

 STUDIES OF THE AMERICAS

THE POLITICAL ECONOMY OF HEMISPHERIC INTEGRATION

*Responding to Globalization
in the Americas*

Edited by

**Diego Sánchez-Ancochea
and Kenneth C. Shadlen**



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The Political Economy of Hemispheric Integration

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in the Americas**

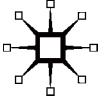
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Abbreviations

AAGR	Average Annual Growth Rate
ARENA	Alianza Republicana Nacionalista, Republic Nationalistic Alliance
ASCM	WTO Agreement on Subsidies and Countervailing Measures
BITs	Bilateral Investment Treaties
CANACINTRA	Cámara Nacional de la Industria de Transformación
CARICOM	Caribbean Community and Common Market
CBI	Caribbean Basin Initiative
CBRA	Caribbean Basin Recovery Act
CEPAL	Comisión Económica para América Latina y el Caribe, Economic Commission for Latin America and the Caribbean
CODESA	Costa Rican Corporation for Development
CUSFTA	Canada-U.S. Free Trade Agreement
DESTIN	Development Studies Institute
DR-CAFTA	Dominican Republic-Central America Free Trade Agreement
ECLAC	Economic Commission for Latin America and the Caribbean
EOI	Export-Oriented Industrialization
EPA	Economic Partnership Agreements
EPZ	Export Processing Zones
FMLN	Frente Farabundo Martí de Liberación Nacional, Farabundo Martí National Liberation Front
FOCAL	Canadian Foundation for the Americas
FTA	Free Trade Agreement/Area

FTAA	Free Trade Area of the Americas
GAO	General Accounting Office
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
IADB	Inter-American Development Bank
ICSID	International Center for the Settlement of Investment Disputes
ICT	Information and Communication Technology
IP	Intellectual Property
ISA	Institute for the Study of the Americas
ISI	Import-Substituting Industrialization
ITAM	Instituto Tecnológico Autónomo de México
LACs	Latin American and Caribbean Countries
LATN	Latin American Trade Network
MAs	Mergers and Acquisitions
Mercosur	Mercado Común del Sur South American Common Market
NAFTA	North American Free Trade Agreement
NEM	New Economic Model
NGOs	Nongovernmental Organizations
NICs	Newly Industrialized Countries
OAS	Organization of American States
OEM	Original Equipment Manufacture
PAC	Partido de Acción Nacional, Citizen's Action Party
PTA	Preferential Trade Agreements
RBTA's	Regional and Bilateral Trade Agreements
SDT	Special and Differential Treatment
SEZs	Special Economic Zones
SITC-2	Two-digit Standard International Trade Classification
SOEs	State-Owned Enterprises
SPP	Security and Prosperity Partnership of North America
TNCDB	Trade Negotiations and Commercial Diplomacy Branch
TNCs	Transnational Corporations
TRIMs	World Trade Organization's Agreement on Trade- Related Investment Measures

TRIPs	World Trade Organization's Agreement on Trade-Related Aspects of Intellectual Property Rights
UNAM	Universidad Nacional Autónoma de México
UNCTAD	United Nations Commission for Trade and Development
USAID	U.S. Agency of International Development
USTR	Office of the United States Trade Representative
WTO	World Trade Organization

Chapter 1

Introduction: Globalization, Integration, and Economic Development in the Americas

*Diego Sánchez-Ancochea and
Kenneth C. Shadlen*

The 1990s and the early years of the twenty-first century witnessed important changes in patterns of regional integration, namely the emergence of formal “trade” agreements between developed and developing countries. These agreements typically liberalize trade in most goods and services, and they also coordinate measures on a broad range of economic policy areas that go beyond “trade” per se. The first and most prominent of these agreements, of course, is the North American Free Trade Agreement (NAFTA), which the United States, Canada, and Mexico signed in the early 1990s. In subsequent years, the United States has concluded agreements (or, at least, has either begun negotiations or undertaken preliminary discussions on such agreements) with more than half the countries of Latin America and the Caribbean.¹ And, of course, since 1994 discussions have continued for the Free Trade Area of the Americas (FTAA), a hemispheric that would include all thirty-four countries in the region (except Cuba).

