

LATIN AMERICAN TRADE AND DEVELOPMENT IN THE NEW INTERNATIONAL ECONOMY

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- GLOBALIZATION AND DEVELOPMENT: A LATIN AMERICAN AND CARIBBEAN PERSPECTIVE.* Edited by José Antonio Ocampo and Juan Martín. (Stanford: Stanford University Press, 2003. Pp. 232. \$25.95 paper.)
- FREE TRADE FOR THE AMERICAS? THE UNITED STATES' PUSH FOR THE FTAA AGREEMENT.* Edited by Paulo Vizentini and Marianne Wiesebron. (London: Zed Books, 2004. Pp. 240. \$75.00 cloth, \$22.50 paper.)
- THE STRATEGIC DYNAMICS OF LATIN AMERICAN TRADE.* Edited by Vinod K. Aggarwal, Ralph Espach, and Joseph S. Tulchin. (Stanford: Stanford University Press, 2004. Pp. 294. \$60.00 cloth, \$27.95 paper.)
- TRADE POLICY REFORMS IN LATIN AMERICA: MULTILATERAL RULES AND DOMESTIC INSTITUTIONS.* Edited by Miguel F. Lengyel and Vivianne Ventura-Dias. (New York: Palgrave Macmillan, 2004. Pp. 256. \$79.95 cloth.)

Little is the same in the international economy since the 1980s. New patterns of investment, production, and trade (i.e., "globalization") present fundamental challenges to governments, firms, and social actors across the board. New forms of governance in the international political economy create new opportunities but also place constraints on what sorts of policies are feasible. Countries that are members of the World Trade Organization (WTO), for example, accept multilateral disciplines on a broad range of economic policies, from how they set and adjust levels of tariffs and subsidies, to how they regulate the entry and operations of foreign investors, to how they go about granting and protecting intellectual property.

Yet globalization and the increased scope of multilateral governance have been accompanied by trends toward regionalization as well.

Throughout the world, we see more firms participating in global markets and more countries participating in global institutions, and we also see more countries pursuing regional arrangements. Regionalism, Ventura-Dias suggests in the introduction to her co-edited volume, is a coping strategy in a world that features more complex and intrusive forms of global economic governance: regional negotiations promise policymakers greater control over the “pace, sequence, and direction” of economic policy (12).

The countries of Latin America and the Caribbean (LAC) evince little deviation from these trends. Virtually every country in the region has adopted “export-oriented” trade and “open” investment regimes and virtually every country is a member of the WTO. At the same time, the region has experienced a spike in bilateral and plurilateral trade and investment agreements. While Latin America has always featured a dense network of regional agreement initiatives, the most salient aspect of the new regionalism in the Americas is the inclusion of the United States (and Canada). Mexico signed the North American Free Trade Agreement (NAFTA) in the early 1990s, and Chile completed a similar agreement with the United States in 2002. More recently, the United States has concluded (or is in the process of negotiating at the time of writing) agreements with the five countries of Central America and the Dominican Republic (DR-CAFTA); Panama; and Colombia, Ecuador, and Peru. And, of course, since 1994 negotiations have continued for the Free Trade Agreement of the Americas (FTAA), a hemispheric agreement including all thirty-four countries in the region (except Cuba).

The broad changes in the global economy and, importantly, the LAC countries’ position in and reaction to such changes are the subject of these four books. *Globalization and Development* emphasizes three fundamental asymmetries that mark the contemporary global economy, and any analysis of international development needs to take these issues seriously. First, our attention is drawn to the realm of credit and finance: the international political economy generates asymmetric vulnerabilities to pressures for pro-cyclical fiscal and monetary policy. Although private capital inflows tend to be pro-cyclical in all countries (i.e., capital is most available and accessible when economies are in good shape), in the developing world *outflows* demonstrate strong pro-cyclical tendencies as well (i.e., capital becomes hardest to access when it is most needed). Of course, that financial integration can limit policy autonomy is an axiom of macroeconomics, but the concern expressed here is that the constraints on policy are dramatically greater in developing countries. More to the point, the pressures and constraints are arguably perverse: rather than stimulating growth via looser monetary or fiscal policy, countries in recession or suffering from adverse external shocks

face pressures to raise interest rates and reduce government spending so as to prevent further capital outflows.¹

