

Explaining Argentina's Regional Trade Policy-making in 1999

Laura Gomez Mera

This article examines Argentine regional trade policy behavior in 1999. It seeks to account for the decision to defect from regional commitments by establishing non-tariff barrier restrictions on footwear products from its main regional trade partner Brazil. These unilateral measures triggered one of the most serious bilateral disputes between the two countries in recent years. The article challenges conventional interpretations of the origins of the crisis. It argues that defection reflected a convergence of interests between the private sector, which feared the competitiveness effects of the Brazilian devaluation, and Argentine macroeconomic policy-makers. The tension between the latter, supporting the unilateral measures and the foreign policy elite, in turn, was crucial in shaping Argentina's final position in the crisis. Argentina's decision to press the private sector for the negotiation of a voluntary export agreement and to eventually withdraw the measures reflected a balance or compromised between the hardliners at the Ministry of Economy and the MERCOSUR-committed foreign policy makers and diplomats.

Keywords: *Argentina, Economic Reform, Public Policy, Interest Groups, Bureaucratic Politics, MERCOSUR, Regional Trade Agreements, Regionalism, Footwear Sector, Vers, Political Economy*

1. INTRODUCTION

In 1991, Argentina and neighbors Brazil, Uruguay and Paraguay committed themselves to regional trade liberalization by signing the Treaty of Asuncion, which gave birth to MERCOSUR (Southern Cone Common Market). Despite the regional agreement's initial success, it was significantly unable to discipline partners and to effectively constrain the use of unilateral measures restricting trade flows within the region.¹ The Argentine government's decisions to impose a number of unilateral measures restricting imports from Brazil, following the devaluation of the Brazilian currency in January 1999 constitute perfect examples of such behavior. These unilateral measures triggered one of the most serious instances of diplomatic and commercial conflict in MERCOSUR since the bloc's creation. They were met with a very emphatic Brazilian reaction which included threats of retaliation. Despite an inflexible initial stance, the Argentine government eventually moderated its position and began putting strong pressure on the private sector to reach an agreement with their Brazilian counterparts. Although Brazil refused to legally enforce the voluntary export restraint (VER) agreement reached among the two national Footwear Chambers, Argentina decided to withdraw the measures.

This paper examines the process of regional trade policy-making within the Argentinian government in 1999. It seeks to shed light on the factors leading Buenos Aires, first, to defect from its regional commitments, and later to disengage itself from the conflict and to push for a private sector solution. A different combination of factors is emphasized in the explanation of each of these policy choices/outcomes. The explanation of the establishment of the footwear restrictions stresses the *convergence of interests between business and state actors*,

¹ On the origins and initial success of MERCOSUR, see Manzetti (1994).

which challenges prevailing interpretations of Argentina's unilateral behavior in 1999. Most analyses of the Argentine measures have implicitly or explicitly relied on a neoclassical political economy perspective, emphasizing private sector pressure and government officials' electoral calculations. While this theoretical lens is useful for looking at the role of the private sector in proposing the measures, it fails to take into consideration the existence of a strong macroeconomic interest by the Argentine Ministry of Economy, in imposing the restrictions. The analysis here hence *qualifies prevailing neoclassical explanations by emphasizing the need of incorporating insights from statist approaches.*

Instead, the explanation of the formation of the final negotiating position adopted by the Argentinean government in 1999 incorporates insights from the bureaucratic politics literature, relaxing the unitary executive assumption and recognizing the analytical validity of intra-state bargaining and compromising. The Argentine government's decision to push the private sector to negotiate Voluntary Export Restraint (VER) agreement with their Brazilian counterparts, can be explained as a compromise between the two agencies sharing power over regional policy-making in 1999: the Ministry of Finance and the Ministry of Foreign Affairs.

The article is structured as follows. Section 1 discusses the theoretical underpinnings of conventional interpretations of the Argentine government's protectionist behavior in 1999, and discusses its main shortcomings. It briefly reviews the advantages of incorporating insights from statist theories of foreign economic policy-making. In addition, the main tenets of the bureaucratic politics approach are reviewed. The latter is usually applied to the study of security issues, or high politics, and is less frequently used to account for trade policy-making. However, the approach provides a number of illuminating insights into the process of *regional* integration policy-making, which usually (or at least in the case of Argentina) involves a number of executive agencies sharing power over the one policy instrument. Section 3 analyses the decision-making process within the Argentine government. It focuses, first, on the stage of policy formulation, looking at the interplay between footwear producers and the two sets of actors within the government with which their interests converged: the Under-Secretariat of Trade and the Minister of Economy. The discussion then turns to the formation of the final negotiating position adopted in the crisis with Brazil: the decision to push for a private sector solution. The final section summarizes the main arguments made and discusses their theoretical implications.

2. ANALYTICAL FRAMEWORK

Argentina's defection from regional cooperation agreements in 1999 triggered one of the most serious diplomatic and commercial crises between the two countries since they initiated political and military rapprochement in the late 1970s.² It led to the suspension of on-going MERCOSUR negotiations and brought the bloc to the brink of collapse when in September 1999 Brazil announced it would retaliate by imposing restrictions on Argentine exports. Given their severity, thus, the protectionist measures taken by the Argentine government received significant scholarly and journalistic attention.

The prevailing interpretation of Argentina's decision to restrict imports from Brazil in 1999 has emphasized the role of the domestic industrial lobby. The Argentine private sector

² For a detailed account of the problems between the two countries until 1979, see Hurrell (1998).

was directly harmed by the sharp and abrupt change in the value of the Brazilian currency and, not surprisingly, vigorously demanded a mechanism of "compensation" for the expected "avalanche" of Brazilian imports into the Argentine market. Moreover, the fact that 1999 was a presidential election year in Argentina has been taken to indicate the government was more responsive to these pressures than it would have otherwise been the case. For example, according to IRELA, the October 1999 elections and the increasing likelihood that the opposition candidate (Alliance Party Fernando De la Rúa) would win "... made it more difficult for the Menem administration to resist pressure from the industrial lobby, which has been the hardest hit by the recession" (IRELA 1999: 8). Carranza (2003: 82) also argues that in 1999, "domestic politics gained centre-stage" in Argentina. According to this scholar, the vulnerability of domestic industries to Brazilian competition led the industrial sectors more affected by the Brazilian crisis to organize a new productive group, which included the associations representing the small and medium-sized farmers and the national industry and which pressed strongly for a revision of Argentina's position in MERCOSUR. From this perspective, because the political survival of the weakened Menem administration depended upon support from these domestic coalitions, it had little choice but to yield to their demands, even at the cost of breaking regional commitments. Thus, as *The Economist* (1999), would put it at the time: "Having allowed industrial lobbies to seize control of their trade agendas, MERCOSUR's politicians risk seeing undone much of the progress they had made towards free trade within the group."

