and Espach set aside issues of domestic politics and capacity that influence trade policy formulation to provide a base line assessment focused on the strategic options presented in each case.

The initial assessment states that Chile has actively undertaken unilateral liberalization, complemented by bilateral and multilateral trade approaches, as a strategy to enhance its economic competitiveness and minimize risks, in contrast to seeking political leverage through membership in a regional bloc. In the case of Mexico, the deepening of ties to the U.S. through NAFTA has enhanced the country’s long-term political and economic prospects, but at the cost of increased dependence on a single market and a more limited set of strategic options. The political and strategic advantages that accrue to Brazil from regionalism, and its ability to use the regional bloc it dominates as a tactical advantage in negotiations with the European Union and the U.S. and in other concerns, entail a tradeoff between economic efficiency and negotiating leverage. Finally, Argentina's commitment to regionalism has gained it limited political and strategic advantage, and the protections MERCOSUR provides to several large regional industries (many dominated by Brazilian companies) have cost Argentina in terms of economic competitiveness. While MERCOSUR has benefited its members in many ways, in terms of promoting the emergence of globally competitive industries, its record thus far has been disappointing, especially when compared to Chile's multilateral strategy.

The framework in the first chapter is intended as a parsimonious analytical basis for a comparative exploration of these countries' trade policies. To explain more fully the origin and development of these trade patterns, these hypothetical strategic tradeoffs require further elaboration. The other chapters in the volume explore and provide useful challenges to the initial analysis by focusing on specific elements of trade policy or individual country cases. Aggarwal and Espach's framework and predictions provide us with a relatively static picture of opportunities and costs. However, as countries engage in strategic action in a dynamic environment, the cost of tradeoffs may be mitigated, difficulties may become opportunities, and fortunes may be reversed. This will depend in part on the effectiveness of government responses to the challenges and opportunities offered them today and in the coming years. In the second chapter, which completes the introductory section, Tulchin expands on the analytical framework to emphasize the position of a nation's trade policy within a broader context of international relations and power. In an increasingly dense and multi-layered international system, trade agreements—aside from their economic logic—are one of several channels for the enhancement of a country's legitimacy as a partner in the making of international rules. And, in a reciprocal fashion, elements of that legitimacy can strengthen a nation's hand in trade negotiations. This investment in "soft power" should not be overlooked as an asset of national strategic action within a dynamic, unpredictable environment. This type of resource may prove critical as these nations with fewer elements of traditional hard power seek to be heard in the negotiations over complex and far-reaching international institutions including the WTO and the FTAA.

This conclusion reviews the findings from our contributors' analysis, and assesses how well the abstract analysis from the introduction holds up when considered alongside the many factors and considerations introduced by the case studies. Before turning to this task, however, we first explore the vexing problem of attempting to assess systematically these distinct national trade strategies. To put it succinctly: how can we assess "strategies" from the outcomes we observe in terms of bilateral, regional, or multilateral agreements? Do these diverging trade policy profiles represent strategies at all?

I. The Nature of Strategy

The question as we see it is whether states are actively pursuing coherent sets of policies that can be considered a "strategy," or does the variation simply reflect an artificial and ad hoc potpourri that results from some combination of the vagaries of domestic politics, a changing ideological landscape, and simple opportunistic liberalization choices. The framework in the first chapter conceptualizes trade policymaking as reflecting the pursuit of specific national trade policy profiles by rational, unitary actors following their specific national interests. The drawbacks of rationalist conceptual models are broadly recognized, and we do not intend to summarize or comment upon a half-century of debate. By employing a rationalist model of state interest formulation and activity, Aggarwal and Espach postulate that despite the messiness of actual trade policy formulation, there is enough divergence among these cases over a sufficiently lengthy period to indicate fundamental differences of intent and strategic orientation. The outcomes we observe, in terms of regional trade patterns and participation in various efforts at liberalization, are useful indicators of this divergence—even if they are partly shaped by factors other than the realization of strategic trade policy.