The second asymmetry regards the location of technical progress and the link between technological change and productive investment. Knowledge-generation and innovation are universal—everyone comes up with new ways of doing things every day. No one who has spent any time in the developing world could fail to see the extent of innovativeness and adaptability as individuals, families, and firms adjust to changing conditions. But not all innovation is the same, and the international political economy rewards some sorts of knowledge and innovation more than others. In particular, the emerging regimes on intellectual property and investment concentrate both the creation and the use of knowledge. Data on patenting, for example, indicate that the sorts of innovations that become treated as private property occur almost exclusively in North America, Western Europe, and Japan; the barriers to technological dissemination have been raised by agreements such as the World Trade Organization's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The result is intense concentration of technologically-intensive industrial production. As Table 2.8 (59) indicates, to the extent that industries are characterized as being technologically advanced, their productive activities are found in a reduced number of countries and small number of locations within each country. The subsequent problems include the restricted location of spillovers, externalities, and the other benefits of using and exploiting cutting-edge knowledge, as well as the increasing costs that the international political economy (e.g., TRIPS) places on developing countries' abilities to access technological innovations.

The third (and most obvious) asymmetry regards the relatively high mobility of capital in comparison with labor. While international liberalization of finance and trade—and importantly here, trade in many services that had previously been conceived as “nontradeables”—has dramatically reduced barriers to the cross-border movement of capital, we see little progress in terms of removing barriers to the movement of human service providers, i.e., people.²

From a development perspective, the asymmetries are stark and unmistakable: poorer countries in need of higher rates of economic growth are frequently compelled to implement more austere economic policies in the face of global economic turmoil; poorer countries contribute to global technological innovation but experience significantly

1. Wibbels (2006) develops this argument in greater detail.

2. To the contrary, in many countries barriers to immigration have been heightened in the post-9/11 environment.

less of the benefits; and the factors in abundance in poorer countries face significantly more impediments to seeking returns on a global scale than is the case for the factors in abundance in wealthier countries.

Ocampo and Martin criticize these asymmetries and present an ambitious agenda for change (chapter 5, "An Agenda for the Global Era"). As is often the case with texts of this sort, there is a bit of a "pie in the sky" tone to the recommendations, and one can certainly question the feasibility of the proposals put forward.³ But *Globalization and Development* should fit neatly into classes on Latin American development, particularly classes that take seriously the international context. It is concisely presented and the extensive figures and charts make it easy to digest. From a research perspective, whatever one thinks of the feasibility and the desirability of the solutions advocated by Ocampo and Martin, the fundamental asymmetries they note can hardly be denied and should provide the backdrop for all work on the international political economy of development.

Whereas *Globalization and Development* analyzes the international architecture, the remaining three books address the particular issue of trade and economic integration in the Americas. In *Free Trade for the Americas?* Paulo Vizentini and Marianne Wiesebron present a collection of essays that originated in an April 2002 conference in the Netherlands. The volume, centered on the FTAA itself, places the agreement (or, more accurately, given its uncertain status, the negotiations for a projected agreement) in the larger context of a strategy by the United States for global economic restructuring. That is, the FTAA is treated as a piece of the United States' larger global political and economic strategy, one that appears focused on the Americas but ultimately has global reach and significance. For example, Dorval Brunelle links contemporary North American interest in the FTAA to longer histories of the United States exerting influence over economic and political change in the hemisphere, such as the Monroe Doctrine and the Alliance for Progress.