This explanation of the motivations for Argentina's contravention of regional commitments is consistent with public choice or neoclassical political economy approaches to economic policy-making. Neoclassical political economy focuses on the distributional consequences of specific policies and on the power and interests of social groups. From this perspective, the maintenance of a liberal economic order constitutes a public good and is seriously constrained by collective action problems. The latter reflect the asymmetry between the dispersed gains and the concentrated losses of economic liberalization (Bates 1992; Bates and Kruegger 1993; Rodrik 1994). Rent-seeking groups that enjoy specific protection and benefit from subsidies, tariffs and other regulations face strong incentives to organize and block reform efforts. Along these lines, the enactment and maintenance of market-oriented policies, such as trade liberalization, requires a strong state which is uncompromising with groups whose rents are eliminated by liberalization, a profound economic crisis changing the latter's perceptions of the balance of benefits and costs of the new policies; or changes in structural conditions triggering a shift in the balance of power among domestic coalitions (Haggard and Webb 1993; Bates and Krueger 1993; Rodrik 1994; Silva 1993).

This approach is in fact illuminating when trying to account for the establishment/persistence of protectionist policies in developing countries, and particularly in Latin America, where special interests benefited from protection during the import-substitution industrialization period, and hence presented significant resistance to the shift to the market in the 1990s. This interest-based perspective has also dominated accounts of trade policy-making in the United States (Lake 1991). Given the central role played by the Congress in the US trade policy-making process, and the relatively open political process, such a perspective has indeed had significant analytical purchase. Special interests tend to enjoy a

myriad of entry points into the policy-making process.³ But does this societal approach have equal analytical leverage when looking at Argentina? A closer look at the dynamics of economic decision-making in this country, in fact, indicates that instead state-centered approaches have higher explanatory power. As several scholars have documented, the Menem government in Argentina was significantly successful in isolating itself from societal pressure and implementing politically costly neoliberal reforms. It did so by manipulating institutions in a way such that the executive concentrated decision-making power and was insulated from political pressures and interferences (Blake 1998; Pastor and Wise 1999). The participation of the private sector in the design and implementation of economic policies has been significantly low and non-institutionalized. Instead, as this article documents, it has relied on informal connections with specific individuals within specialized agencies (Avogadro and Bouzas 2002; Jordana and Ramió 2002).

Interest-based explanations also disregard the role of institutional factors, in particular, of the formal distribution of decision-making power among several governmental agencies as far as commercial policy is concerned. The shift to trade liberalization in the 1990s led to significant institutional reform in Argentina, aimed at adjusting pre-existing decision-making procedures and structures to the emerging complexities of a liberal environment. As a result of these institutional adjustments, two agencies came to be involved in trade policy-making: the Ministry of Economy (ME) and the Ministry of Foreign Affairs (MRECIC). In theory, the two agencies had separate and defined tasks and mandates; the ME was in charge of determining the strategic direction of commercial policy and designing and implementing specific measures, whereas the MRECIC was responsible for the design and implementation of the country's broader strategy of international economic relations. In practice, as Jordana and Ramió (2002) point out, there was significant overlap, lack of much-needed coordination, and therefore frequent tension and conflict between the two agencies. Nevertheless, the ME had clearly a more central role in trade policy design and implementation. Its centrality was informally accentuated by the disproportionate weight assigned to macroeconomic and external credibility by Argentina during this period.

The recognition of the existence of a concentration of power over decision-making in the ME brings into question the validity of societal interpretations of Argentine trade policy behavior in 1999. But as the analysis below will stress, close attention to empirical evidence underlines an even more serious shortcoming of these explanations. The empirical analysis in fact shows that in 1999, the ME had clear and independent macroeconomic motivations to defect from regional commitments. This suggests that, even in the absence of strong sectorial pressure, the measures could have been taken. Put differently, the observation of the independent motivations for protectionist behavior by those state actors concentrating decision-making power at least rule out the possibility that the measures would have been established as a sort of electorally-motivated response to intensifying business lobbying. It sheds light on the existence of a *convergence* of interests between the state and the footwear sector in the establishment of the protectionist measures, thus underlining the need for a theoretical approach recognizing the strategic interaction between state and society in shaping policy outcomes.

A focus on state-society relations can help account for the establishment of the footwear restrictions. However, it is not as useful for explaining the subsequent decision by the

³ A seminal study in US commercial policy putting forward this societal explanation is Schattschneider (1935). See also, Taussig (1931).

Argentine government to push the private sector to negotiate an agreement on quantities with the Brazilian Footwear Chamber. How can this seemingly inconsistent decision be explained? As the analysis in Section 2 will document, this policy outcome must be understood in reference to the greater role of the Ministry of Foreign Affairs (MRECIC) in issues related to regional integration. Because the measures introduced by the ME triggered a diplomatic crisis with Argentina's main regional trade partner, Brazil, the MRECIC came to occupy a central role in the decision-making process. These foreign policy makers had opposed the measures introduced unilaterally by the ME but had been institutionally unable to block them. However, the MRECIC was able to crucially influence the formation of Argentina's negotiating position during the crisis these measures triggered within MERCOSUR. The VER hence emerged as a compromise between the two agencies, which now shared power over the definition of Argentina's negotiating position.

Through which theoretical lens can this second policy-making process be explained? The analysis above suggests the assumption that the Argentine state behaved like a unitary entity with homogeneous preferences and motivations, implicit in both neoclassical and statist perspectives, is inadequate when looking at the formation of Argentine negotiating position in 1999. A better understanding of this second policy outcome can therefore be achieved by incorporating insights from a third theoretical explanation of foreign policy: the bureaucratic politics approach. This permits relaxing the unitary executive assumption and examining the cleavages among different ministries and agencies involved in the formation and implementation of regional co-operation policy in Argentina.