The principal alternative to this view is that each of these countries has a rather similar trade policy orientation, but the divergence observed in their implementation is the result of differences in their capacities to implement long-term plans. Information provided in the case studies about institutional weakness, the power of special interest groups, especially industry associations, and the demands on the executive to engage in domestic coalition building lends support to this type of interpretation. The fact that each of our case study countries has sought to implement a free market, export promotion economic model in the 1990s also suggests that their differences may not be strategic, but incidental. We find this common view, presented frequently in the mainstream media, to be lacking.

Certainly, trade policies are affected as much by special interest lobbying or short-term executive prerogative, or some other form of response to domestic concerns, than by strategic planning. Long-term national economic and strategic plans may well get hijacked by short-term interests or political instability or may reflect the dominance of special interests over long periods of time. Indeed, consistency in trade policy is rare even in the most stable and institutionalized democracies. Aggarwal and Espach's analysis assumes that there is strategic thinking and planning at the national level, although perhaps this is conducted more effectively in some governments than others. Moreover, this strategic planning lies behind each of the observed trade profiles. From this perspective, the consistency of the pattern of trade policy divergence over the past fifteen years is solid enough to discard the notion that it is the result of each of these countries' failing in its own way to implement liberalization unilaterally and multilaterally—the preferred avenue of neoliberals. To some extent, these governments are indeed failing to realize their ideal strategic trade policies; most, if not all, countries are. But there is more going on than this. The divergence among these national trade profiles reflects fundamentally different strategic visions and objectives. The interpretation that differences in trade policies are the result primarily of weak state capacity instead of differing strategic agendas also neglects the dramatic differences among these countries. These differences include the sizes of their domestic markets, their natural endowments, degree and form of industrialization, the institutional nature of their policy formulation process, and—partly a result of these other factors—their political self-identification. To many outside observers, the differences among the profiles of Argentina, Brazil, Chile and Mexico simply reflect various degrees of failure or success, driven by corrupt or feckless political systems, at implementing the policies widely accepted as “best” for their development.

We do not entirely disagree. State capacity is an extremely important issue, as the case study chapters make eminently clear. However, the role played by capacity as a determinant variable is different in each case. State capacity is demonstrated both in a government’s ability to formulate strategies and its capacity to carry them out effectively over time. The case studies of Argentina and Chile suggest two opposite conditions. In Argentina, as Ablin and Bouzas suggest, weak capacity for the formulation of trade policies calls the concept of strategy into question. One of Chile’s advantages, on the other hand, is its centralized institutional capacity. Rosales’ description of Chile’s multifaceted strategy is handily supported by the country’s success at establishing a variety of trade agreements since 1990.

The analyses of the Brazilian and Mexican cases are more ambiguous. With Brazil, the element of state capacity has a dual and neutralizing effect, at least in regard to the impressive capacity of Itamaraty, Brazil’s foreign ministry. Due to the professionalism of its diplomatic corps, Brazil is a formidable negotiator. However, the institutional capacity of Itamaraty also has negative value, in that the ministry has traditionally worked to prevent the inclusion of outside social and governmental groups into the policy formulation process. Similarly, observers of the Mexican state rarely argue that the central government suffers from an inability to formulate and carry out its policies, once its priorities are established. In this regard, NAFTA has had a bolstering effect, by increasing the pressure on various Mexican government agencies—including the foreign ministry and the office of drug control policies—to improve their performance relative to their partners in Canada and the U.S. In sum, we argue that while state capacity is an important element of the conditions these governments face, it is not the principle determining factor behind the divergence in their trade strategies.

In our analysis we seek to emphasize that in addition to their economic concerns, these countries frequently use trade policy as an element of the pursuit of political interests within the international arena. For example Chile, heavily dependent on the exportation of copper and niche market agro-industrial goods, faces a different menu of strategic alternatives than massive Brazil—one of the world's largest economies and with century-old aspirations of becoming a global power. Mexico's geographic location and unique relationship with the U.S. presents extraordinary constraints and possibilities. What may be more exceptional than the divergence we observe among these countries' trade profiles is the fact that they share any common economic and foreign policy orientation at all.

