

# Globalisation, Power and Integration: The Political Economy of Regional and Bilateral Trade Agreements in the Americas

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**ABSTRACT** *This article explores the dynamics of regional economic integration in the Americas. Economic globalisation, or an increased volume of trade and investment and increased mobility of capital, presents developing countries with new opportunities and challenges. In particular, the emergence of south-east Asia as a major site for the production and export of manufactured goods has generated intense competition among developing countries for foreign investment and export-market shares. In this article, globalisation and ensuing competition is linked to the process of economic integration between the United States and countries of Latin America and the Caribbean. Fundamental changes in global patterns of investment and trade, in combination with international and domestic power asymmetries, contribute to the spread and proliferation of regional and bilateral trade agreements (RBTA) between the United States and its hemispheric neighbours.*

## **I. Introduction**

Economic globalisation, here defined as an increased volume of trade and investment and increased mobility of capital, presents the countries of Latin America and the Caribbean (LAC) with new challenges. In particular, the emergence of south-east Asia as a major site for the production and export of manufactured goods has led to intense competition to attract foreign investment and secure export-market shares. In this article, the dynamics of regional integration in the Americas are examined, linking globalisation and the ensuing competition to processes of North-South economic integration. I will show how fundamental changes in global patterns of investment and trade, in combination with international and domestic power asymmetries, contribute to the spread and proliferation of regional and bilateral

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trade agreements (RBTA) between the United States and its hemispheric neighbours.

The dynamics of integration must be considered in the context of US economic strategy, of which a key component is to offer enhanced market access to 'can do' countries that are prepared to undertake extensive economic reforms with regard to national regulatory practices (Zoellick, 2002, 2003; Phillips, 2005). This exchange, in which LAC countries remove regulatory barriers of concern to US firms as a *quid pro quo* for gaining preferential access to the US market for their own exports, are institutionalised in the form of RBTA. These agreements, modelled on the North American Free Trade Agreement (NAFTA) that the US signed with Mexico and Canada in the early 1990s, continue to spread throughout the region. The US has concluded agreements (or, at the time of writing, is in the process of negotiating or undertaking preliminary discussions on such agreements) with the following countries: Chile; five countries of Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua) and the Dominican Republic (DR-CAFTA); Panama; Colombia, Ecuador, and Peru; and the Caribbean countries in the Caribbean Community and Common Market (CARICOM). Also, since 1994, discussions have continued for the Free Trade Agreement of the Americas (FTAA), an hemispheric agreement including all 34 countries in the region (except Cuba).<sup>1</sup> Yet interest is not uniform: a number of countries, such as the four members of Mercosur (Argentina, Brazil, Paraguay, and Uruguay) and Venezuela demonstrate little – or at most inconsistent – interest in such agreements.

Importantly, responses to the US agenda throughout the region have not just varied cross-nationally, with some countries extremely enthusiastic and others more cautious, but responses have varied over time as well. That is, countries with little interest in RBTA at one point have changed course and become keenly interested at a later point. The Dominican Republic, Peru, Ecuador and the CARICOM nations, for example, were late-comers to the process; and not until 2003 did Brazil take a serious interest in the FTAA, nearly a decade after discussions were launched. Standard economic explanations based on country-size or industrial structure or export-profile cannot sufficiently account for this variation, given that these potential explanatory factors are either fixed or change very slowly.<sup>2</sup>

While Latin American and Caribbean responses to the US agenda are of course driven by multiple factors, the objective of this article is to examine how the competitive pressures derived from globalisation and power asymmetries, manifested both internationally and domestically, affect countries' orientation toward regional integration and contribute to the proliferation of RBTA. I will argue that the emergence of China – and south-east Asia more generally – as an export power has triggered a dynamic whereby LAC countries that are dependent on the export of light manufactures to the US become increasingly attracted by the possibility of negotiating RBTA. RBTA come with significant costs, however, for the US demands a great deal of countries in return for granting stable and preferential market access. It will be shown how power asymmetries can alter countries' assessments of the relative costs and benefits of negotiating RBTA. The article will focus on two aspects of power: the ability of the US to negotiate RBTA with neighbours and thus leave non-participating countries further marginalised, and the disproportionate strength of exporters in developing countries.

The rest of the article consists of three main sections. In the next section, two types of trade data are used to understand why some countries may have an interest in establishing RBTAs with the US. To assess the extent to which LAC countries are sensitive to and threatened by the growth of south-east Asian exports to the US, the article begins by examining LAC countries' export profiles. Of course, the promise of an RBTAs is preferential market access that is secure, stable, and non-removable. To that end, I contrast the preferential market access that LAC countries already enjoy under the General System of Preferences (GSP) with the market access promised by RBTAs, and presents new data on export dependence that are more appropriate than standard measures for this sort of analysis.

Having established why some LAC countries might be particularly eager to obtain stable, preferential market access to the US, the high price tag that the US places on such market access will be explained. Here I examine, briefly, two of the most important demands made by the US, the reforms that countries must make regarding the management of investment and intellectual property (IP). This section aims to draw attention to the dynamic developmental implications of RBTAs.

Although the new competitive pressures might encourage countries to seek stable and preferential market access to the US (section I), countries might be wary of accepting the terms of such access in the form of the US deep integration agenda (section II). The question, then, is why some are more eager than others to enter into RBTAs with the US. I address that question in the last main section, considering a set of explanations for LAC countries variable enthusiasm for integration, even when the costs may exceed the benefits. I advance two explanations, each based on different aspects of power. I show how *international* power asymmetries can alter countries' calculations of the relative benefits and costs of participating – or not participating – in RBTAs with the US; and I show how *domestic* power asymmetries, and in particular the preponderant influence of national exporters, affect national policy making. Together, these two aspects of power can make RBTAs irresistible.