Graham Allison's model of bureaucratic politics, in fact, represented an attempt to deal with the fact that the simplistic unitary actor assumptions made realist theories unable to account for frequently inconsistent or self-defeating state behavior. According to him, rational actor models treating the state as a monolith had to be balanced by the recognition that policy choices "... are the consequences of innumerable and often conflicting smaller actions by individuals at various levels of bureaucratic organizations in the service of a variety of only partially compatible conceptions of national goals, organizational goals, and political objectives" (Allison 1969). According to Allison, foreign policy decisions could not be understood as rational choices, as Realists claimed. Rather, it was the outcome of "various overlapping bargaining games among players arranged hierarchically in the national government" (Allison 1969; 1971). Allison recognized that the nature of foreign policy issues was conducive to disagreements among different governmental actors regarding what ought to be done. Different institutional positions resulted in divergent responsibilities or "missions" and hence encouraged differences in perceptions and priorities. Positions — "where you sit" — does not only determine "where you stand" but also affects players' relative power. Because these individuals with divergent preferences shared power, foreign policy was usually the result of a bargaining game between them. These games were structured by "action-channels", which determined their points of entry into the game and their relative position. Sometimes policy decisions reflect the triumph of one group over others. More often, however, as a result of different groups pulling in different directions, policy outcomes are different from what any of these groups would have intended (Allison 1969; 1971). Put differently, although individual players were assumed to behave in a "rational" way, the "pulling and hauling" of politics could deviate state behavior from the course of what would have been chosen by a unitary rational actor.

A central proposition in this model is that the preferences and perceptions of individual players stem from their particular bureaucratic position, summarized in the widely quoted

“where you stand depends on where you sit” statement. While asserting that propensities and priorities stemming from bureaucratic position are strong enough to allow analysts to make reliable predictions, Allison recognized that personality also plays a role in the determination of a player’s stance on many issues. According to him, officials come to their positions “with baggage in tow.” In response to extensive criticism about the lack of clarity in the specification of the sources of preferences, and in particular, about the relative weight of bureaucratic position and personality,⁴ the second edition of *Essence of Decision* cautioned that “depends on” should not be taken to mean “is determined by.” According to Allison and Zelikow (1999), therefore, the central thesis of the bureaucratic politics model should read “where you stand is *substantially affected* by where you sit” (Allison and Zelikow 1999: 307; Bernstein 2000).

Despite the extensive criticism received by Allison’s bureaucratic politics approach, it provides a number of valuable analytical insights for looking at regional trade policy-making in Argentina. The model’s most valuable contribution is its relaxation of the unitary state assumption. At the same time, the proposition that players’ goals and policy stances are significantly determined by their institutional missions and bureaucratic positions is useful for understanding the divergences among different executive actors regarding MERCOSUR policy. The bureaucratic politics model thus permits accounting for the fact that divergences among these executive officials sharing power over economic policy-making shaped final policy outcomes.

3. THE ESTABLISHMENT OF THE FOOTWEAR RESTRICTIONS

The Argentine decision to establish restrictions on Brazilian footwear imports in 1999 must be understood within the context of the accumulation of unresolved issues between the two countries during the six months following the devaluation of the Brazilian currency in January. The actual economic impact of Brazilian devaluation on the Argentine economy was not felt until the second trimester of the year. However, the devaluation had an immediate impact on perceptions and confidence of the main economic actors in Argentina, particularly the industrial sector. Fears of an “avalanche” of Brazilian exports “flooding” the Argentine market became the main excuse for the renewal of pressure campaigns by lobbies from across the industrial spectrum. The overall perception was that the devaluation had given Brazilian exporters a large advantage over their regional competitors. The evident deterioration of fiscal, employment and social indicators resulting from the recession affecting Argentina since 1998 contributed to the exacerbation of political unrest of many sectors.

The Argentine government initially attempted to downplay and contain the private sector harsh reaction. However, by April 1999, the Argentine Ministry of Economy (ME) began demanding more emphatically some mechanism of compensation for the local affected sectors. In Brazil these demands were met with widespread opposition, and particular irritation from business sectors and some governmental officials. Menem’s calls for dollarisation in the region further added to Brazil’s hostility. Tension rose further when Buenos Aires announced the establishment of two measures of very dubious compatibility with MERCOSUR commitments: anti-dumping duties on Brazilian steel imports and quotas

⁴ See for example, Welch (1992); Krasner (1972); Bendor and Hammond (1992); etc.

in the textile sector (IDB 2000). Brazil rejected both measures emphatically and threatened to take Argentina to the World Trade Organization (WTO). The bilateral conflict continued to escalate in July when the Argentine ME passed a resolution regulating the use of the Latin American Integration Agreement (LAIA) safeguard measure system within MERCOSUR.⁵ Although the measure did not have any effective consequences at the time it was adopted, it set the stage for the future implementation of safeguards on intra-regional imports. In response, the Brazilian Foreign Ministry (Itamaraty) suspended its participation in all MERCOSUR negotiations and postponed a scheduled official visit by Argentine President Menem to Brasilia, "until a more conducive climate" was created (*Clarín* 7/29/1999). This serious crisis was however resolved promptly after Menem traveled unexpectedly to meet his Brazilian counterpart and agreed to withdraw the measure.

However, only a few weeks later Argentina resorted once again to the unilateral way. On August 9, the ME issued a new technical rule (Resolution 508/99) establishing that all footwear products commercialized in the country should include a label with information about the inputs utilized in its production, as well as particulars of the producer or importer. Three days later, Resolution 977/99 introduced a system of non-automatic import licenses with the aim of certifying the observation of these labeling requirements. These measures were specifically targeted attempts to restrict imports in one of the sectors which had protested most vigorously about the effects of the Brazilian devaluation, the footwear industry. They triggered the most serious incident in MERCOSUR during 1999.⁶

The rest of this section will examine the decision-making process leading the Argentine government to take these controversial measures. The analysis seeks to explain not only why Buenos Aires chose to defect from its regional agreements with Brazil, but also, and crucially, why it ultimately decided not to sustain its initially inflexible position and to instead leave the resolution of the conflict in the hands of the private sector. In this sense, two policy choices are analyzed. First, the decision to establish the unilateral restrictions and defect from regional commitments, which requires looking at the interaction between the private sector, and two government bodies, the Under-Secretariat of Foreign Trade (SCE) and the Ministry of Economy (ME). Second, we need to explain the final negotiating position adopted by the Argentine government: the willingness to disengage from the conflict, to promote and support a private sector agreement, and to withdraw the restrictions once this was reached, despite the fact that Brazil refused to formally enforce it. To account for this final stance it is necessary to acknowledge the role of the Ministry of Foreign Affairs in balancing the uncooperative position of the ME and the SCE.