This may seem a simple point, but it is often overlooked. During the 1990s and in the current decade, trade and economic relations involve far more than the creation or diversion of jobs and investment. They also involve strategic alignment and positioning. In the post-Cold War era, when the regional hegemon is also the global hegemon, and shows a propensity for the muscular, aggressive pursuit of its interests abroad, these political and strategic calculations are likely to play an increasing role in the foreign policies of Latin American nations. As Tulchin argues in the second chapter, trade strategy is one of several means by which governments seek to expand their influence in the international community, and expanded influence and the economic benefits of expanded trade can be mutually reinforcing.

We have argued that national trade policy profiles reflect particular sets of economic, political, and strategic rationales that in most cases involve tradeoffs among different objectives. The chapters in this volume that focus on specific areas or implications of trade policy, or on national or regional case studies, support this claim. Moreover, each of our authors identifies other factors as well, at the social or institutional levels, which may influence either the preferences of trade policymakers or their abilities to effectively formulate and implement a consistent foreign economic policy. The following table summarizes the key elements from those chapters.

Table 1: Summary of principal factors affecting trade profiles, case by case, during 1990s.

	Geography	Market Size	Domestic Politics and Institutions	Business and Sectoral Dynamics	Security
Mexico	Proximity to the U.S., history of bilateral trade, and complementary factor endowments encouraged regionalist policy.	Limited internal market, and access to U.S., made trade vital for economies of scale and encouraged regionalist strategy.	Membership in trade groups an instrument for committing country to liberalization. Currently, democratization is placing new pluralist pressures on policymakers.	PRI dominance limited influence of business and labor opposition to trade liberalization. Increased influence of export sectors; decline in political strength of import-competing sectors.	Trade accords complemented cooperative regional security efforts. Multilateral trade agreements envisioned as platform for expanded presence in other issue areas.
Argentina	Proximity to Brazilian market encourages regionalist policy. History of balanced trade with U.S. and Europe reduces potential for dependence on Brazil.	Potential gains from access to Brazilian market encouraged regionalist strategy. Proximity to Brazilian market in the formation of regional trade initiatives.	Early stages of trade liberalization bolstered democratization, part of shift from military dominance. Membership in trade groups an instrument for committing country to liberalization. Lack of bureaucratic autonomy limited capacity for strategic trade policy.	Weakness of business associations reduced political capacity of export sectors to push agenda.	Early stages of trade liberalization reduced longstanding regional tensions.

Brazil	Enormous size and number of neighboring countries encouraged regionalist policy.	Limited importance of trade as share of GDP reduced political salience of trade policy. Enormous market yields increased bargaining power	Early stages of trade liberalization bolstered democratization. State capacity for strategic trade policy constrained by clientilism, resulting in patches of protectionism. Dominant influence of foreign ministry on trade agenda supported paradigm shaped by competition with US.	Strong resistance from beneficiary groups under ISI yielded gradualist liberalization. Brazilian business poorly organized, while some industry groups enjoy particularistic ties. Weakened political capacity of exporters to support free trade policy.	Early stages of trade liberalization reduced longstanding regional tensions. Trade relations envisioned as a platform for expanded presence in other issue areas.
Chile	Relative isolation reduced incentives for regionalism, increased interest in multilateralism. History of balanced trade with U.S. and Europe encourages further multilateralism and outreach to East Asia.	Exports required for developing industrial economies of scale.	Early trade liberalization implemented under authoritarian government that stifled opposition, facilitated economic liberalization.	Political preference given to export interests. Successful coordination between state and business associations increased support for and gains from free trade.	Early stages of trade liberalization reduced longstanding regional tensions. Strategy of linkage between trade agenda and support for human rights and democratic institutions.