Some of the most refreshing and provocative contributions are precisely those that adopt global and extra-regional perspectives. Willy J. Stevens and Pitou van Dijck examine European responses to intra-American integration. Stevens compares the FTAA with the economic partnership agreements that the European Union (EU) has with some LAC countries, noting that the EU's agreements include more "political dialogue." Van Dijck addresses the standard question that economists ask about preferential trading schemes: is the FTAA likely to be trade-creating or trade-diverting? That is, we remain confident that reducing barriers to trade will increase trade among the parties involved,

3. And, no doubt, those less persuaded by the authors' structuralist orientation may question the desirability of the proposed reforms as well.

but we do not know if this will increase or decrease *global* trade. Of course, any answer at this point must be highly speculative, since critical issues such as the breadth, scope, and pace of tariff reductions and rules of origin are unresolved; any estimation of the global effects of the FTAA must take into account how the EU and other large trading entities react. Thus, van Dijck examines a range of potential responses (e.g., negotiating their own agreements with LAC countries and groups, extending GSP schemes, tabling new proposals in the WTO) and assesses the likely impact of an FTAA in combination with Europe's reaction. It is a thoughtful—and thought-provoking—analysis, though, as I shall discuss below, the continued emphasis on the standard, static assessment metrics may not be the most appropriate for capturing the longer-term and dynamic effects of the sort of economic integration being contemplated in the agreement.

Finally, two chapters offer brief considerations of Asian responses to the FTAA. Yang Zerui and Mitsuhiro Kagami expect China and Japan, respectively, to be negatively affected by closer integration in the Americas. Their assessments extend beyond concerns about trade and investment diversion, as the authors question how integration may contribute to greater U.S. hegemony, and how the FTAA may affect the U.S. orientation toward Asia, Asian regionalism (e.g., APEC), and the multilateral trading system.

Whereas *Free Trade for the Americas?* retains a largely global focus (the only LAC country analyzed specifically is Brazil), the next two books deal directly with Latin American trade politics. *The Strategic Dynamics of Latin American Trade* and *Trade Policy Reforms in Latin America* aim to analyze and explain changes in contemporary Latin American trade policies.

Strategic Dynamics is divided into three sections. The editors' two introductory chapters establish a framework for analyzing and assessing Latin American trade strategies. They are keen to emphasize that trade policy is part of trade strategy, which itself contributes to each country's broader foreign policy objectives. The second section provides broad overviews of key themes in trade politics: how different forms of private sector organization and state-business interaction affect trade policy (Sylvia Maxfield), the core issues at play in the FTAA negotiations (Carol Wise), and the proliferation of regional trade agreements in the Americas (José Salazar-Xirinachs). The third section consists of case studies that attempt to apply the editors' framework to the cases of Argentina (Eduardo Albin and Roberto Bouzas), Brazil (Pedro da Motta Veiga), Chile (Osvaldo Rosales), Mexico (Antonio Ortiz Mena), and MERCOSUR (Alcides Costa Vaz). The editors provide synthesis and some concluding remarks in the final chapter to what is an impressively coherent volume.

Trade Policy Reforms is organized around the question of how countries respond to the new international environment, particularly the implications of membership in the WTO and the opportunities and constraints presented by the array of regional and bilateral initiatives in the region. Ventura-Dias opens the volume with an insightful essay that lays out the new terrain and points to the imperative that governments—even liberalizing governments—face in continuing to promote national interests in changing economic contexts. The book then features seven chapters that address these issues in Chile (Verónica Silva), Mexico (Ortiz Mena), Argentina (Diana Tussie, Gabriel Casaburi, and Cintia Quiliconi), Brazil (da Motta Veiga and Ventura-Dias), Uruguay (Marcel Vaillant and Ventura-Dias), Colombia and Venezuela (Juan José Echavarría and Cristina Gamboa), and Peru (Alan Fairlie Reynoso).

The two volumes serve as excellent references for trade policy in Latin America. The twelve essays present rich empirical material and insights on patterns of policy change and the interaction between domestic interests, state institutions, and changing external environments. Any lingering myths of uniformity in trade policy will be dispelled. Though space constraints preclude discussion of the individual chapters, I wish to underscore how useful these volumes will be for teaching and for scholars embarking on country-based research.