⁵ LAIA Resolution 70/87. The Latin American Integration Agreement (ALADI in Spanish) was created by the Treaty of Montevideo, signed in 1980 by Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Paraguay, Perú, Uruguay and Venezuela. LAIA's main goals were to increase bilateral trade among member countries and between members and third countries through bilateral and multilateral agreements. A total of 40 partial scope agreements involving two or more countries were signed in the 1990s within the framework of LAIA.

⁶ For example, Brazilian Foreign Minister Luiz Felipe Lampreia stated in September that "... MERCOSUR's current crisis is the most serious since the agreement was established in 1991", quoted in *La Nación* (7 Sept. 2002).

3.1. Establishment of Footwear Restrictions: A Convergence of Industrial Interests and Macroeconomic Considerations

The establishment of the unilateral measures is best understood by examining the process of interaction between two agencies: the SCE, which channeled private sector pressure and designed the measure, and the ME, which endorsed it due to its own independent macroeconomic concerns. Neoclassical political economy interpretations are accurate in highlighting the strong pressure by the footwear sector in 1999. This was in fact a crucial factor in the establishment of the measures. However, these lobbying cannot by itself be seen as *the* determining factor. First, the private sector input was converted into a specific policy proposal by the SCE, the main body in charge of designing trade policy measures according to the Argentine institutional structure. Second, the establishment of the measures depended on the endorsement by the Ministry of Economy. In 1999, the latter agreed to pass the measures because he saw them as contributing to his broader macroeconomic priorities.

The local footwear producers were in fact one of the most vocal in their complaints and demands for a compensation mechanism allowing them to contain the avalanche of Brazilian shoes in the Argentine market. In rejection of the Argentine President's decision to yield to Brazil's position on the safeguards measure, in late July 1999 the footwear and leather sectors organized a massive demonstration (attended by 10,000 people) outside the Ministry of Foreign Relations. Both business and labor representatives complained and demanded urgent measures of relief, given "the massive imports of shoes from Brazil" (*La Nacion* 7/30/1999). Their intense lobbying campaign included not only direct pressure on individual officials in the executive but also on representatives in Congress, particularly those campaigning for the elections in October 1999. The sector also made heavy use of the media in their attempt to complain and impact public opinion: "This situation, if persisting, threatens to cause the destruction of the footwear industry ... I still refuse to sign the death certificate of the footwear industry"; "... If measures are not taken, 50% of the industry will soon disappear ..." (Bueno 1999).⁷ This apocalyptic rhetoric, placing emphasis on the imminent demise of a traditional Argentine industry — at the hands of "unfair", "illegal", and "predatory" Brazilian imports "invading" the Argentine market — found an unconstrained outlet in the local press.⁸

This intense lobbying during the first half of 1999 did not, however, reflect the actual economic impact of the Brazilian devaluation on the footwear sector. The much-feared avalanche had not, at this point, yet materialized. It could be well argued that the sector's lobbying reflected its concerns with the expected effects of the Brazilian devaluation. To understand why this group was so vocal and so keen on obtaining protection, however, it is useful to consider the effect of two political economy factors also shaping its position: the end of the previous regime of concessions which had protected the sector until December 1998; and the internal fragmentation of interests characterizing the sector. The Brazilian devaluation thus built on pre-existing economic and political dynamics to create great incentives for the footwear sector to oppose co-operation within MERCOSUR.

⁷ Carlos Bueno, Head of CIC, quoted in Argentine news reports.

⁸ An anonymous interviewed government official stated a common practice among the industrial sectors was to "buy" the press as an attempt to indirectly influence government decisions.

First of all, in 1999 the Brazilian devaluation was expected to exacerbate the negative effects of the much-feared end of the transition period stipulated by MERCOSUR treaties, so as to give the industry time to restructure and improve its productivity levels. After decades of protection, the Argentine footwear sector had been severely affected by the process of trade liberalization launched by the government in the early 1990s. Absence of economies of scale, poor access to financing facilities, and an overall limited investment in technology, left Argentina's shoes at a serious competitiveness disadvantage *vis-à-vis* shoes from Brazil, South East Asia, and China. In light of this, when signing MERCOSUR agreements in 1991, the government decided to provide the footwear sector temporary exemption from the process of intra-regional liberalization. In 1995, the sector was placed in the so-called Transition Regime, according to which intra-bloc tariffs would be gradually phased out, reaching 0% in 1999. As tariffs were progressively eroded, the competitive pressure exerted by Brazilian imports began to be felt. The sector thus feared that the devaluation of the Brazilian currency, by accentuating the competitive asymmetry between the two sectors, would exacerbate the already significant Brazilian penetration of the Argentine market (Zappia 2002).

The aggressive campaign of Argentine footwear producers was also at least in part a consequence of the conflictive dynamics and high degree of polarization characterizing the sector. A central cleavage in the industry pitted local producers, represented by the Footwear Industry Chamber (CIC) against a smaller group of importers and other national manufacturers at least partially engaged in international trade, and represented by the Chamber for the Foreign Trade of Footwear (CAPCICA). Most CAPCICA members were local manufacturers which in the early 1990s had shifted to the importation of shoes as a response to their inability to face the competitive pressures brought about by the opening of the market. They had constituted themselves in a vocal organization in 1993, with the objective of counterweighing the intense lobbying campaign which local producers had launched in 1993 in their attempt to obtain protection from growing Asian imports (Melhem 2002). The temporary quotas on Asian shoes established in 1997 in response to CIC's pressure had severely harmed CAPCICA members' interests.⁹ The devaluation of the Brazilian currency also had differential impacts on members of CIC and CAPCICA. To the extent that the latter had business interests in Brazil, the devaluation in fact benefited them. The restrictions and compensation mechanisms demanded by CIC was instead against their interests, and they were thus strongly opposed by CAPCICA. The group also opposed the private sector agreement which CIC had begun negotiating with the Brazilian Footwear Chamber, Abicalçados. CAPCICA's attempts to block CIC's lobbying for compensatory measures in 1999 meant the local producers were forced to press harder themselves if they were to influence the government's choices.