In conclusion, the article summarises the main points and suggest avenues for future research. I also consider the relationship between the focus of this article – the implications of globalisation and competition for manufactured export shares – and another important consequence of globalisation, namely increased opportunities for primary product exports.

## **II. The Demand for Stable Market Access: Export Profiles and Political Trade Dependence**

The pressures unleashed by the emergence of south-east Asia as a major site for manufacturing and export means that most favoured nation (MFN) treatment is no longer sufficient for many developing countries. MFN, which is the cornerstone of the multilateral trading regime, requires all members of the World Trade Organisation (WTO) to provide all other members with equal treatment. A critical exception to this requirement, however, is that partners in RBTAs can provide each other with market access that is even better than the MFN access they make available to all other WTO members. For LAC exporters, the reduction in transportation costs combined with south-east Asia's low labour costs makes

equivalence in US tariff treatment threatening and, thus, may inspire a quest for better-than-MFN market access.

The competitive threats and subsequent desire for enhanced market access are likely to be felt and experienced most strongly by those developing countries that have relatively non-diversified export structures: countries that depend on a relatively few number of goods for their export revenues are likely to be more threatened by the emergence of increasingly fierce competition for export-market shares. And if a country's exports are not just concentrated but concentrated in light manufacturing sectors where investment is more mobile and competition is based more on cost, then the concerns will be even greater.

To gain insights on LAC countries relative sensitivity to the emerging threats, I have compiled data on export profiles of the 32 countries in Latin America and the Caribbean that are participating in negotiations with the US for the FTAA.<sup>3</sup> Using data from the United States International Trade Commission (<http://dataweb.usitc.gov>), I analysed the structure of each country's exports to the US according to 2-digit Standard International Trade Classification (SITC-2) codes. The dataset is constructed to indicate the share of each country's total exports to the US in each SITC-2 category, annually from 1996–2003 and averaged over the eight year period.<sup>4</sup>

The data reveal an extraordinarily low degree of diversification with regard to LAC countries' exports to the US. As Table 1 illustrates, for every country in the region, with the single exception of Brazil,<sup>5</sup> three SITC categories account for greater than two-fifths of total exports to the US. Only four more countries (Mexico, Paraguay, Argentina and Uruguay) fall below the 50 per cent threshold.<sup>6</sup> For the remaining 27 countries, three types of exports account for greater than half of their total exports to the US. In fact, for 14 countries, *one* single type of export accounts for more than 40 per cent of total exports to the US. Table 2 lists these countries, noting the type of export.<sup>7</sup>

In addition to the concentration of exports, we are also interested in precisely what sorts of goods countries are exporting. For many countries the principal exports to the US are in primary products but, the greatest sensitivity to changing production and trade patterns would be expected among countries that rely on exporting light manufactured goods. Table 3 indicates the countries for which light manufactures are one of the country's top five exports to the US. The list includes basic electronics, apparel and footwear, the mainstays of export-processing in the developing world, plus an SITC-2 category for miscellaneous light manufactures.

The data are suggestive. Note, for example, that for seven of the countries in Table 2, the single, ultra-important export is apparel (SITC-2 category 84). Of these seven, five have negotiated RBTAs with the US (El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic), while a sixth (Jamaica) has expressed interest in doing so as part of CARICOM.<sup>8</sup> For Costa Rica, also party to DR-CAFTA, apparel is the single most important category as well, accounting for greater than one-quarter of the country's exports to the US. For Colombia and Peru, which have also negotiated RBTAs with the US, apparel is the third and second most important export to the US, respectively.

Before analysing the politics of RBTAs, it is also worth emphasising the importance of the particular type of market access that LAC countries seek.

**Table 1.** Concentration of export structures to US (1996–2003)

	Country	Top three SITC categories (Sum) (%)
Greater than 90 per cent	Suriname	96.14
	Venezuela	90.68
80–90 per cent	Haiti	88.96
	St Vincent & Grenadines	88.20
	El Salvador	88.18
	Honduras	86.37
	St Kitts-Nevis	84.11
	Ecuador	82.69
	Guatemala	80.56
70–80 per cent	Trinidad & Tobago	77.67
	Belize	76.57
	Nicaragua	76.27
	Jamaica	74.99
	Guyana	73.71
60–70 per cent	Grenada	69.48
	Dominican Republic	68.57
	Antigua and Barbuda	68.13
	Colombia	64.72
	St Lucia	63.51
	Bahamas	62.48
50–60 per cent	Panama	59.35
	Peru	57.45
	Costa Rica	57.07
	Chile	54.85
	Bolivia	53.52
	Barbados	53.44
	Dominica	51.38
40–50 per cent	Uruguay	49.60
	Argentina	49.28
	Paraguay	45.35
	Mexico	43.16
Less than 40 per cent	Canada	37.18
	Brazil	27.16

Source: United States International Trade Commission (<http://dataweb.usitc.gov>).