In each country case a wide range of factors, from geographical attributes and population size to the characteristics of state-business institutions or state ideology, influenced the trade policy outcome. Several of our four cases share critical features, for example the importance of past regional ties and security concerns, or the role of trade policy as a concrete commitment to the models of democratic governance and economic liberalization. There are important differences as well. Looking forward, what do these factors that lie behind the observed trade profiles indicate regarding future trade relations in the Americas? We offer the following reflections.

II. Looking Forward: Case study tradeoffs and their implications for the future of national trade policies

Mexico: Hub Market

In the introductory section we argue that Mexico has pursued a hub market strategy centered on NAFTA. This approach entails a fundamental tradeoff of improved economic stability for reduced political autonomy. On the upside, the advantages of such a strategy are clear. From an economic standpoint, following the devaluation in 1994, Mexico's economy rebounded well and enjoyed healthy growth and increased foreign investment throughout the 1990s. Although these gains were unevenly distributed within Mexico, and massive shifts within the domestic economy have caused severe hardship for many Mexicans, especially rural workers, Mexico's growth was among the highest in Latin America. How much of this was due to NAFTA itself is unclear, however, since regardless of the trade accord, Mexico's economic growth has for decades been linked to the health or weakness of the U.S. economy, Mexico's main export market. But by all accounts, NAFTA clearly deepened this trend. The more important effect of NAFTA is that it increased interdependence between the two neighbors, and this has made Mexico an indispensable partner of the U.S.

To the extent that economic interdependence leads to increased collaboration on several fronts, including management of the border, anti-drug trafficking and crime prevention, and environmental cleanup, NAFTA will generate numerous long-term benefits. Close cooperation with the U.S. and deepening economic integration may encourage the modernization of Mexican state institutions, and improve its economic competitiveness as well as its state capacity much faster than likely would have occurred without NAFTA.

On the downside, Mexican openness to U.S. and Canadian influence, through many channels both public and private, will cause tension within a political system and society already undergoing tremendous change. As Ortiz and Wise suggest in their chapters, the principal question is: How will the Mexican government manage these political tensions without succumbing to instability?

As a foreign relations policy, NAFTA's potential is also very high, but it faces significant challenges. The shift since the early 1990s toward close, warm relations with the United States was a watershed in Mexican international relations. Expectations in Mexico—and particularly within the Fox administration as it took office in 2000—were high that collaboration would increase on several fronts, in particular the legalization of temporary migration. Before September 11, 2001 this appeared to be the case. President Bush, reluctant to involve himself with complicated, faraway foreign affairs, had personally highlighted improved relations with Mexico as a key element of his agenda.

After the attack on the World Trade Center, however, U.S. relations with Mexico floundered as the Bush administration turned its attention almost wholeheartedly to a global campaign against terrorism, and then against Saddam Hussein's regime in Iraq. President Fox's progressive initiative toward the U.S. was ignored, weakening him against his domestic opposition. His proactive Foreign Minister, Jorge Castañeda, who made improved cooperation with the U.S. on several fronts a top priority, resigned in frustration in January 2003. Nevertheless, cross-border cooperation on several issues continues, in particular at the inter-agency and local levels, and with greatest effect in the border region of both countries. In many respects, this is NAFTA's best legacy. On the other hand, as predicted by the analytical framework in the introduction, Mexico's throwing its lot in with the United States has its advantages in the form of an insurance policy against disaster, but its effects will likely vary depending on the level of attention given to it by the U.S. national government.

There is another advantage to Mexico's early commitment to regionalism. Contrary to expectations, the Bush administration has proved willing to continue government protection for U.S. steel and agriculture. Despite the optimistic rhetoric of the President and Trade Representative Robert Zoellick, this trend does not bode well for the future of the Free Trade Area of the Americas, which is entering its most difficult period. As Ortiz explains, Mexico's regionalist hub market strategy, and its increasing transregional economic ties, reduces the importance of the FTAA—which for Mexico was never very high to begin with. To some degree, Chile's recent free trade agreement with the United States lessens Mexico's advantage as being the only developing country bridge to the U.S. market (thus a "hub market"). On the other hand, with FDI flows to Latin America on the decline, and with the U.S. seeking bilateral agreements with Central American countries, as well as others, these advantages are unlikely to ever again be as beneficial as they were in the second half of the 1990s. In the lexicon of corporate strategy, through its early membership in NAFTA Mexico successfully garnered the one-off costs of being a first-mover.