The new agreements that we are witnessing mark a considerable break with the types of integration schemes that have historically been prevalent. In the first regard, they stand out for their “North-South” dimensions. Although integration among developed countries and among developing countries has considerable precedent, these agreements transcend the previous divide and bind developed and developing countries in new ways. The second aspect of the new agreements that stands out is their breadth, in that they cover not just trade but also a broader set of regulatory issues, such as rules on managing investment and intellectual property (IP).

Of course, countries approach negotiation of these agreements with markedly different objectives. At the most general level, the primary objective for developing countries is to secure better market access to the developed world and increase inward flows of foreign investment. For developed countries, in contrast, a primary objective is to secure stable business environments that facilitate cross-border expansion of their firms' activities. The ensuing approach to constructing regional and bilateral economic governance, thus, has been to increase market access while also expanding more developed countries' economic rules and regulatory systems. Indeed, regional and bilateral trade agreements (RBTA) between the United States and developing countries are based on a bargain of market access in exchange for regulatory harmonization (Shadlen 2005; 2006).

In this book we aim to systematically evaluate the economics and politics of the new pattern of North-South integration in the Americas. Two overarching issues orient our analysis. First, we consider the developmental implications of this new pattern of integration. Are RBTA appropriate mechanisms to promote economic development? To be sure, such agreements provide Latin American and Caribbean (LAC) countries with significantly improved access to the U.S. market: both the breadth of sectoral coverage and the depth of import liberalization promised by the United States are greater under agreements of this type than that available under either the World Trade Organization (WTO) or the Generalized System of Preferences. Yet purchasing such preferential access via negotiation of RBTA with the United States obliges countries to adopt U.S.-style practices in areas such as the management of inward foreign investment and IP. In assessing the complex trade-offs embodied in regional integration, many of the contributors in this volume conclude that the price of market access may be too high. The prevailing concern, quite simply, is that RBTA, which dramatically restrict countries' opportunities for policy innovation, may lock in strategies of economic development that have thus-far failed to spur economic development. The first half of the volume addresses these issues, focusing on the challenges derived from new patterns of foreign investment (Mortimore), the rise of China as an exporting power (Dussel Peters), the emergence of a new regime for investment protection (Van Harten), and the multiplicity of intrusive forms of economic governance embodied in regional and global trade regimes (Abugattas and Paus).

Why, then, are these agreements so popular? Explaining the pattern of formal integration in the region is the second overarching issue that orients our analysis. Here we focus on both the proliferation of RBTA, and, critically, the limits to their spread. The authors consider the interests in integration and strategies for negotiating RBTA from the perspective

of a variety of actors, deploying a range of analytic approaches. We consider, for example, the capacities of the U.S. to fulfill ambitions for integration (Phillips), and the strategy of Canada to both maintain close relations with the United States and counterbalance its neighbor's preponderant influence throughout the region (Macdonald). We also analyze the response of smaller countries in Central America and the Caribbean (Sánchez-Ancochea), and the reactions toward integration and strategies vis-à-vis the FTAA of the larger South American countries in Mercosur (Bahadian and Carvalho Lyrio). And we examine the broader question of how developing countries form coalitions and design collective bargaining strategies to participate in international trade politics (Tussie).

In the remainder of the introduction, we present the logic and research undergirding the book's two principal themes, the economics and politics of RBTAs in the Americas. As a way of providing a point of departure for the subsequent chapters, we begin by presenting an overview of broad changes in the global economic environment, paying particular attention to their effects in Latin America and the Caribbean. In doing so, we offer an assessment of the region's recent economic performance. We then consider how changes in global economic governance affect the options for responding to these changes, explaining, in particular, how RBTAs with the United States can circumscribe the array of policy tools available to developing countries. In the subsequent section we concentrate on the political dynamics of integration in the Americas and explain the diversity of responses. We conclude the chapter with reflections on the policy agenda for the future.