Because of the lack of institutionalized channels of participation of the private sector in the trade policy-making process, local producers targeted specific government officials and agencies in their lobbying efforts. The Under-Secretary of Foreign Trade, in charge of

⁹ For example, according to Alberto Grimoldi, one of the largest and oldest domestic producers which had adopted a complementary foreign trade strategy in the 90s: "... We had (...) a business plan that was compatible with what Argentina had declared would be its commercial policy in the early 90s. And from one day to the other, Argentina altered the rules in a violent and illegitimate way, to the point that it has been recently condemned by the WTO" Alberto Grimoldi, President of Gimoldi SA, Interview, published in *La Nación* (9 Jan. 2000).

designing and implementing trade policy regulations, became the natural target of the footwear makers' campaign. The footwear restrictions were in fact designed and put forward by the Under-Secretary of Foreign Trade, Felix Peña and his team at the SCE. According to the Under-Secretary of Foreign Trade, Felix Peña, the proposals and input provided by the private sector were central in the formulation of the restrictions. Like the footwear industry, however, Peña believed the NTBs were necessary to curb the great increase in shoes from Brazil that was expected that year. With them, the SCE had tried to "... mirror what they had done to us during 1998, always within the rules of the game" (Peña 2002). The measures had been carefully designed – they imposed a labeling restriction and made the granting of (non-automatic) import licenses contingent upon the certification that those labeling requirements were complied with. They were furthermore planned to at least halt shoe imports until the end of the year, when the seasonal change would make them irrelevant.

However, due to its institutional subordination to the Secretariat of Industry, and to the Minister of Finance, the SCE by itself lacked decision-making authority. In order for the proposal to become an effective policy measure it needed the endorsement of the Minister of Finance. To many, this seemed unlikely, given Minister Fernandez's strong neoliberal and free trade ideological orientation. But the Argentine Finance Minister had a more substantive and independent macroeconomic interest in the measures. Given his underlying concern with macroeconomic performance, and critically, given a number of coinciding external pressures, Fernandez saw the measures as instrumental in two interrelated ways. First, he shared with the private sector an interest in containing the feared "avalanche" of Brazilian imports and avoiding a further deterioration of Argentina's balance of trade and payments deficit. This was seen as further complicating the internal and external situation faced by Argentina in the second half of 1999: the worst recession in a decade, rising unemployment and deepening trade and payments deficit. At the same time, by September, it had become evident that the footwear sector was in fact one of the most affected by the inflow of Brazilian imports (which had grown 60% during the first 6 months of the year, compared to the same period in 1998). Even more so, the sector was important on account of its crisis and its unemployment ramifications, as well as the financial weakness of the two main companies. Alpargatas and Gatic not only had together caused the loss of more than 9,000 jobs since the early 1990s, but were in 1999 close to default.

Secondly, Fernandez was concerned with the financial and credibility effects of the Brazilian devaluation on the Argentine economy, and specifically, with the internal and external legitimacy of Argentina's stabilization program. On the one hand, the ME was worried about the contagion effects of the Brazilian devaluation, which had led to a marked increase in Argentina's country risk, and hence in interest payments on its foreign debt. His concerns were not only that the so-called *caipirinha* effect could trigger a currency crisis in Argentina, but also that investors' fears that this could actually happen could lead to a further outflow of foreign capital. External capital was crucial for the sustainability of the convertibility program. In 1999 it was even more critical for pulling Argentina out of its recession and for financing its BOP deficits. According to Fernandez, the Brazilian government's reluctance to come to a joint solution for neutralizing the contagion effects of the devaluation had led him to take the measures:

We had several meetings [...] to explore how we could prevent the volatility of the real exchange rate (generated by the Brazilian devaluation) from having an impact on the other countries in the bloc. Those were the elements on which I placed strong emphasis and which I

defended the most. Unfortunately, Brazil had a totally negative position regarding the need to co-ordinate macroeconomic policies (Fernandez 2000).

According to Rodriguez, that had motivated him to impose restrictive measures, first accepting to pass the resolution regarding the LAIA safeguards (also proposed by the SCE) and eventually endorsing the footwear restrictions. In this sense, Argentina's unilateral measures in 1999 should be seen as at least partly a consequence of the subordination of regional trade commitments to the broader concerns of macroeconomic and exchange rate stabilization. They reflected the constraints, which the fixed exchange rate regime (the convertibility program) implemented in Argentina between 1991 and 2001 imposed on the government's ability to deal with negative external shocks.¹⁰ In 1999, the Argentine economy was forced to confront several converging external pressures — declining commodity prices, reversal of foreign capital flows after the South East Asian, Russian and Brazilian devaluations, and the competitiveness shock brought about by the Brazilian currency crisis. The effect of these, in turn, was compounded by the critical and aggravating domestic situation. In this context, and with a currency regime preventing the use of the exchange rate to adjust to the effect of these shocks, the cost of giving up trade policy autonomy at the regional level grew tremendously.

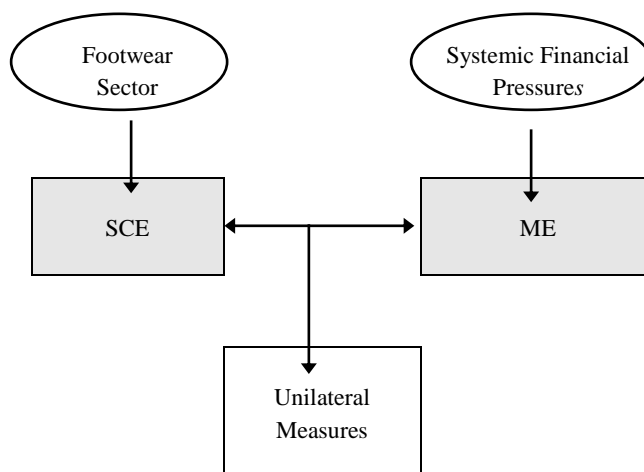
Argentina's protectionist measures in 1999 also constituted attempts to neutralize emerging discontent with exchange rate management and ensure the political sustainability of the fixed exchange rate regime.¹¹ The ME, aware that the credibility of the Argentine economy and the legitimacy of the convertibility plan depended on its internal support, also saw the measures as political concessions to the domestic private sector. Although for most of the 90s the convertibility framework had been broadly supported by the private and public sectors, as the economy sank more and more into recession it had come under increasing criticism from various groups in the economy which stood to lose from the overvaluation of the peso. The Brazilian devaluation had further accentuated the uneasiness of the private sector, particularly of the "hard-liners" at the Argentine Industrial Union, with the rigidity the currency board imposed on the government.¹² Thus, as economic groups began to feel threatened by the overvaluation of the currency, and by the government's inability to use the exchange rate to adjust for macroeconomic shocks, from the ME's perspective it was less costly to "compensate" them through trade policy.¹³

¹⁰ On the convertibility program, see Starr (1997).