In terms of economic relations, Mexico has sought to address its overwhelming dependence on the U.S. market by establishing several transregional free trade agreements, including with the European Union and MERCOSUR, and is currently in negotiations with Japan and Singapore. Mexico has joined Chile as one of the world's foremost bilateral free traders. However, as Ortiz suggests, the extent to which these agreements will reduce dependence on the U.S. market is far from certain. Clearly, NAFTA and U.S.-Mexican bilateral relations will continue to have preeminent importance, but these broader partnerships are valuable for Mexico nonetheless. Furthermore, the success of NAFTA, together with the enhanced legitimacy of the Fox government, have increased greatly Mexico's role in the UN and in hemispheric affairs.

Argentina: Regional Partner

In several respects, our assessment of the Argentine case is the most pessimistic of the four. Our introductory analysis suggests that MERCOSUR's lack of institutional consolidation, the unevenness of its long-term benefits, and its failure to improve the competitiveness of Argentine goods and industries in outside markets have limited the benefits of the country's regionalist strategy. Membership in MERCOSUR did little to help Argentina avoid financial breakdown. Fluctuations in the value of the peso against the Brazilian real even contributed, in small measure, to bringing it on. Unlike in Mexico's case, there was little political payoff for deepening ties to the regional giant. Brazil's economy and financial resources provide no safety net against catastrophe, as in the case of the U.S. and Mexico. In addition, the free trade talks between MERCOSUR and the European Union, an important strategic instrument in the triangular bargaining with the U.S. over the form of the FTAA, have also broken down as MERCOSUR slogs through difficult political times.

In their chapter, Ablin and Bouzas suggest that Argentine trade policy reflects little in the form of strategic intention or calculation, but instead was arrived at largely through decisions made under short-term pressures. Currently, with its national politics as much in shambles as its financial system, significant trade talks are on hold. The nation's strategic trade options—whether to continue its commitment to regionalism, or to reduce Brazil's influence and pursue agreements bilaterally—are sharply constrained in the short-term by the caution of potential partners. In addition, the new economic policies that will emerge as Argentina recovers will dramatically affect the future form of MERCOSUR and long-term prospects for regional integration. For example, the brutal devaluation of December 2001 has turned Argentina fiercely competitive in the export of its traditional commodities, a trend with uncertain implications for its trade policy henceforth. However, despite the current weaknesses of MERCOSUR and Argentina's doldrums, the regionalist strategy should not be seen as a total failure. The non-zero sum nature of international trade expansion, which is the underlying rationale for unilateral and multilateral liberalization, may manifest itself during times of economic expansion, but what strategies are best for addressing a more difficult, zero-sum competitive environment? As we consider in the case of Chile, future developments such as the continued growth of Chinese export industries, the possibility of a prolonged Brazilian or U.S. recession, or a period of armed conflict involving the U.S., could alter the climate for international investment and trade. In such a case, regional accords that have political and security elements that are linked to economic issues may prove useful and sustainable whereas shallow transregional free trade pacts, with little political rationale, may yield relatively few benefits. MERCOSUR may seem to have generated for

Argentina only limited gains in terms of economic expansion and competitiveness, but a political partnership with Brazil—if further developed—may yet prove exceptionally useful.

Menem sought to balance trade dependence on Brazil with a strategic partnership with the U.S. But the benefits of such a partnership never were clear to Argentines and appear to have disappeared entirely in the aftermath of default as the U.S. demonstrated little sympathy for Argentina's plight before the IMF.