Countries concerned with the new competitive challenges do not merely seek preferential, better-than-MFN market access, but rather preferential, better-than-MFN market access that is *stable* and *secure*. Here it is important to recall that many LAC (and other developing) countries already enjoy preferential, better-than-MFN access through the GSP and GSP-like programmes. In the LAC region, prominent examples of such programmes include the Caribbean Basin Trade Preferences Act (CBTPA) and the Andean Trade Preferences and Drug Eradication Act (ATPDEA). In fact, the US has a range of such programmes, and a considerable share of developing countries' exports to the US enter under such preferential schemes.<sup>9</sup>

The principal limitation with GSP access and, the source of the instability, is derived from its nature as unilateral concessions that are easily removable and

**Table 2.** Hyper-concentration of exports (Countries where a single export accounts for greater than 40 per cent of the country's total exports to US)

Country	SITC	Description	Share (%)
Venezuela	33	Petroleum, petroleum products, and related materials	86.71
Haiti	84	Articles of apparel and clothing accessories	85.14
El Salvador	84	Articles of apparel and clothing accessories	82.13
Suriname	28	Metalliferous ores and metal scrap	81.21
Honduras	84	Articles of apparel and clothing accessories	76.51
Guatemala	84	Articles of apparel and clothing accessories	56.87
Nicaragua	84	Articles of apparel and clothing accessories	56.35
St Kitts-Nevis	77	Electrical machinery, apparatus and appliances	55.90
Dom. Republic	84	Articles of apparel and clothing accessories	52.54
Colombia	33	Petroleum, petroleum products, and related materials	48.93
Jamaica	84	Articles of apparel and clothing accessories	48.58
Grenada	77	Electrical machinery, apparatus and appliances	43.01
Ecuador	33	Petroleum, petroleum products, and related materials	42.29
St Vincent & Grenadines	3	Fish (not marine mammals), crustaceans, molluscs, and aquatic invertebrates, and preparations thereof	42.13

*Source:* United States International Trade Commission (<http://dataweb.usitc.gov>).

alterable. Countries can be included or excluded and product lines expanded or retracted, not via negotiations between the involved parties but on account of the changing needs and demands of the granting country. That is, alterations to preferences – be they changing coverage of goods eligible for duty-free access or country eligibility and the determination of a country's 'graduation' – are made internally within the US. Certainly, concessions granted under the CBTPA, ATPA and AGOA are more stable than those granted under ordinary GSP programmes, since these are special pieces of legislation, but they still depend on periodic renewal – these are not agreements made with partner countries but concessions granted to partner countries. Precisely because GSP concessions are unilateral and are not bound under the WTO, they can be altered and removed without compensation. A developing country cannot invoke WTO rules and challenge the US (or any other preference-granting country) under the WTO's Dispute Settlement Mechanism (DSM) for revoking a concessionary trade preference.<sup>10</sup>

**Table 3.** Light manufactures (Countries for which basic light manufactures are one of the five most important exports to US)

Country	SITC	Share	Rank (1–5)
Argentina	82	4.46	5
Barbados	77	28.10	1
Belize	84	19.71	3
Bolivia	89	27.88	1
Bolivia	84	8.98	3
Brazil	85	8.62	3
Colombia	84	6.73	3
Costa Rica	84	25.62	1
Costa Rica	75	12.52	3
Costa Rica	77	12.20	4
Dominican Republic	84	52.54	1
Dominican Republic	77	7.63	3
Dominican Republic	89	5.36	4
El Salvador	84	82.13	1
El Salvador	77	1.80	5
Grenada	77	43.01	1
Guatemala	84	56.87	1
Guyana	84	8.26	4
Haiti	84	85.14	1
Haiti	89	1.55	3
Honduras	84	76.51	1
Jamaica	84	48.58	1
Mexico	77	13.32	2
Nicaragua	84	56.35	1
Peru	84	16.71	2
Peru	89	6.49	5
St. Kitts-Nevis	77	55.90	1
St. Kitts-Nevis	76	15.37	2
St. Kitts-Nevis	84	3.54	5
St. Lucia	84	28.64	1
St. Lucia	77	18.53	2
St. Lucia	76	16.35	3
St Vincent & Grenadines	89	39.01	2
St Vincent & Grenadines	77	7.06	3
St Vincent & Grenadines	84	2.86	5

*Note:*

SITC	Description
75	Office machines and automatic data processing machines.
76	Telecommunications and sound recording and reproducing appliances and equipment.
77	Electric machinery, apparatus and appliances.
82	Furniture.
84	Apparel and clothing.
85	Footwear.
89	Miscellaneous manufactured articles.

*Source:* United States International Trade Commission (<http://dataweb.usitc.gov>).

The unilateral, concessionary nature of GSP invites opportunism and abuse on the part of a wide range of interested actors within the importing countries. In the US, for example, import-competing producers find reasons to reduce preferences in given



tariff lines, while users of imported inputs search for reasons to retain or extend preferences. GSP becomes, in short, a ‘political football’ and the extensive GSP hearings conducted and reports compiled by the USTR provide strong – albeit unsystematic – evidence of this phenomenon.<sup>11</sup>

A country’s sensitivity and vulnerability to the manipulation (attempted, threatened and actual) of its GSP benefits constitutes ‘political trade dependence’, which can be measured as the share of a country’s total global exports that enter the US under preferential import schemes. The distinction between trade dependence and *political* trade dependence is critical, for it is the latter that exposes developing countries to political opportunism. The standard measure of trade dependence on the US is a country’s exports to the US as a share of its total exports. Some (see for example, Zeng, 2003) have supplemented this with a measure of asymmetrical export dependence, which takes trade dependence one step further: country X’s exports to the US as a share of total exports relative to US exports to X as a share of total US exports. Neither of these measures address the central problem, however, of exporting countries’ dependence on market access that is concessionary and, thus, their vulnerability to unilaterally-granted concessions being removed. Indeed, all countries that export highly to the US are susceptible to fluctuations in demand derived from the US business cycle and changing patterns of production in the US, but they are not necessarily vulnerable to the sorts of political lobbying that we witness in the case of the GSP. If the US wishes to remove MFN trade benefits from a WTO member, it is highly constrained in doing so and any measures must be done in a non-discriminatory manner. A developing country – even one that is highly dependent on the US for exports – can take the US to the DSM for removing MFN trade benefits. However, countries lack this recourse when the US alters or removes better-than-MFN trade benefits that are made available under GSP schemes.<sup>12</sup> Thus, countries with high levels of political trade dependence may wish to address the problem of vulnerability by locking in and stabilising their preferential access to the US market. RBTAs, which are not subject to renewal and thus not subject to political opportunism, provide a mechanism to obtain this security.<sup>13</sup>