Notwithstanding the many attributes of these books, the reader (or, at least, this reader) wishes that two vitally important aspects of regional trade and integration had received more attention. First, scholars need to acknowledge more explicitly and more consistently the distinct characteristics of North-South trade and investment agreements. These agreements are only partially about trade; they are also about harmonizing core regulatory instruments. These characteristics pose different challenges for economic and political analysis. Second, we need more careful assessment of how power asymmetries affect national trade strategies. Domestic interests and national institutions may ultimately drive policy choice, but developing countries are not selecting from an unlimited menu of options. To the contrary, choice of trade strategy is constrained in the most basic and fundamental way: another country in the region sets the agenda and thereby limits what choices are feasible. Neither of these points is entirely new, nor are they entirely neglected by the contributors to these volumes. But raising them from the status of footnotes and passing references to the starting points of analysis puts the politics of regional economic integration in new light.

RETHINKING THE ECONOMICS AND POLITICS OF REGIONAL TRADE AGREEMENTS

Regional and bilateral trade agreements (RBTAs) between the United States and LAC countries are built on an exchange: developing countries

receive preferential access to the U.S. market, but the price of preferential access is extensive reform of regulatory institutions (Shadlen 2005). The United States promises to remove most tariff and non-tariff barriers to LAC exports, and LAC countries promise to adopt regulations that facilitate U.S. firms' entry and local operations. Thus, the "trade" agreements are about much more than trade; they include agreements on the treatment of foreign investment, the management of capital flows, and the establishment and protection of intellectual property, to provide three examples. Of course, these agreements feature reciprocal obligations, but attaining access to comparatively small Latin American markets is clearly a less significant concern for the United States, nor is there reason to think that LAC countries are driven by a quest for regulatory reform in the United States.⁴ Thus, as Wise rightly notes in her contribution to *Strategic Dynamics*, the parties arrive at the bilateral and regional negotiations with markedly different motivations and projects.

Thinking about RBTAs as a bargain with one group seeking improved market access and the other seeking regulatory reform allows us to compare regional trade politics with multilateral trade politics. After all, the agreements that emerged out of the Uruguay Round of trade regulations, the body of international rules and regulations that are overseen by the WTO, are based on a similar exchange. Developing countries received promises of increased market access in the form of agriculture and apparel finally being made subject to multilateral trade disciplines, but the price of market access was acquiescence to demands from the United States and Europe for inclusion of agreements on trade in services, investment, and intellectual property. But at the regional and bilateral level *more* market access is promised in exchange for *more* regulatory reforms. Regional and bilateral agreements, thus, constitute an intensified version of the Uruguay Round bargain.

An "intensified" exchange may be better, but it may also be worse. More market access sounds good, but more steps toward regulatory harmonization may be worrisome. It is notable that the new rules embodied in RBTAs would most likely exacerbate two of the three structural asymmetries discussed in *Globalization and Development*: strict prohibitions on most forms of capital controls may not just increase exposure to volatility but also diminish countries' ability to react with counter-cyclical measures; and easier granting and increased protection of intellectual property threatens to further raise the costs of accessing knowledge. The FTAA agenda does not directly address immigration and labor mobility.

4. This is not to say that the reciprocal obligations are not consequential, only that they ought not to be regarded as the most important attributes of the agreements.

A broader point that emerges from this is that we may wish to re-think the dynamic developmental implications of trade agreements that feature regulatory harmonization. As Salazar-Xirinachs points out in his contribution to *Strategic Trade*, precisely because RBTAs address national regulations (i.e., deep integration), standard economic analyses that focus on effects of border measures on trade flows (i.e., trade-creation versus trade-diversion) are “seriously deficient” (150). Yet this observation is relegated to an endnote, buried at the back of the chapter, and most of the work continues to rely—implicitly and explicitly—on conventional assessment criteria.