Brazil: Regional Leader

Brazil's trade profile emphasizes the nation's predilection to consider trade policy as part of a larger strategic or political agenda, rather than an element of broad, laissez-faire liberalization. In addition to its numerous benefits in terms of improving regional relations and supporting democracy, MERCOSUR has developed for Brazil into an instrument for greater control over a moderately paced program of liberalization. The decline of the trade bloc's legitimacy—due to the economic weakness of the region as a whole, and the breaching of tariff commitments by several members in late 2001—has affected Brazil, but not to the same extent that it has Argentina. With its massive internal market and advanced level of industrialization, Brazil is well positioned in international trade negotiations—even with a weakened MERCOSUR.

The generosity of the IMF toward Brazil, even as its prominent trade partner Argentina collapsed, indicates that as with Mexico, Brazil may now be perceived by the U.S. as an economy deserving of extra-supportive treatment. The fact that Brazil and the United States will share leadership of the FTAA negotiations over the next three years, during its most difficult phase, will also elevate Brazil's position regardless of its caution toward free trade and limited extra-regional ties (especially when compared to Chile or Mexico). Indeed, as critical attitudes across South America towards the neoliberal economic model continue to build, FTAA terms and conditions advocated by the left-leaning President Lula are likely to enjoy popular support. The recent free trade agreement with Mexico, which covers key sensitive sectors including autos and auto parts, is an important signal that the MERCOSUR club may no longer be so restrictive. Similar to Argentina, as a new government takes office in Brazil in the context of a less prosperous and generous international environment, as well as a more unilaterally minded United States, it will surely reassess the gains and limitations of a regionally focused trade policy. It may be that MERCOSUR is reinvigorated, perhaps even expanded, by a Lula government keen on countering U.S. influence. If so, we agree with the analysis by Costa Vaz that this will require a deeper commitment from Brazil to the institutionalization of MERCOSUR—for instance through effective mechanisms for trade dispute resolution and macroeconomic coordination.

Is Brazil likely to shift from its tendency to treat trade policy as part of a larger strategic, political agenda? Is it likely to move beyond the ambivalent, "hedging" attitude that Motta Veiga describes? We think not. Brazil's inclination in its foreign policy toward longer term, global aspirations is rooted in its self-identity as a continental country and the insular nature of its foreign ministry—neither of which will change in the foreseeable future. President Lula is likely to bring a less cooperative spirit to Brazil's economic relations with the U.S. and Europe, as these powers continue to protect or to subsidize segments of their markets critical to Brazilian exports. Lula's new Foreign

Minister, Celso Amorim, is one of Itamaraty's most experienced negotiators, and will be an important asset in its difficult upcoming negotiations with the U.S. In the future Brazil may choose to engage more in bilateral trade agreements, but more likely out of strategic, rather than purely economic, rationale. Either way, the prospects for Brazil's further strengthening of its position as an important economic player on the world's stage, and for MERCOSUR, will be deeply affected by how well and quickly Argentina can recover, and if Brazil is able to avoid collapse itself.

Chile: Multilevel Trader

If Brazil's strategic trade policy is largely an instrument for the enhancement of political power at the expense of rapid liberalization and economic competitiveness, Chile's is the opposite. The introductory chapters as well as Ambassador Rosales' contribution highlight the economic—and for Tulchin, political—successes of Chile's deeper liberalization combined with multiple transregional free trade agreements. Chile is one of the world's leaders in transregional bilateral free trade. The recently completed free trade agreement with the United States makes Chile virtually a de facto member of NAFTA, and the accord with South Korea was the first between countries of South America and East Asia. Chile is also in negotiations with Singapore and Japan. These numerous memberships are a compliment to the competitiveness of Chilean exports and the skill and energy of its diplomatic team. Due largely to this competitiveness, and to some degree to Chile's modest restrictions on short-term capital flows, the Chilean economy has managed to remain relatively stable during the region's recent turbulence.

Chile remains a model case for the neoliberal economic doctrine of unilateral liberalization and multilateral free trade.