¹¹ According to Campbell (Interview 2002) "... in 1999, many sectors criticised MERCOSUR when it was really an indirect way of criticising the convertibility regime ..."

¹² For example, a leading Argentine industrialist, Roberto Rocca of Techint called for "a more flexible exchange rate system" abandoning the fixed parity with the dollar. Quoted in Carranza (2003: 82).

¹³ Thus, according to Peña (Interview, 2002), "we gained time with the discovery of Res. 70 — we used to tell people (industrial sectors) we did have something with which to negotiate with Brazil, even before we made the move Finally in July when we could not handle the pressure of sectorial groups any longer, we decided to go one step further."

Figure 1. Establishment of Footwear Restrictions

3.2. Negotiation of a VER: MRECIC's Strategic Interests vs. ME's Macroeconomic Concerns

Given this strong macroeconomic and political economy rationale for the measures, why did the Argentine government eventually decide to disengage itself from the conflict? In fact, after a few weeks of diplomatic and commercial turmoil, Buenos Aires and Brasilia began to press the private sector for the negotiation of a temporary agreement on quantities. The Argentine government eventually agreed to withdraw the restrictions. To understand this seemingly puzzling shift in the Argentine position, it is important to look at how two central executive agencies, the ME and the MRECIC shared power over international economic negotiations in general, and MERCOSUR issues in particular. Moreover, the unilateral measures taken by Argentina in 1999 were not derived from an overall consensus within government. Instead, they gave way to intense intra-bureaucratic wrangling among the ME and the Ministry of Foreign Affairs (MRECIC). The ME's willingness to disrupt diplomatic relations with Brazil were balanced by the more stable, strategic commitment of the MRECIC towards MERCOSUR.¹⁴ Ultimately, Argentina's eventual support for a negotiated voluntary export restraint (VER) agreement – reflected not only the process of state-society bargaining described above, but also the balance between these divergent intra-bureaucratic stances.

While the ME's position reflected a convergence of its independent macroeconomic interests and those of the private sector (channeled through the SCE), the MRECIC opposed any moves contravening MERCOSUR agreements. One factor explaining the MRECIC's opposition to the measures proposed by the MRECIC was the differential degree of

¹⁴ According to *La Nación* (13 May 1999), the footwear sector's demands for safeguards had "divided the group of most senior Argentine negotiators in MERCOSUR." INTAL also states that it was the Argentine ME that, at the end of July 1999, had decided to apply LAIA Resolution N. 70, even if the Foreign Ministry "publicly opposed the LAIA strategy ..." See IDB (2000: 26).

penetration of this agency by protectionist interest groups. Partly because this Ministry was not directly responsible for the formulation and implementation of trade policy, it was not a target of private sector pressure. In fact, and particularly during the 1999 crisis, relations between this body and local industrial groups were significantly strained. The diplomats, and particularly the Secretariat of International Economic Relations, were strongly criticized by the private sector for their inability to stand up to Brazil (*Clarín* 7/31/1999). In the words of CIC's Executive Director, Carlos Litzman (2002), "Campbell seemed to be working for the Brazilians."¹⁵ The diplomats instead defended themselves and refused to recognize they had yielded to Brazil during the various negotiations held during 1999. Initial claims by Foreign Minister Di Tella that, "industrialists should stop crying and start becoming competitive", had been replaced by the at least public recognition that there was a need for a negotiated solution and for willingness to "construct the political conditions for the private actors to reach an agreement" (*La Nación* 9/23/1999)

Even more important, because this agency's position towards the regional project were strongly shaped by power considerations and its strategic beliefs and principles, its commitment to the strategy of regional integration had not been weakened by the economic/financial impact of the devaluation like the ME's had. Despite the economic imbalances brought about by the Brazilian devaluation, it was believed MERCOSUR still constituted a "fundamental" element in Argentina's foreign policy and that it was important not to bring the basic "strategic idea" into question (Campbell 1999a). The MRECIC opposed the measures and the unilateral approach pursued by the ME and instead insisted that Argentina should find a negotiated solution that could be seen as satisfactory for domestic producers.¹⁶ In addition, the diplomats were skeptical regarding the validity of the attempt to introduce the LAIA safeguards system: "those measures did not only appear to be of doubtful effectiveness in attacking the existing problems, but on the other hand, they also seriously risked the progress achieved in different terrain during the last few ears... (Campbell 1999b: 649).

The Argentine Foreign Ministry played a central role in the first stages of political rapprochement and economic co-operation between Argentina and Brazil in the mid-1980s. The first democratic government of Raul Alfonsín had conceived of economic integration as a way to secure and institutionalize an end to the distrust and rivalry that had historically characterized bilateral relations. The stabilization of regional relations was in turn seen as essential for the achievement of a number of political and strategic goals. First, the regional co-operation was expected to contribute to the consolidation and strengthening of the newly-restored democratic regimes.¹⁷ Second, defensive considerations, which as seen above were crucial for the Brazilian government, were also important for Argentina. Regional integration

¹⁵ Carlos Litzman, Manager of CIC, Interview, Buenos Aires (October 6, 2002). In response, Campbell stated that, "Although the reaction of industrialists is understandable, our role is to achieve a balance between the defence of the interests of the local industry, and MERCOSUR's stability." *La Nación* (31 July 1999).

¹⁶ Peña, Interview. According to the former official, "... the Foreign Ministry was horrified at what we had done."

¹⁷ In his attempt to re-build Argentina's international credibility and re-define its model of insertion into the world, Alfonsín made the consolidation of democracy the first priority of his foreign policy. See, for example, Costa Vaz (2002); Kaltenthaler and Mora (2002); etc.

was aimed at improving Argentina's bargaining power in international negotiations over debt, investment and trade issues.