In addition to different economics, the new regionalism may entail unconventional politics as well. Unlike standard models of trade politics, which depict the “winners” as diffuse and weak and the “losers” as concentrated and strong, the politics of RBTAs in the developing world generally feature well-organized winners who are acutely aware of how they stand to gain from proposed policy change and diffuse and disorganized losers. And 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 U.S. market typically have more weight in policymaking than those who stand to lose from regulatory harmonization. Exporting firms operating in already-established export-processing zones, for example, are likely to be better organized and more politically influential than firms that might benefit from regulating inward direct foreign investment or technology transfer via alternative arrangements for managing intellectual property. This is particularly likely to be the case in countries that have already liberalized their economies, as many of the sectors and firms most threatened by the sacrifice of industrial policy instruments will already have been displaced, if not eliminated altogether. Thus, *contra* standard models of political economy, it is the opponents to RBTAs in developing countries that are likely to be politically impotent.

POWER, POLITICS, AND REGIONAL TRADE AGENDAS

International agreements, in general, are entered into voluntarily. Countries join organizations and sign accords as they deem appropriate; nobody makes countries join the WTO or RBTAs. This is all true, but by depicting international political economy in this way we fail to appreciate how the overwhelming power of one country—the United States—affects the entire trade and integration process.

Consider a fourth asymmetry, the asymmetrical ability of countries to walk away from negotiations. Because an RBTA with a smaller country will have only marginal effects on the U.S. economy and bring only marginal benefits to business constituencies, the economic and political

repercussions of walking away from the negotiations are minimal. In contrast, a threat by, say, Nicaragua to abandon the DR-CAFTA negotiations if it does not get what it wants from the United States lacks credibility. A LAC government that refuses to participate in negotiations faces lost export opportunities and the risk of neighboring countries gaining export shares at its expense, and such a government then faces the wrath of business constituents in the export sector. Nicaragua may “choose” to negotiate, but once the negotiations have begun the costs of choosing to do otherwise may be prohibitive. Or take the case of the three Andean countries that were collectively negotiating a RBTA with the United States. When the Peruvian agreement, with the electoral calendar weighing heavily, agreed to accelerate negotiations and proceed separately, this only increased the pressure on Colombian and Ecuadorian governments to ink their own agreements.

That one country and only one country involved has what Lloyd Gruber (2001) labels “go-it-alone power” exacerbates and amplifies all the pre-existing inequalities in bargaining capacities. Preponderant power means that issues reflecting the goals of the United States are firmly locked into the agenda, while issues that the United States regards as threatening tend to be diluted or removed from the agenda altogether (Phillips 2005). Nicaragua’s trade representative readily admits that her country accepted disagreeable aspects of DR-CAFTA because otherwise the agreement would not gain approval in the U.S. Congress.⁵ Guatemala changed its rules on intellectual property when the United States threatened to exclude Guatemala from the agreement so long as it retained a law that accelerated the entry of generic drugs.⁶ Colombian delegates from the health ministry resigned in the course of the negotiations to protest the United States’ inflexibility on intellectual property. Examples abound. To be sure, the United States makes concessions too, but at the end of the day the fact remains that Nicaragua, Guatemala, and Colombia have nowhere else to go for an RBTA, while the United States could enter into agreements with or without these individual countries.

Or take Brazil, Latin America’s largest country. In *Free Trade for the Americas?* Vinentini depicts the FTAA as a product of strategic interaction between the United States and Brazil, as the two giants compete to make the hemispheric accord conform to their sub-regional arrangements. There is no denying that the United States and Brazil are the

5. Interview with Alicia Martín, chief negotiator for Ministry of Development, Industry, and Trade, “La suerte está echada.” *El Observador Económico*, Edición 144, February 2004. (www.elobservadoreconomico.com/archivo/144/portada1.htm)

6. Médecins Sans Frontières, “Data Exclusivity & Access to Medicines in Guatemala,” February 2005. (http://www.doctorswithoutborders.org/news/2005/access_guatemala_briefingdoc.pdf).