Table 4 presents data on political trade dependence (PTD) for the set of LAC countries over the period 1996–2001.<sup>14</sup> The dashed line marks the mean while the full line marks the median. Note the case of Mexico, which has an extraordinarily high level of export dependence on the US according to standard measures but ranks at the very bottom of this measure. NAFTA locks in and stabilises better-than-MFN preferences. Indeed, prior to NAFTA, Mexico had one of the highest PTD scores in the region while now it is the lowest. Again, the data are suggestive. Countries with higher scores on political trade dependence appear most eager to establish RBTAs with the US. The DR-CAFTA six are all above the median, for example, with Honduras, the Dominican Republic and Nicaragua having PTD scores that are 300–350 per cent above the mean. Likewise, the Andean countries that have negotiated with the US are all above the median as well.

### III. The High Price of Stable Market Access

Although RBTAs promise to solve the problem of political trade dependence, they come at a high price. The US will grant preferential market access that is broad,



**Table 4.** Political trade dependence (Preferential exports to US as share of total exports, 1996–2001)

Country	Political Trade Dependence (%)
Nicaragua	31.4
Dominican Republic	26.7
Honduras	21.2
St. Kitts and Nevis	18.1
Haiti	12.4
Costa Rica	11.9
Guatemala	10.8
Bolivia	9.3
Peru	8.7
Belize	8.5
Trinidad & Tobago	8.3
Uruguay	8.3
Ecuador	7.9
El Salvador	7.7
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Colombia	4.9
Grenada	4.3
Brazil	3.8
Guyana	3.7
Jamaica	3.6
Canada	2.4
Venezuela	2.3
St Vincent & Grenadines	2.2
St. Lucia	2.1
Dominica	2.0
Barbados	1.9
Panama	1.9
Chile	1.8
Argentina	1.0
Paraguay	0.8
Suriname	0.5
Antigua and Barbuda	0.1
Mexico	0.1
Bahamas <sup>1</sup>	—

Note: <sup>1</sup>Total Export data on Bahamas not available in WDI.

Source: The data on preferential exports (numerator) come from the USITC (<http://dataweb.usitc.gov>). The data on total exports (denominator) come from the World Bank's *World Development Indicators*.

stable and unremoveable but only to countries that agree to relinquish a broad range of policy instruments to regulate national economic activity. Parties to RBTAs, for example, agree to reform their policy regimes for investment and intellectual property (IP) in ways that greatly exceed their obligations as members of the WTO.

To illustrate the high price of market access it is useful to contrast the opportunities gained and obligations incurred under RBTAs with countries' opportunities and obligations as members of the WTO. In a basic sense, participation in RBTAs and the WTO entail similar trade-offs. In both cases, greater degrees of 'shallow integration' means that developing countries can receive increased market access for traditional

and non-traditional exports, while greater degrees of 'deep integration' means that developing countries must accept new constraints regarding the management of inward foreign investment and IP (Haggard, 1995; Lawrence, 1996). The central bargain underpinning both sorts of arrangements is that the price to be paid for increased market access is to sacrifice many important and traditional tools of development policy.

Yet each side of this basic bargain is magnified in the case of RBTAs: in exchange for even greater market access, developing countries must relinquish yet more development policy instruments. To put it another way, RBTAs embody an intensification of the WTO bargain (Shadlen, 2005a). The implications for development policy introduced by this intensification are critically important, for the additional constraints imposed by RBTAs are most threatening to the remaining vestiges of industrial policy in developing countries. Countries whose integration into the global economy is guided by their obligations as members of the WTO retain the rights and opportunities to implement industrial strategies that are designed to alter comparative advantages and achieve upward mobility in the international economic order (Tussie, 1997; Amsden and Hikino, 2000). However, the constraints imposed by regional accords effectively eliminate these options. In short, the price to be paid for increased market access under RBTAs is that countries must relinquish the very tools that historically have been used to capture the developmental benefits of integration in the international economy. The following paragraphs consider the deep integration concessions by examining provisions regarding investment and IP.

RBTAs are considerably more restrictive than the WTO in the realm of investment, for they entail broad-based 'investment agreements'. That is, in contrast to the WTO's agreement on Trade-Related Investment Measures (TRIMS), which is narrowly focused on investment measures that are deemed 'trade-related,' RBTAs address investment independently of any measure's relationship to trade. Thus, a country's ability to screen foreign entry, restrict ownership in certain sectors, compel joint ventures and technology transfer, or encourage hiring of local managers, to provide but a few examples of investment measures that remain acceptable activities under the WTO, are greatly reduced (if not eliminated) under RBTAs. In addition, because RBTAs tend to define 'investment' more broadly, covering services and financial flows, the obligations of and limits placed upon states as well as the rights bestowed on investors cover virtually all aspects of the economy.