In the late 1990s, and despite the ambivalence of a group within the foreign policy elite, the Argentine Foreign Ministry continued to see a political and strategic rationale for the project.¹⁸ In fact, the MRECIC's commitment to MERCOSUR in 1999 was even stronger than it had been in the early 1990s. There were two elements underlying this strengthened support for the alliance with Brazil. First of all, it was a consequence of a significant degree of rational strategic adaptation to shifting internal and external incentives. This adaptation was catalyzed by the perceived limited success of the strategy of bandwagoning with the US followed by the Menem government since 1989,¹⁹ as well as the deepening political and economic crisis and its consequent impact on the country's regional and global self – perception. The reinvigoration of hemispheric negotiations after 1997 did not have the same impact that it had had three years earlier, when Argentina still thought a preferential bilateral agreement with the US was feasible. The generalized reassessment or downward revision of Argentina's power potential had led to realization within the Foreign Ministry about the risks involved in the FTAA for a country like Argentina, with a small market and "little to offer" in term of tactical concessions.²⁰ But there was also increased awareness about the fact that outside of Mexico, given its size and its phased opening, Brazil was the economy which generated greater attention from the US. In spite of Argentina's own efforts, it had been this country which had become the focal point in the region (Rapoport 1998). It was thus not only more convenient for Argentina to negotiate jointly with its stronger neighbor, but also, it was in its interest to avoid risks of being excluded from a potential bilateral agreement among its two strategic partners. At the end of the Menem administration, thus, as Peña would put it: "the original idea of MERCOSUR (...) is not matched by rational alternatives for any of the partners. No one seems to put in question the need of facing together the challenges and opportunities of a globalized world" (Peña 2001: 13).

Secondly, apart from these defensive incentives to avoid a breakage of co-operation, as in 1995, Argentine negotiators' awareness of their power weakness relative to Brazil also motivated their interest in adopting a conciliatory stance. In particular, the Argentine diplomats sought to avoid Brazil's retaliation, which would not only have serious commercial consequences, but would also severely harm diplomatic relations in the longer-term (Avogadro 2002).

To be fair, although the position adopted by the Argentine government in the end – pressing the private sector to find an "unofficial" solution, which they did not commit to enforce – did show a prioritization of the strategic relationship with Brazil, it also attempted to strike a balance which at least partly satisfied the private sector. The negotiation of a VER between the two footwear sectors was a compromise attempting to satisfy almost all parts: it

¹⁸ For a more detailed account of divergences within the Argentine government regarding MERCOSUR, see Gomez Mera (2005).

¹⁹ See, for example, Escude (1997).

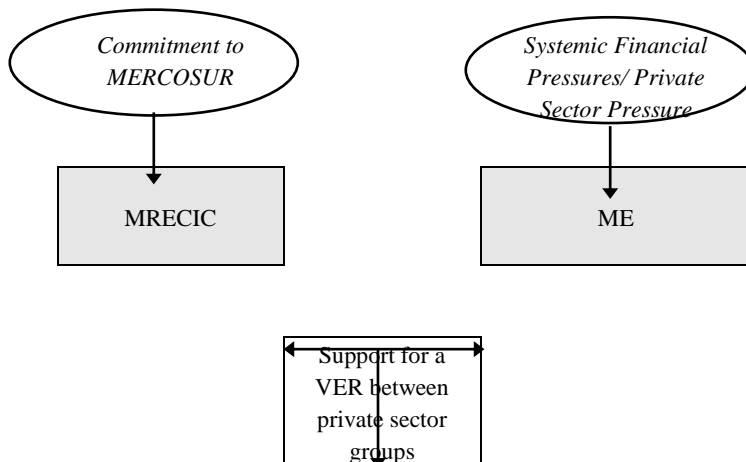
²⁰ See for example, Carrera, Lacunza and Redrado (2002: 25). These authors stress that the superiority of a bilateral agreement with the US could not be sustained on pure economic grounds. Only "speculation that we might obtain special benefits, [...] a very unlikely option given the current political map in Washington, would justify taking steps in that direction." Thus, policy-makers are urged not to "overestimate Argentina's strategic importance", nor to "underestimate sectorial adjustment costs" of the process of hemispheric integration. (p. 43).

would provide some relief to the private sector, downplaying perceptions of the costs of the current macroeconomic strategy, but within the framework of co-operative relations with Brazil, which was not only strategically important for Argentina, but also politically profitable for its government. Table 1 summarizes the intra-bureaucratic divergences underlying Argentina's position in the crisis, examined in this section.

Table 1. Bureaucratic Divergences regarding the unilateral restrictions

	<i>Main Institutional Concern/Mission</i>	<i>Penetration by Private Sector</i>	<i>Role/ Position Toward Measures</i>
<i>Under-Secretary of Foreign Trade (SCE)</i>	<ul style="list-style-type: none"> • Design of trade policy measures • Relations with industrial sector 	High	Designed and Proposed them
<i>Ministry of Economy (ME)</i>	<ul style="list-style-type: none"> • Macroeconomic and financial stability 	Low	Approved them
<i>Ministry of Foreign Affairs (MRECIC)</i>	<ul style="list-style-type: none"> • Strategic /foreign policy priorities • Defending the Argentine national interest 	Low	Opposed them

Figure 2. Formation of Argentina's Negotiating Position



4. CONCLUSIONS

This article has tried to account for two different and seemingly inconsistent policy choices by the Argentine government in 1999: (1) the establishment of a number of protectionist measures directly benefiting the national footwear industry and triggering a commercial and diplomatic crisis within MERCOSUR; (2) the subsequent decision to push for the negotiation of a VER at the private sector level, followed by the reversal of the unilateral measures. The two policy moves can be explained through different theoretical lenses.

First, the decision to defect from regional commitments comes into sharper focus when combining insights from both neoclassical and statist explanations of foreign economic policy-making. The analysis in this article, however, stresses the importance of state actors' macroeconomic (and independent) preferences, suggesting the state remained largely in control of the decision-making process. This explanation challenges prevailing interpretations, which tend to overemphasize the role of business interests and to neglect the macroeconomic interest of the ME in defecting. For the Argentine ME, the measures would not only contribute to contain Argentina's growing trade deficit, but would indirectly compensate those sectors which were increasingly discontent with the overvaluation of the currency. At the same time, from the ME perspective, the move was intended to put pressure on Brazil for negotiating a mechanism to contain the financial volatility effects of the devaluation on the Argentine currency. In this sense, Argentina's unilateral measures in 1999 should be seen as at least partly a consequence of the subordination of regional trade commitments to the broader concerns of macroeconomic and exchange rate stabilisation.

The second outcome this article sought to explain, the decision by the Argentine government to step back from negotiations with Brazil to promote an agreement on quantities among the two countries' footwear sector associations, is instead best explained by incorporating insights from the bureaucratic politics model. This is because, as a result of the greater role of the MRECIC in international negotiations and regional integration issues, there was a much balanced distribution of decision-making power between this agency and the ME. The decision to push for the negotiation of a VER at the private sector level, therefore, reflected a compromise between the "hawkish" position of the ME and the more conciliatory stance of the MRE. This reflected the deepening commitment of Argentine foreign policy elites to the process of regional integration. The latter was viewed as a central element of Argentina's foreign policy strategy, especially given the perceived challenges posed by the process of US hemispheric integration.