major players, but here too the United States' "go-it-alone power" is evident. After all, Brazil initially opposed the entire FTAA project. As the ambassador, who would eventually become the co-chair of the negotiations, has explained, "we did not want to constrain our capacity to adopt scientific, industrial, health and educational policies which are fundamental to foster development. We know the effects of some WTO agreements such as TRIPS and TRIMS on our ability to legislate in some very specific and sensitive areas, such as our capacity to produce generic drugs, and there was no reason why we should accept to deepen this experience in the Hemisphere" (Bahadian 2004). As Jan van Rompay's review of Brazil's changing strategy vis-à-vis the FTAA reveals, only when it became clear that negotiations would proceed with or without Brazil was the decision made for Itamaraty to participate more actively. Once the Bush administration received authorization from the U.S. Congress to proceed with the negotiations,⁷ government officials and private sector representatives in Brazil found a new sense of urgency. Hence, Brazil takes the position as "co-chair" and energetically demands reciprocal concessions from the United States. Brazil certainly has more bargaining power than Guatemala or Nicaragua, but the mere fact that it is dedicating resources toward negotiating an agreement that the country's leaders probably wish would simply go away is indicative of U.S. power.

One author who does explicitly address Gruber's work is Antonio Ortiz Mena, whose fine chapters in *Strategic Trade* and *Trade Policy Reforms* review Mexico's transformation from a relatively closed economy to a major international trading state that is active in the WTO, a signatory to NAFTA, and which has an array of bilateral and regional agreements as well. Ortiz Mena recounts a familiar story: trade liberalization in the mid-1980s made the search for export markets imperative, but stalemate in the Uruguay Round trade negotiations and lack of interest on the part of European governments whose own attention was drawn eastward encouraged the government of Carlos Salinas de Gortari to look directly north. Mexico's sudden enthusiasm for a trade agreement with the United States, after resisting overtures for decades, was a product of Salinas's decision to "make the most of Mexico's proximity to the world's largest economy" (221). Ortiz Mena focuses on Mexico's search for export markets and policymakers' autonomous choice. In doing so, he emphasizes that his explanation differs from that of Gruber (2001),

7. The U.S. Executive does not need congressional approval to negotiate, but it does so less enthusiastically without a commitment that Congress 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."

who suggests that the 1988 FTA between the United States and Canada changed the calculus of Mexican policymakers.

But far from rival, the two arguments are entirely compatible. Once Mexican officials (and leading firms) became serious in their search for export markets and turned their attention to the U.S. market, for reasons that Ortiz Mena aptly provides, it is perfectly feasible that they should concern themselves with their terms of market access relative to another country that also has close proximity to the United States and that also depends heavily on the U.S. market: Canada. If the structure of Mexican and Canadian exports to the United States demonstrated considerable overlap, as Gruber suggests, then officials and firms in Mexico could have regarded the U.S.-Canadian FTA as putting them at a severe disadvantage.⁸ Mexico “chose” NAFTA, but it was selecting from a menu—an agenda—that was shaped by its more powerful neighbors. Mexico was choosing from a “power-constrained choice set” (Moe 2005, 227) and only from such a choice set.

To conclude, these four books provide rich insights into the challenges that broad changes in the global political economy present to developing countries. They make us think about the complex relationships between regional, inter-regional, and global politics of economic integration, and they help us understand the diversity of responses in eight different LAC countries. In doing so, they will be invaluable for teaching, and they should inspire additional research into the politics of regional integration. Such research, it is hoped, will take seriously the enduring asymmetries that Ocampo and Martin identify, draw attention to the distinct economics and politics associated with the new regionalism, and explore how power asymmetries influence policy choice by first shaping negotiating agendas and bargaining strategies.

8. On account of the highly aggregated data that Gruber uses, his assessment of competitive export structures is not entirely convincing, but Gruber’s work is not under review here—and in any case, that is not the grounds on which Ortiz Mena dismisses Gruber’s argument.

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