RBTAs with the US also include provisions for investor-state arbitration, which allow private firms to bring cases against host states.<sup>15</sup> Indeed, RBTAs aim not just to remove investment restrictions (that is, liberalise) but, to provide investment protection and the means to do so is to create a new hybrid legal regime that applies private commercial law to the public domain (van Harten, 2005). From the perspective of developing countries, of course, the extensive prohibitions on state behaviour, the broad definition of investment, and the real possibility of binding arbitration generate strong incentives to minimise the regulation of inward foreign investment. In sum, however restrictive the WTO's TRIMS agreement may be with regard to developing countries ability to manage inward foreign investment (Chang and Green, 2003; Correa and Kumar, 2003: Chap. 4–5; UNDP, 2003: Chap. 12; Wade, 2003), the investment provisions in RBTAs are *significantly* more so.

The magnified restrictiveness of RBTAs is still greater in the case of IP. Like the regulation of inward DFI, the management of IP has historically been a cornerstone of national development strategies, affecting the course by which foreign technologies diffuse throughout local economies (Frischtak, 1995; Maskus, 2000; Chang, 2002; CIPR, 2002). Patents, the key form of intellectual property with regard to development, confer limited monopoly rights to the owners of new, non-obvious and industrially useful ideas.<sup>16</sup> Yet, the monopoly rights are limited in three ways: the rights are non-automatic, in that the 'owner' must apply for a patent and the state must formally grant private ownership rights; the rights are temporally bounded, in that when patents expire what is private property enters into the public domain; and the rights are non-absolute, 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. These limitations – how easy or difficult it is to obtain a patent, how long the exclusive rights last, and the extent to which the patentee can exclude others from freely using the idea and operate independently of state regulations – are established by national patent regimes. The important point to underscore here is that developing countries' patent regimes have typically set these limitations so as to create more opportunities for local firms to access (largely) foreign innovations.<sup>17</sup>

As in the area of investment regulations, countries have significantly fewer options for IP management under RBTAs than under the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Whereas TRIPS substantially reduces countries leeway (Correa, 2000; May, 2000; Matthews, 2002; UNDP, 2003: Chap. 13), thus moving toward harmonisation, RBTAs go significantly further: establishing private rights becomes simpler and more automatic, as states have limited ability to declare certain types of inventions unpatentable; the private rights are longer, for the agreements include provisions that simplify – and at times require – extension of patent terms; and the private rights are more absolute, in that third-party use and the state's regulatory discretion are both significantly circumscribed (Maskus, 1997; Drahos, 2001; Vivas-Eugui, 2003; Oxfam, 2004; Roffe, 2004; Shadlen, 2005a, b).

The objective of the preceding paragraphs has simply been to drive home a basic – but critical – point: stable and preferential access to the US market is only available for countries that are prepared to go far beyond their obligations as members of the WTO. The exchange on which RBTAs are predicated has serious developmental implications. LAC (and other developing) countries can reduce their political trade dependence but the price for stable and preferential access to the US market is to relinquish key aspects of economic policy that developing (and now developed) countries have relied on for centuries (Amsden, 2001; Chang, 2002).

#### **IV. Irresistible Temptation: Fear of Exclusion and the New Domestic Politics of Trade**

One explanation for the proliferation of RBTAs would be that policy makers in some LAC countries reject the logic presented in the previous section. That is, rather than featuring developmentally costly trade-offs, perhaps policy makers regard both stable, preferential market access *and* extensive reform of investment and IP regulations as beneficial. Certainly, arguments about the desire (not to mention

capacity) of countries to regulate inward investment and manage IP are rejected by many economists and policy makers. Yet most LAC countries – even those that embrace the RBTA agenda in the Americas – doggedly seek to retain policy flexibility in precisely these areas in the multilateral arena. Indeed, Colombia, Costa Rica and Peru, each of which has concluded an RBTA with the US, were members of the developing countries' G21 coalition at the WTO's 2003 Ministerial Meeting in Cancún that resisted the US and European Union's efforts to negotiate a multilateral agreement on investment that would replace (and exceed) TRIMS. Likewise, many LAC accept IP commitments in RBTAs that they actively resisted in the WTO's TRIPS Council (Sell, 2003: Chap. 6; Shadlen, 2004). If developing countries were so keen to give up these policy tools, then we would not expect to see the degree of conflict we witness over investment and IP at the multilateral level.<sup>18</sup>

To understand the spread of RBTAs, then, the article will focus on two factors. First, we consider how *international* power asymmetries can alter countries' calculations of the relative benefits and costs of participating – or not participating – in RBTAs with the US. Second we consider how *domestic* power asymmetries affect national policy making. Together, these two aspects of power can make RBTAs irresistible.

The decision to enter or not enter into an RBTA with the US is not made in isolation. To the contrary, one country's decision is made in the context of other countries' decisions. It might be the case that Peru, for example, would be better off by not entering into a RBTA with the US, all other things being equal. Yet all other things are not equal. Peru's neighbours – and competitors for foreign investment and market share – may enter into such agreements. The choice for Peruvian officials, then, is not merely between agreeing or not agreeing an RBTA with the US but rather between agreeing or not agreeing while knowing that Colombian and Ecuadorian officials may go ahead. This possibility changes the payoffs and incentives, for the costs of *not* participating may be excessive when neighbouring countries are negotiating preferential market access.

The logic deployed here builds on Gruber (2000), who argues that weaker countries may participate in plurilateral institutions that are not in their interests simply because other countries may, and the costs of participating, though greater than the previous status quo, are less than the costs of not participating (see also, Guzman, 1997–1998; Steinberg, 2002). Fear of a neighbouring country entering into an agreement with the US effectively changes the status quo, making it in each country's interest to do the same. Once one country negotiates, other countries may feel pressure to do so out from a fear of exclusion.