Chile has foregone the protectionist benefits that come from membership in a regional bloc. Instead it has welcomed the international market pressures that have driven its industries to modernize and increase their competitiveness in both their home market and abroad. How has Chile been affected by the political costs of acting independently, without the leverage or protection that come from bargaining collectively? Thus far, Chile has been successful. In fact, it may work to Chile's advantage when negotiating with much larger nations such as South Korea and the United States that the relatively small scale of its industries poses little threat to domestic special interest groups. There is little that is controversial in signing a free trade pact with Chile, from the U.S. perspective, compared to the expected costs of trading with Mexico or Brazil. Also, Chile also benefits as well from the relative stability and effectiveness of its national state institutions, which improve the country's ability to corral domestic interests in order to meet commitments. Again, this is especially significant when compared against the complex, multilevel politics that prevail in federalist systems in Argentina, Brazil and Mexico. The multiple agreements with their spreading network of rules and dispute resolutions have earned Chile significant non-trade benefits, as in flows of foreign direct investment.

On the other hand, as we suggest above regarding the Argentine case, in a more conflictive international environment Chile's independent path may leave it vulnerable if trade agreements take on a more political tone. This viewpoint rests on the assumption that there are deep divisions between the interests of industrialized and under-industrialized nations and that trade between them, despite its natural benefits to both, will at some point generate zero-sum situations that will require difficult political choices. The plight of Mexico's small and mid-sized farmers is one such problem, which the government will address either by angering and disappointing an enormous segment of its population or the U.S., most likely the former. With the relatively high quality of its human capital, and the competitiveness of its producers—most of whom suffered through the shaking out process of liberalization in the 1980s—Chile expects such costs to be manageable. The most recent developments seem to support Chile's strategic bet, although some observers wonder whether the U.S. and South Korea may have won excessive concessions in their negotiations.[i] MERCOSUR's weakness and the inability of its members to expand significantly their market share abroad speak to the wisdom of Chile's decision to reject full membership. However, if FTAA talks intensify and Brazil can maintain a coalition to push for favorable terms, these may prove discriminatory against Chilean producers. Outside of this somewhat remote possibility, however, the Chilean tradeoff of political clout for economic flexibility and trade partner diversity seems to be paying off.

Indeed by seeking its economic partnerships independently, Chile may have improved significantly its image abroad as a trustworthy and astute partner. As a member of both APEC and the NAFTA grouping (through its bilateral agreements), and with a free trade agreement with the EU, Chile has enhanced its presence as a global actor. Although the benefits of international reputation are notoriously hard to determine and fragile, Chile's image abroad as South America's most stable and prosperous country (with a nod to Uruguay) makes it an attractive economic or political partner, perhaps as a go-between with larger, more cantankerous Southern nations like Brazil and India. Chile's trade policy of aggressive, independent multilateralism has been an important part in building that image.

III. Prospects for the Future

Argentina, Brazil, Chile, and Mexico—and Latin America in general—now face a considerably more challenging and uncertain international environment than that of the 1990s. Both of the main engines of Latin America's economy, the U.S. and Brazilian domestic markets, may face a prolonged period of recession or sluggish growth. The future progress of the World Trade Organization and the global free trade project will be sorely challenged by the refusal of the European Union, the U.S., and Japan to allow fair competition in agricultural goods. The continuing growth and sophistication of Chinese exports threatens to reduce prices worldwide for many goods that Latin America sells. Within the region, political resistance to liberalization and free trade is growing, and there appears to be a trend towards electing leaders who will challenge the neoliberal model more directly. The FTAA process, the centerpiece of the 1990's enthusiasm for Pan-American partnership, is now in the hands of the Lula and Bush administrations, neither of which has shown any stomach for the difficult political decisions that free trade demands.

The analysis in this volume is based on the decisions and trends of the 1990s and the early 2000s. Our central argument is that longer-term political and strategic calculations must be considered along with economic theory to understand the divergence we observe among these countries' trade policy profiles. Considered together, these different trade strategies entail certain tradeoffs and bets, mostly in one form or another between economic efficiency and political autonomy. As the international political and economic climate changes, we expect that the outcomes of these tradeoffs and bets will likely change as well.

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[i] See *The Economist*, January 4, 2003.