Latin America in the New Global Economy

Economic integration must be understood within the context of broader changes in the global economy. Central to any analysis of the global economy are the emerging strategies of transnational corporations (TNCs). In the pursuit of higher profits, many international firms have gradually shifted labor-intensive production processes to developing countries. This has resulted in an expansion of foreign trade and foreign investment, as well as the emergence of new suppliers in the developing world. Importantly, TNCs have also entered into new sectors of the economy, becoming increasingly active in energy, telecommunications, transportation, utilities, and other services.

The fragmentation of production and the expansion of TNCs' activities create new opportunities and constraints for developing countries. Following a long history of cross-regional forms of interaction with the global economy (Gereffi and Wyman, 1990), Latin American and Asian

countries have responded differently to the new global environment. Most generally, Latin American countries embraced neoliberal reforms enthusiastically during the 1990s and performed relatively poorly. In contrast, China and other Asian countries adopted a more managed approach to globalization. We now examine the changes in the behavior of TNCs, and then review the Latin American response.

Globalization and the Reorganization of Global Production

Two distinct waves of transnationalization are evident in the post-World War II period. During the late 1950s and the 1960s, large industrial corporations began expanding to developing countries. These corporations tended to establish local subsidiaries to produce for domestic markets (Evans, 1998; Maxfield and Nolt, 1990). In doing so these firms received the support of many governments, especially in Latin America, that relied on foreign investment to deepen local industrial structures.

From the early 1970s TNCs gradually shifted their productive strategies. Instead of creating subsidiaries that would produce and market their goods locally within many countries, they began organizing production and distribution on global and regional bases. Exploiting opportunities created by new communication technologies and reduced transportation costs, and relying on a range of business practices (including direct investment, subcontracting, and licensing), TNCs have been able to place various stages of their operations (e.g., design, production, assembly, and marketing) in different geographical locations (ECLAC, 2002; Gereffi, 2005). A result of modularization has been the establishment of integrated production networks, typically constructed around “strategic alliances” among TNCs and including entrepreneurial groups from developing countries, in which an increasing number of tasks in the production of goods and services moves to new locations (Evans, 1998).

A significant component of the second wave of transnationalization has been the expansion of TNCs into new sectors of the economy. In the context of rapidly changing technologies, the privatization of state-owned enterprises, which occurred on a massive scale throughout developing and transition economies in the 1980s and 1990s, has facilitated the entry of foreign firms into utilities, energy, telecom, and other sectors that historically had been reserved for local (and at times public) owners. Data on mergers and acquisitions (MAs) provide indicators of the spread of TNCs: cross-border MAs increased from US\$75 billion in 1987 to US\$720 billion in 1999, with concentration in telecommunications, finance, and business services (UNCTAD, 2000; 2005). In the developing

world, Latin America was the most active region in terms of MAs, with major service-sector, utility, and natural resource firms coming to dominate new markets in the region (Mortimore, this volume).

The spread of TNCs and their supply networks is behind the significant expansion of foreign direct investment (FDI) and foreign trade in the global economy. Table 1.1 provides data on FDI inflows for the global economy for 1990 and 2005, as well as the average annual rates of growth for the fifteen years. The stock of inward FDI in the global economy experienced a nearly sixfold expansion over this period, with an average rate of growth of 10.4 percent each year. Although FDI remains concentrated in developed countries, the relative importance of developing countries and transition economies has expanded rapidly. Table 1.2 presents data on FDI inflows for developed, developing, and transition economies 1990, 1995, and 2005. The stock of FDI in developed countries still accounted for 71.3 percent of the world total in 2005, yet, the share of

Table 1.1 Global FDI Stock and Net Inflows, 1990–2005

	US\$ billions		Annual Average
	1990	2005	Rate of Growth
FDI Inflows	201	916	10.64
FDI Outflows	230	779	8.47
FDI Inward Stock	1,789	10,130	12.25
FDI Outward Stock	1,791	10,672	12.64

Source: UNCTAD electronic database of FDI (accessed October 15, 2007).