A key conditioning factor inspiring the fear of exclusion is the US strategy of 'competitive' or 'serial' liberalisation. By proceeding in a graduated and stepladder fashion, negotiating agreements with 'can do' countries, the US generates a 'dynamic in which countries compete to become fuller members of the trading system and better partners of the United States' (Zoellick, 2003). The strategy is designed to make the broader hemispheric project appear more attractive by instilling a fear of marginalisation in non-participating countries. As one USTR official stated, proceeding country by country creates 'an incentive for others to move ahead.'<sup>19</sup>

One consequence of US strategy is that LAC officials know that they are not choosing between agreeing to a RBTA or retaining the status quo but, that there is a

strong likelihood that neighbouring countries will agree RBTAs with the US and they will be left out. Thus, the size and importance of the US market should be regarded as an instrument of power that fundamentally transforms the menu of options confronting officials in LAC countries. Politicians still 'choose' to negotiate or not, but they choose from 'power-constrained choice sets' (Moe, 2005: 227).

Recent developments in the region illustrate this dynamic, in which fear of exclusion gives RBTAs newfound attractiveness. When Colombia agreed to negotiate a RBTA with the US, the status quo for Peru ceased to exist. The Peruvian government had shown little interest in an RBTA with the US, but now, with the pending expiration of the ATPDEA meaning that Peru would receive less favourable access to the US market than Colombia, the costs of not engaging the US were suddenly higher than they had been before the Colombian announcement.<sup>20</sup> Not surprisingly, Peru's preferred policy 'choice' changed; and the subsequent decision by Peru to negotiate with the US placed pressure on Ecuador. The result was that the three countries collectively negotiated an Andean agreement with the US. The collective negotiations stalled, but when the Peruvian government, with the electoral calendar weighing heavily, agreed with the US to proceed separately in 2005, this only increased the pressures on Colombian and Ecuadorian governments to follow suit. In fact, the immediate response of Ecuador's chief negotiator to the US-Peruvian announcement of a RBTA was to acknowledge the increased pressure he now faced to resume – and complete – talks quickly.<sup>21</sup>

Similarly, the Dominican Republic (DR) had little interest in a RBTA but was propelled into action by the initiation of the CAFTA negotiations between the US and the five Central American countries. CAFTA threatened to leave the DR's access to the US market dependent on the CBTPA and thus vulnerable to the vicissitudes of US politics, while locking in Central American exporters' preferential access. Suddenly joining CAFTA or negotiating a separate agreement became a high priority, a change in priorities reflected by the decision to appoint the country's chief trade negotiator as Ambassador to the US.<sup>22</sup> Or take the case of the English-speaking countries of the Caribbean, which had been enthusiastic participants in FTAA. With hemispheric negotiations stalled, the CBTPA set to expire in 2008, and nearby countries in the Caribbean, Central America and the Andes signing their own agreements with the US, CARICOM officials, concerned with ensuring that 'access to the U.S. market is on a very sure and certain footing,' began preliminary discussions with the US as well.<sup>23</sup>

The fear of exclusion motivates large countries too. Consider Brazil's changing strategy vis-à-vis negotiating the FTAA. Brazil was the least interested in the project of hemispheric integration, a fact that should not be surprising given the data presented above. Relative to other LAC countries, Brazil's export profile is considerably more diversified, and Brazil has a low score on political trade dependence. However, once it became clear that negotiations would proceed with or without Brazil, that is the status quo of no FTAA was replaced by the possibility that there might be a hemispheric agreement from which Brazil was excluded, the decision was made for the Ministry of Foreign Relations to participate more actively in the negotiations (van Rompay, 2004). Once the Bush administration received authorisation from the US Congress to proceed with the negotiations,<sup>24</sup> government

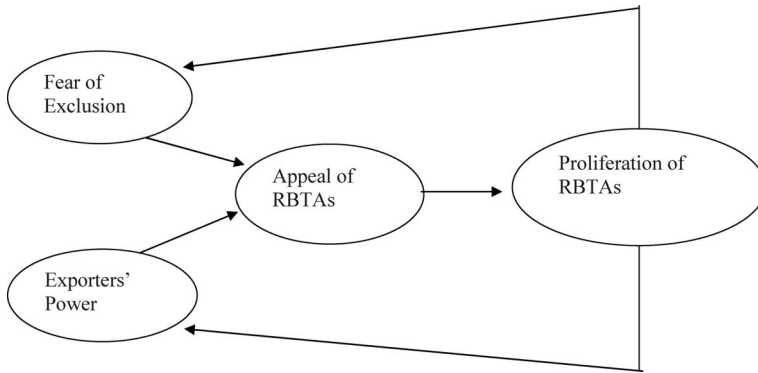
officials and private sector representatives in Brazil found a new sense of urgency. Hence, Brazil assumed the position as ‘co-chair’ and energetically participated in the subsequent negotiations. Though the negotiations have stalled and the future of the FTAA is unclear, the mere fact that Brazil dedicated resources toward negotiating an agreement that the country’s leaders probably wish would simply go away is indicative of how fear of exclusion and the removal of the status quo option can serve as a powerful motivating force.