REFERENCES

- Allison, G., 1969, "Conceptual Models and the Cuban Missile Crisis," *American Political Science Review* 63: 3 (September).
- Allison, G., 1971, *Essence of Decision: Explaining the Cuban Missile Crisis*, Boston: Little, Brown.
- Allison, G. and P. Zelikow, 1999, *Essence of Decision: Explaining the Cuban Missile Crisis*, 2nd edition, New York: Longman.

- Ames, B., 1987, *Political Survival: Politicians and Public Policy in Latin America*, Berkeley: University of California Press.
- Avogadro, E., and R. Bouzas, 2002, "Trade Policy-Making and the Private Sector: A Memorandum on Argentina," *INTAL Occasional Paper* 13.
- Bates, R., 1992, "Macropolitical Economy in the Field of Development," In J. Alt and K. Shepsle, eds., *Perspectives on Positive Political Economy*, Cambridge: University of Cambridge Press.
- Bates, R. and A. Kruegger, eds., 1993, *Political and Economic Interactions in Economic Policy Reform*, Cambridge, MA: Blackwell.
- Bendor, J. and T. Hammond, 1992, "Rethinking Allison's Models," *American Political Science Review* 86: 2 (June).
- Bernstein, B., 2000, "Understanding Decisionmaking, U.S. Foreign Policy, and the Cuban Missile Crisis: A Review Essay," *International Security* 25: 1 (Summer).
- Blake, C., 1998, "Economic Reform and Democratization in Argentina," *Journal of Inter-American Studies and World Affairs* 40: 3 (Fall).
- Bueno, Carlos, 1999, quoted in Argentine news reports, *La Nacion* (September 18).
- Campbell, J., 1999a, "El MERCOSUR Después de la Crisis," Presentation at the Annual Meeting of the Argentine Banking Association (ABA), Buenos Aires (July 5).
- Campbell, J., 1999b, "Una Mirada hacia el futuro del MERCOSUR," In J. Campbell, ed., *MERCOSUR, Entre la Realidad y la Utopía*, Buenos Aires: Nuevohacer.
- Carranza, M., 2003, "Can Mercosur Survive? Domestic and International Constraints on Mercosur," *Latin American Politics and Society* 45: 2 (Summer).
- Carrera, J., H. Lacunza and M. Redrado, 2002, "Amenazas y Oportunidades de la Integración Argentina- Estados Unidos: Efectos Comerciales y Sectoriales para Nuestro País," *Boletín Informativo Techint* 309.
- Costa Vaz, A., 2002, *Cooperação, Integração e Processo Negociador: a Construção do Mercosul*, Brasília: IBRI.
- Escudé, C., 1997, *Foreign Policy Theory in Menem's Argentina*, Gainesville: University Press of Florida.
- Gomez Mera, Laura, 2005, "Explaining the Survival of MERCOSUR: Sources of Argentine-Brazilian Strategic Convergence," *Journal of Latin American Studies* 37(1) (February).
- Haggard, S. and S. Webb, 1993, "What do We Know About the Political Economy of Economic Policy Reform?" *The World Bank Research Observer* 8: 2.
- IDB, 2000, *MERCOSUR Report 6*, Washington D.C.: IDB/INTAL.
- IRELA, 1999, "MERCOSUR at the Crossroads: Scope and Prospects of the Crisis," *Briefing* (September).
- Jordana, J. and C. Ramió, 2002, "Diseños Institucionales y Gestión de la Política Comercial Exterior en América Latina," *INTAL-ITD- STA, Documento de Divulgación* 15.
- Kaltenthaler, K. and F. Mora, 2002, "Explaining Latin American Economic Integration: the Case of Mercosur," *Review of International Political Economy* 9: 1.
- Krasner, S., 1972, "Are Bureaucracies Important? (Or Allison in Wonderland)," *Foreign Policy* 7 (Summer).
- Lake, D., 1991, *Power, Protection and Free Trade: International Sources of US Commercial Strategy, 1887-1939*, Ithaca: Cornell University Press.
- Pastor, M. and C. Wise, 1999, "Stabilisation and its Discontents: Argentina's Economic Restructuring in the 1990s," *World Development* 27: 3.

- Peña, F., 2001, "Mercosul: Análise de uma Década e Tendências para o Futuro," *Política Externa* 10: 1.
- Rapoport, M., 1998, "Relaciones Argentina- Estados Unidos: Un Balance Descarnado," *Clarín* (December 27).
- Rodrik, D., 1994, "The Rush to Free Trade in the Developing World: Why so Late? Why Now? Will it Last?" In S. Haggard and S. B. Webb, eds., *Voting for Reform: Democracy, Political Liberalization and Economic Adjustment*, New York: Oxford University Press.
- Schattschneider, E., 1935, *Politics, Pressures and the Tariff*, New York: Prentice-Hall.
- Silva, P., 1993, "Capitalist Coalitions, the State and Neoliberal Economic Restructuring: Chile, 1973-88," *World Politics* 45: 2.
- Starr, P., 1997, "Government Coalitions and the Viability of Currency Boards: Argentina Under the Cavallo Plan," *Journal of Inter-American Studies and World Affairs* 39.
- Taussig, F., 193 1, *The Tariff History of the United States*, New York: Putnam.
- The Economist, 1999, "MERCOSUR's Malaise," *The Economist* (April 22).
- Welch, D., 1992, "The Organizational Process and the Bureaucratic Politics Paradigm: Retrospect and Prospect," *International Security* 17:2 (Fall).

Clarín

La Nacion

Interviews

- Avogadro, M. (Under-Secretary of International Economic Relations, 1991-99) May 2003.
- Campbell, Jorge (Secretary of International Economic Relations, 1991-99) May 2003.
- Di Tella, Guido (Foreign Minister, 1991-1999) July 2000.
- Peña, Felix (Under- Secretary of Foreign Trade, 1998-99, and Under- Secretary of Economic Integration, 1991-92) October 2002.
- Litzman, Carlos (Manager, CIC) October 2002.
- Melhem, Gustavo (Founding Member of CAPCICA) October 2002.
- Zappia, Juan Raul (International Business Manager, Gatic) November 2002.