Table 1.2 FDI Inflows by Type of Economy, 1990–2005

	1990		1995		2005	
	US\$ billions	%	US\$ billions	%	US\$ billions	%
Developed Economies	1,433	80.1	209	75.6	7,219	71.3
Developing Economies	356	19.9	667	24.1	2,655	26.2
Transition Economies	0.1	0.0	7.9	0.3	256	2.5
World Total	1,789	100.0	2,766.1	100.0	10,130	100.0

Source: UNCTAD electronic database of FDI (accessed October 10, 2007).

developing countries increased by nearly a third over the period covered, growing from 19.9 percent in 1990 to 26.2 percent in 2005. In the same period the share of FDI in transition economies increased from virtually nil to 2.5 percent. Within developing countries, the expansion of FDI in labor-intensive manufacturing sectors has been particularly significant.

Total exports have also expanded steadily during this period, outpacing the expansion of gross domestic product (GDP). As figure 1.1 shows, the internationalization of production began in 1988 and accelerated at the end of the 1990s. Developing countries have been active participants in this process and have succeeded in expanding their participation in international trade. As table 1.3 indicates, low-income and middle-income countries' share of global exports increased by 60 percent in the period 1990–2005, rising from 16.5 percent to 26.3 percent. This expansion was primarily the result of the increasing fragmentation of global production, which allowed these countries to export manufactures. Manufacturing exports as percentage of total exports in low and middle-income countries doubled over twenty years, increasing from 31 percent in 1984 to 65 percent in 2004 (table 1.4).²

Table 1.3 World Exports and GDP by Type of Economy (% of Total), 1980–2004

	1980 ^a		1990		2000		2004	
	GDP	Exports	GDP	Exports	GDP	Exports	GDP	Exports
High Income	77.2	78.9	82.3	83.1	81.0	77.5	79.6	73.8
Low and Middle Income	2.9	19.7	17.7	16.5	19.0	22.5	20.4	26.2

Note:

^a Exports of low and middle-income countries refer to 1982.

Source: World Bank. World Development Indicators electronic database (last accessed October 15, 2007).

Table 1.4 Manufactures Exports (% of Merchandise Exports), 1984–2004

	1984	1990	2000	2004
High Income	73	77	80	81
Low and Middle Income	31	51	63	64
World	65	73	76	77

Source: World Bank. World Development Indicators electronic database (accessed October 14, 2007).

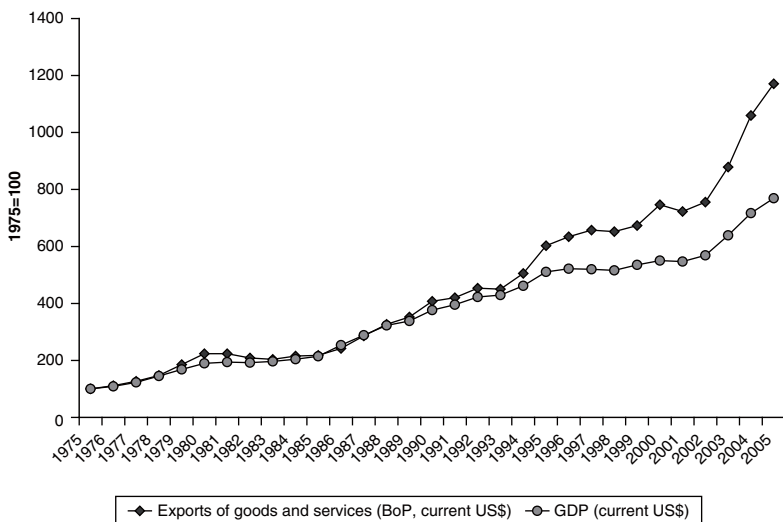


Figure 1.1 Expansion of Global Economy, 1975–2005: Exports and GDP in Current US\$ (1975=100)

Source: World Bank, World Development Indicators database (accessed October 10, 2007).