While fear of exclusion motivates countries to pursue RBTAs, it does not operate independently. Rather, it complements and reinforces domestic political processes that also contribute to the proliferation of RBTAs. Here it is important to underscore the distinct political processes that accompany RBTAs. Notably, the actors within a given developing country who stand to benefit directly from stabilising preferential access to the US market are better positioned politically than those who stand to lose from diminished regulatory capacity. Unlike standard models of trade politics, in which the beneficiaries are expected to be unaware of their potential gains, geographically diffuse and unorganised – and those who stand to lose are expected to be keenly aware of their likely fate, concentrated, and organised (Haggard, 1988; Destler, 1995; Salazar-Xirinachs, 2004; Wise, 2004) – the politics of RBTAs in the developing world generally features well-organised winners who are well aware of how they stand to gain from the proposed policy change, and diffuse and disorganised losers. Also, it is not merely a question of interests but of influence. Those actors within a given developing country who stand to benefit from increased access to the US market have more weight in policy making than those who stand to lose from regulatory harmonisation. Exporting firms operating in already-established export-processing zones, for example, are likely to be better organised and more politically influential than firms that might benefit from regulating inward DFI or technology transfer via alternative arrangements for managing IP.<sup>25</sup>

The asymmetry between winners and losers is particularly likely to be the case in countries that have already liberalised their economies, as many of the sectors and firms most threatened by the sacrifice of industrial policy instruments will have already been displaced, if not eliminated altogether. In short, prior liberalisation and the creation of export-processing zones – events that precede the contemplation of integration – both create the political conditions for RBTAs by eviscerating potential sources of opposition while solidifying and strengthening eventual advocates. Indeed, some of the most persistent resistance to DR-CAFTA, for example, came not from import-competing industries (the ‘usual suspects’) but from consumer groups and health activists concerned that increased patent protection required by the US would drive up the price of medicines and reduce countries’ abilities to secure essential medicines.<sup>26</sup>

It is worth emphasising how these two processes derived from international and domestic power asymmetries reinforce each other. As illustrated in Figure 1, both the fear of exclusion and disproportionate weighting of exporters’ interests make RBTAs more appealing and, thus, increase the likelihood that RBTAs will proliferate. The likely spread of RBTAs, in turn, increases fear of exclusion in non-participating countries and also make domestic exporters relatively more important and influential in domestic political economies. These are, thus, two different – but complementary





**Figure 1.** Mutual reinforcement

and mutually reinforcing – channels by which power affects the spread of RBTAs in the Americas. Once we take power into account, then, negotiating RBTAs with the US becomes a rational policy choice.

## V. Conclusion

Due to increased trade among countries (that is, shallow integration) revealing existing regulatory barriers, it is not terribly surprising that a reduction in global tariff levels would be followed by some push towards coordinating reductions on national regulations (that is, deep integration). Moreover, because sensitive policy areas are generally easier to negotiate in smaller groups, and regulatory co-ordination might be easier among neighbours, it is natural to expect deep integration to advance furthest within distinct regions of the global economy (Milner, 1998). Yet, while this logic offers a compelling explanation of the general trend towards regionalised deep integration, it cannot explain the sudden spike in such agreements in the Americas, or the diversity of interest – either cross-sectionally or longitudinally – in deep integration with the US among Latin American and Caribbean countries.

In this article I have attempted to explain the patterns of deep integration in the Americas (or, more specifically, patterns of interest by LAC countries in RBTAs with the US) by focusing on the interaction between competitive threats derived from globalisation and political power asymmetries. Trade data provide the first insights. The data on export structures allow us to identify countries with minimal export diversification that may be more immediately threatened by globalization; and the data on Political Trade Dependence to highlight the countries that are most eager to solidify and stabilise the preferential access to the US market that they already enjoy. The article supplements the use of trade data by advancing two arguments regarding political power. Internationally, I show how the US can alter the choice countries face from one between RBTA vs. no RBTA, to a choice between RBTA vs. no-RBTA-while-neighbour-has-preferential-access. As the preponderant power of the US removes the status quo, what might otherwise seem an undesirable policy choice becomes better than the alternative (Gruber, 2000). Domestically, we



see that, in contrast to standard models of trade politics, in developing, the immediate beneficiaries of RBTAs are likely to be keenly aware of their expected gains, well-organised and politically influential. Together, the fear of exclusion and the preponderant power of exporters create a self-reinforcing dynamic which contributes to the spread of RBTAs.

In this article, I have presented these three mechanisms as complementary and mutually reinforcing (see Figure 1). Future research using multiple regression analysis could provide more systematic weighting of the relative importance of each mechanism, and the conditions under which some factors matter more than others. The challenge to such analysis, however, is settling on a useful measure of the outcome. Since all the LAC countries have been involved in negotiations for the FTAA, it might make more sense to use a simple binary coding of whether or not a country is negotiating an RBTA with the US. Yet, such a blunt measure risks introducing more ambiguity. For example, many countries have expressed intent to negotiate, others have begun negotiating, some have completed agreements that have not yet been ratified locally (or in the US), and yet others are complete. Negotiations proceed with strange and unorthodox rhythms, with the course from initiation to completion often including breakdowns and standstills. The difficult questions of whether these are analytically important distinctions that are worth explaining, and if so how to operationalise such distinctions in such a way as to avoid inappropriately biasing the results, must be addressed *prior* to embarking on coding and subsequent data analysis. The concern is that any efforts to do so risk obscuring more than clarifying.