Table 1.5 Selected Developing Countries. Stock of FDI (Millions of US\$ and Percentage of Total), 1990 and 2005

Countries	1990		2005	
	US\$ millions	%	US\$ millions	%
South Africa	9,207	2.6	69,372	2.6
British Virgin Islands	126	0.0	67,359	2.5
Mexico	22,424	6.3	209,564	7.9
Argentina	8,778	2.5	55,245	2.1
Brazil	37,243	10.4	201,183	7.6
Chile	10,067	2.8	73,620	2.8
China	20,691	5.8	317,873	12.0
Hong Kong	45,073	12.6	532,956	20.1
Republic of Korea	5,186	1.5	63,199	2.4
Singapore	30,468	8.5	186,926	7.0
Thailand	8,242	2.3	56,542	2.1
Total eleven countries	197,505	55.4	1,833,839	69.1

Source: UNCTAD electronic database of FDI (accessed October 10, 2007).

Of course, developing countries' participation in the global expansion of investment and trade has been geographically uneven. As table 1.5 shows, the stock of FDI in the ten leading developing countries represents nearly 70 percent of all FDI to developing countries in 2005, with five East Asian countries alone accounting for more than 40 percent. Meanwhile, Latin American countries' share declined slightly during this period. Of the four countries presented in table 1.5, Brazil constitutes the most extreme case, with its share in the stock of FDI to developing countries decreasing from 10.4 percent in 1990 to 7.6 percent in 2005. The East Asian success and Latin American poor performance in relative terms extends to other areas, including manufacturing exports and economic growth.

Different Responses to the Reorganization of Global Production

The changes at the level of global investment and trade flows have been accompanied by significant changes in developing countries' orientation toward the global economy. Since the mid-1980s, and especially during the 1990s, most developing countries have made concerted efforts to expand exports and attract new foreign investors. Yet there are significant differences in the way countries went about increasing exports and FDI, something that Dussel Peters (this volume) highlights well with his comparison of the approaches adopted by China and Mexico. Most generally, China (and Vietnam and other Asian countries), following the lessons from the earlier wave of Asian industrializers such as Korea and Taiwan, adopted managed and pragmatic strategies of integration. These countries combined degrees of liberalization and privatization with the maintenance of an active role for the state to correct for market failures and to build productive capacities in strategic sectors. Liberalization was gradual, and executed with the twin goals of expanding domestic markets and reducing social costs. Most Latin American countries, in contrast, adopted more orthodox and open-ended strategies integration. Liberalization and privatization were more widespread, the state's role systematically de-emphasized, and the achievement of macroeconomic stability (and the attraction of capital inflows, of all sorts) was of paramount importance.

The difference in economic performance between these two sets of countries during the 1990s and early 2000s is striking. Table 1.6 compares the rates of economic growth between 1990 and 2004. In Latin America GDP per capita grew at an annual average rate of only 1.3 percent, lower than both the world average (1.4%) and that of high-income countries (1.7%). In South Asia and East Asia, GDP per capita grew at an annual average of 3.5 percent and 6.7 percent respectively. China's

Table 1.6 Various Regions. Annual Average Rate of Growth of GDP and GDP per Capita (Constant 2000 Dollars), 1990–2004

Region	GDP	GDP per capita
Sub-Saharan Africa	2.7	0.2
<i>Latin America and the Caribbean</i>	2.9	1.3
East Asia and Pacific	7.9	6.7
South Asia	5.4	3.5
OECD Countries (High Income)	2.4	1.7
World Total	2.7	1.4
China	9.7	8.6
India	5.7	3.9
Singapore	6.2	3.6

Source: Author's calculations from World Bank. World Development Indicators electronic database (accessed October 15, 2007).

progress was particularly impressive: between 1990 and 2004 Chinese GDP per capita grew by an annual average of 9.6 percent, more than three times higher the world average (see Dussel Peters, this volume).

The evolution of economic activity in Latin America was also disappointing when compared to the much-criticized era of import-substituting industrialization. As table 1.7 indicates, in the 1960s per capital GDP in Latin America and the Caribbean grew faster than any region of the developing world. And the per capita growth rates were even higher in the 1970s (though in this decade surpassed by East Asia). The turning point was the debt crisis of the early 1980s, after growth rates in Latin America (and other highly indebted regions, such as sub-Saharan Africa) ground to a halt, while less debt-burdened Asian economies continued to experience remarkably high rates of per capita growth. Even more significant for the discussion of responses to globalization and trade policy choices has been Latin America's mixed record in terms of exports. Trade liberalization and targeted export incentives contributed to strong rates of export growth (see table 1.8). Between 1990 and 2004, the exports grew by an annual average of 7.2 percent—above the world average for the first time in the past half century. Yet here too Latin America's performance was significantly behind that of East Asian countries, which grew by an annual average of 12.6 percent during this period.³

Lackluster economic performance was accompanied by increases in unemployment, informality and income inequality. Taylor and Vos

Table 1.7 Various Regions. Annual Average Rate of Growth of GDP (Constant 2000 Dollars), 1960–2004

Region	1960–1970	1970–1980	1980–1990	1990–2004
Sub-Saharan Africa	4.9	3.6	1.8	2.7
<i>Latin America and the Caribbean</i>	5.3	5.6	1.2	2.9
East Asia and Pacific	4.5	6.6	7.5	7.9
South Asia	4.4	3.0	5.6	5.4
OECD Countries (high income)	5.3	3.4	3.1	2.4
World Total	5.3	3.7	3.1	2.7
China	3.6	6.2	9.3	9.7
India	4.1	3.0	5.8	5.7
Singapore	9.8	8.9	7.4	6.2

Source: Author's calculations from World Bank. World Development Indicators electronic database (accessed October 15, 2007).

Table 1.8 Annual Average Rate of Growth of Exports per Decade (Constant 2000 Dollars), 1960–2004

Region	1960–1970	1970–1980	1980–1990	1990–2004
Sub-Saharan Africa	6.4	3.4	0.8	4.2
<i>Latin America and the Caribbean</i>	5.1	4.5	4.9	7.2
East Asia and Pacific	—	—	5.7	12.6
South Asia	—	6.2	5.9	14.1
OECD Countries (High Income)	8.1	6.1	4.9	5.6
World Total	7.6	6.0	5.0	6.3
China	—	—	5.7	16.6
India	—	8.5	5.3	10.8

Source: Author's calculations from World Bank. World Development Indicators electronic database (accessed October 15, 2007).

(2003) found that inequality increased in seventeen of twenty-four episodes of reform identified in sixteen different Latin American countries. In a study published in 2004, the World Bank collected data on income distribution for sixteen countries for the 1990s and shows that inequality only decreased in Brazil and Honduras (World Bank, 2004). Berry's (2005) review of a large number of studies on income

distribution during the neoliberal era also concluded that inequality increased in a significant number of cases. Growing asymmetries between wages received by skilled and unskilled labor and the expansion of the informal market have both contributed to this expansion in inequality (Portes and Hoffman, 2003; Taylor and Vos, 2003).

How to Integrate? Policy Choice in the Global Economy

This brief review of Latin America's poor economic performance prompts a reconsideration of prevailing development strategies. One of our overarching concerns is that the new patterns of integration discussed at the start of this chapter may lock-in the current policy trajectories that have been demonstrably unsuccessful. To make this point more clearly, it is worth taking a step back and considering how political choices over integration strategy are affected by the range of policy choices available to developing country governments.

The processes of economic globalization that we have discussed transpire in the context of significant changes in international economic governance that, in turn, place constraints on national governments. The Uruguay Round of multilateral trade negotiations went further in the promotion of multilateral trade liberalization than previous rounds. More types of goods and more types of measures to manage trade (e.g., subsidies) became subject to international trade rules. And the Uruguay Round also incorporated new areas on the international trade agenda, such as investment, IP, and services.⁴ The introduction of these new accords significantly widened the scope of international economic governance. And, of course, from the Uruguay Round emerged the WTO, which consolidated the emerging regulatory regimes, established a new system for dispute settlement, and opened a new arena for more flexible and on-going trade negotiations (Narlikar, 2005).