As a final point, it is worth considering some important implications for LAC countries of globalisation and competition that the article has neglected. The focus has been on LAC countries' manufactured exports. However, globalisation – and particularly the rapid growth in south-east Asian countries with different geological and resource profiles – creates opportunities for increased exports in primary products as well. Take the case of China, for example, which has of course emerged as a major exporter of manufactured goods to the US. China is also a major importer. Rapid industrialisation has created an explosive demand for capital goods, machinery, petrochemicals and basic commodities (metals, ores, copper, nickel, zinc, aluminum, iron and so forth). China consumes one-fifth to one-third of global trade in alumina, iron ore, zinc, copper and stainless steel, and in absolute terms China was the third largest importer in the world in 2003, behind only Germany and the US.<sup>27</sup> This creates opportunities for exports that many LAC countries have exploited (for example, Brazilian soy, Argentinean cereals, Chilean and Peruvian copper). Yet, specialising in primary product exports is questionable as a development strategy. The exploitation of primary products tends to have comparatively few positive externalities (in contrast to manufactured goods), and in any case commodity prices are likely to feature similar sorts of volatility as they historically have done (Ocampo and Martin, 2003). In the simplest terms, then, *increasing* specialisation in primary products might be regarded as a reversal of development. These are not new problems; indeed, most development thinking in the post-world war II period has responded precisely to the challenge of how to diversify away from specialisation in primary products. Yet, responding to the competitive threats posed by globalisation by entering into RBTAs with the US, LAC countries

may be relinquishing the very tools they would need to move into higher value-added positions in industrial value chains.

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### **Notes**

1. The US agenda clearly extends beyond the western hemisphere, as RBTAs have been signed or are being negotiated with a wide range of developing countries in Asia (Korea, Malaysia, Thailand, Singapore), North Africa and Middle East (Bahrain, Jordan, Morocco, Oman) and sub-Saharan Africa (Southern African Customs Union). In the latter case, negotiations were terminated in early 2006.
2. In fact, country-size cannot account for cross-national variation either, for a number of comparatively large developing countries have been engaged in negotiations for RBTAs with the US (for example Colombia, Malaysia, South Africa, South Korea and Thailand).
3. This includes every sovereign country in South and Central America and the Caribbean with the exception of Cuba.
4. The full dataset is available from the author upon request.
5. Canada is included in the tables but not discussed in the text.
6. Two of the countries (Argentina and Uruguay) just squeeze in below the bar, only thanks to non-rounding in the case of Uruguay.
7. When the (admittedly arbitrary) threshold is lowered to 30 per cent, the list grows by seven. That is, for 21 countries, a single SITC-2 category accounts for more than 30 per cent of their exports to the US.
8. Haiti no doubt would be interested if the island were not consumed by other problems.
9. The African Growth and Opportunity Act (AGOA), for example, is also a GSP-like programme. See Mattoo et al. (2003). GAO (2001) presents a comparison of GSP schemes administered by the US and EU.
10. Although a recent case between India and the European Union over the EU's GSP scheme threatened to eliminate some of this discretion, the appellate board's final ruling essentially upheld the right of countries to extend and apply their GSP schemes in a discriminatory fashion. Developed countries retain the ability to make alterations on their own and without either consulting or compensating affected developing countries. See: WTO appellate body: differentiation possible under preference schemes. *Bridges Weekly Trade News Digest*, 8(14), 22 April 2004. Accessed at <http://www.ictsd.org/weekly/04-04-22/story4.htm>
11. The emphasis here is on changes in trade coverage but one could also refer to changes in countries eligibility as a function of conditionality. More generally, the existence of non-reciprocal conditions invites opportunism, as the actors designing the conditions know that they will not have to live by the conditions they create for others (Kapur, 2005).
12. Again, the India-EU case qualifies – though does not gainsay – this point.
13. An alternative strategy for reducing political trade dependence is to diversify export markets.
14. The table has 31 countries, because the denominator (total exports) is unavailable for the Bahamas.
15. In the WTO, in contrast, only countries can bring cases against other countries. This is because the WTO is an inter-governmental body; private firms are not party to the organisation.
16. These are the three basic criteria that define an invention as patentable.
17. Given that most patentable innovation occurs in wealthier countries, developing countries' patent regimes essentially set the terms by which foreign ideas are acquired and put to use locally.
18. Moreover, if policy makers and important constituencies regarded these changes to national investment and IP regimes as desirable, they could implement such changes unilaterally, without any negotiations in RBTAs.

19. Comments of the then Deputy USTR, Peter Allgeier, cited in: Chile: a giant step toward free trade across the Americas? *Business Week*, 16 June 2003.
20. Note that the entire process occurs in the context of the US announcement that the ATPDEA would not be extended beyond 2007.
21. EE.UU. Cierra TLC con Perú. *El Universo* (Ecuador), 8 December 2005. While Ecuador's negotiations continue at the time of writing, Colombia and the US finalised an RBTA in February 2006.
22. DR-CAFTA: negotiation opens opportunities. *Financial Times*, 10 March 2006.
23. Caribbean bloc considers free trade talks. *International Herald Tribune*, 13 April 2006.
24. The US Executive does not need congressional approval to negotiate but it does so less enthusiastically without a commitment that the legislature will vote to approve or reject the agreement as a whole, not individual clauses and chapters. This used to be called 'fast track' and has been renamed 'trade promotion authority'.
25. In short, the leading sectors in many countries – the most entrepreneurial and internationally integrated firms that have established relationships with buyers – are in a position where in order to survive in the new competitive environment, they need policy makers to accept a range of deep integration obligations demanded by the US. And they have the power to secure this bargain. This scenario, of course, presents a new twist on a long-standing line of reasoning that has regarded the interests of most internationalised segment of local capital as potentially in conflict with countries long-term development prospects (O'Donnell and Linck, 1973; Cardoso and Faletto, 1979: Chap. 6; Evans, 1979; Shafer, 1994).
26. In Costa Rica strong opposition came from public sector workers on account of concerns that DR-CAFTA would require privatisation of key state utilities.
27. *Financial Times*, 6 November 2003.

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