For all its importance as a major international organization with near-universal membership, however, the WTO has been just one of several mechanisms to organize and expand the deep integration of the global economy. The regulation of investment and IP, for example, has advanced further at the bilateral and regional level than in the WTO (Shadlen, 2005). With regard to investment, hundreds of bilateral investment treaties (BITs) have been signed since the late 1980s. As Van Harten (this volume) explains, the proliferation of BITs has created a *de facto* international investment regime by which TNCs can use international arbitration, based on a hybrid of commercial and public law, to challenge public policies that may affect their operations. By shifting judicial review of public policy from domestic courts to international arbiters, BITs can

limit the ability of states to regulate TNCs. This type of regulation of investment rights has recently been incorporated into several recent agreements, beginning with NAFTA. Despite the controversial nature of NAFTA's investment provisions, the United States has demanded that similar provisions be included in all subsequent RBTAs.⁵

Likewise, in the case of IP, RBTAs with the United States invariably include provisions that go far beyond the TRIPS Agreement. Indeed, the contrast between TRIPS and the IP provisions in most RBTAs is striking (Shadlen, 2005). To illustrate, consider the case of patents, which confer *limited* monopoly rights to the owners of new, non-obvious, and industrially useful ideas. Patent holders' rights are limited in three ways: (1) the rights are nonautomatic, in that the owner must apply for a patent and the state must formally grant private ownership rights; (2) the rights are nonabsolute, in that the third parties have some automatic rights of use and the state has rights to regulate how the patentee uses her private rights; and (3) the rights are temporally bounded, in that when patents expire what is treated as private property enters into the public domain. IP agreements establish obligations for how countries set the boundaries of these limitations: how easy or difficult countries make it for private actors to obtain patents, the extent to which the patent holders can exclude others from freely using their ideas and operate independently of state regulations, and how long the exclusive rights last. Comparing the WTO with RBTAs, the IP provisions in the latter place significantly tighter restrictions on how countries establish these boundaries: establishing private rights becomes more automatic (states have limited ability to declare certain types of inventions "non-patentable"), the private rights are more absolute (third-party use and the state's regulatory discretion are both significantly diminished), and the private rights are longer (patent terms are more easily renewable and extensions at times automatic).⁶

The promotion and protection of more—and stronger—rights to investors and owners of IP are just two of the many areas in which regional agreements have allowed some countries to superimpose new governance structures above and beyond those of the WTO. Indeed, these agreements typically exceed WTO obligations in *all* areas, including use of tariffs and subsidies, services, and so on. Moreover, by negotiating with individual or small groups of developing countries (i.e., bilaterally or regionally), developed countries have also been able to push the agenda of international economic governance into areas not (yet) addressed by the WTO, such as competition policy, government procurement, and trade facilitation. Of course, developing countries also acquire economic concessions in exchange for the extensive commitments they make as parties to RBTAs, in the form of increased market access for both traditional and nontraditional exports.⁷

The relative merits of these arrangements have been the subject of extensive analysis. On the one hand, regionalism is regarded by some as a coping strategy: as global economic governance becomes more complex and intrusive, regional negotiations promise policymakers greater control over the “pace, sequence, and direction” of economic policy (Lengyel and Ventura-Dias, 2004: 12). Advocates of RBTAs also maintain that RBTAs with the United States can lead to efficiency gains and the consolidation of business-friendly political environments, both preconditions for higher economic growth. The World Bank (2006: 1) in its review of the impact of the Dominican Republic-Central America Free Trade Agreement (DR-CAFTA) in Central America, for example, argues that this agreement “is likely to improve growth levels for the participating countries in Central America and the DR, due to the expected positive effects on trade and investment levels.” Likewise, Estevadeordal et al. (2004: 5), while acknowledging the existence of risks, highlight the benefits these agreements promise to bring, “in the form of technological transfer, FDI creation, scale economies in shipping and potentially large increases in trade volumes.”

On the other hand, many analysts, including most contributors to this volume, question the net economic benefits of RBTAs with the United States. More market access is certainly desirable, but more steps toward regulatory harmonization and further retiring of key policy instruments may be worrisome.⁸ Abugattas and Paus (this volume) synthesize much of the research along these lines, defending the need to adopt “capability-centered” development strategies based on the following four components: (1) trade, investment, and IP policies that facilitate learning and innovation; (2) expansion of tax revenues to support increased expenditures in infrastructure, health, and education; (3) macroeconomic policies aimed at minimizing financial instability and securing high capacity utilization (see Ffrench-Davis, 2005); (4) pro-poor policies that explicitly target poverty reduction and compensate for social dislocations. Their chapter raises red flags by pointing to the serious constraints that RBTAs create for implementing these sorts of policies.

Whatever the “correct” economic assessment of RBTAs, the proliferation of these agreements throughout the Americas demands explanation. What factors drive the spread of RBTAs? At the most basic level, RBTAs may be regarded as a response to the emergence of abundant low-cost manufacturing capacity in Asia. As discussed above, China has become a global factory and a major importer to the U.S. market. The Chinese threat is particularly acute for those countries whose export profiles depend on a narrow range of labor-intensive manufactures. Faced with such competition, many LAC countries search to gain preferential access to the U.S. market. Indeed, some of the countries that most actively sought RBTAs with the United States are those whose export profiles

demonstrate the highest degree of concentration. Take, for example, El Salvador, Honduras, Guatemala, Nicaragua, and the Dominican Republic: for each of these countries, three types of commodities account for greater than 60 percent of their exports to the United States over the period 1996–2003, with apparel alone accounting for more than half.⁹

In contrast, Brazil, which has a significantly more diversified export profile, has demonstrated minimal interest in negotiating an RBTA with the United States.¹⁰ In short, the deal offered by the United States is unattractive, and the structure of the Brazilian economy does not leave policy-makers with a sense of urgency to accept integration on these terms. In fact, as Bahadrian and Carvalho Lyrio (this volume) show, the principal concern of Brazilian economic diplomats with regard to the U.S. economy is to improve market access for agricultural exports, and this is not part of the contemporary regional trade agenda.

Though export profiles serve as a useful starting point, they provide insufficient explanation for the full pattern of integration with the United States. After all, countries with similar export profiles have shown different degrees of interest in this new form of integration: the Dominican Republic, for example, did not show any enthusiasm for an RBTA with the United States until El Salvador, Guatemala, Honduras, and Nicaragua began formal negotiations for what would eventually become DR-CAFTA. And we also observe the converse relationship: Costa Rica's export profile is dissimilar to its fellow participants in DR-CAFTA.

Beyond export profiles, an important factor explaining the apparent enthusiasm for such agreements is a “fear of exclusion.” Some countries may embrace the RBTA agenda as a way to make sure they are not left alone while their neighbors strike deals with the United States that—arguably—increase market access and foreign investment. The fear of exclusion has been driven by the U.S. strategy of “competitive” or “serial” liberalization of step-ladder negotiations with “can do” countries, which has the goal of generating a “dynamic in which countries compete to become fuller members of the trading system and better partners of the United States” (former USTR Robert Zoellick, as quoted in Shadlen (2008: 12). Indeed, the U.S. strategy is designed to make the broader hemispheric project appear more attractive by instilling a fear of marginalization in non-participating countries. LAC officials know they are not choosing between agreeing an RBTA or retaining the status quo (no RBTA), but that there is a strong likelihood that neighboring countries will agree RBTAs with the United States and they will be left out (Shadlen, 2008).

Fear of exclusion complements and reinforces domestic political processes that also contribute to the proliferation of RBTAs, namely the asymmetric information, resources, and capacities for political mobilization of distinct actors (Shadlen, 2008). Notably, the actors within developing countries who stand to benefit directly from the new form of