



Trading Away Stability and Growth:
United States Trade Agreements
in Latin America

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Abstract

Since the early 1990s Latin American nations have been signing trade treaties with the United States that have brought small gains and high costs. Pending deals between the United States and Colombia and the United States and Panama are no different. Each is based on the same template that has been the cornerstone of US trade policy since the North American Free Trade Agreement (NAFTA). This paper analyses general equilibrium estimates of the gains from trade from numerous Latin American-US free trade agreements (FTAs) from the 1990s to the present, and juxtaposes such gains with the fiscal and regulatory costs associated with those treaties. It is clear that these nations are signing deals where the net benefits are ambiguous at best. Indeed, estimates show that the US-Colombia trade treaty pending in the US Congress would yield negative net welfare benefits for Colombia, cost the Colombian government \$633 million in tariff revenue, and force Colombia to deregulate its financial and other sectors. The rest of the paper examines why Latin American nations would sign on to treaties that may not be in their interest. It is shown how many of the treaties signed are a result of asymmetric bargaining power between the US and a Latin American trading partner, a “race” to gain access to the US market before their competitors do, the dominance of right-

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wing political parties in Latin American countries at the time of negotiation, and a pervasiveness of “neo-liberal” ideas throughout elite decision-making circles throughout the nations that choose to sign treaties with the US.

Introduction

Over the past 20 years many nations from Latin America and the Caribbean (LAC) have signed and ratified free trade agreements (FTAs) with the United States. These agreements lock-in and expand the preferential access to the US market that LAC nations have enjoyed for some time. In exchange for preferential access to the largest economy in the world, LAC nations have agreed to provisions regarding financial services, intellectual property, foreign investment and beyond that go far ‘deeper’ than commitments under the World Trade Organization (WTO). This paper builds on previous work (Gallagher, 2008; Thrasher and Gallagher, 2010) to examine the extent to which those deeper commitments curtail the ability of LAC nations to deploy adequate policies to diversify their economies for development.

The first section of the paper presents a theoretical framework regarding the political economy of signing US-style free trade agreements from a development perspective. Section two examines the extent to which recent treaties impact the ability of nations to deploy counter-cyclical and monetary policies. Section three discusses the extent to which these treaties grant sufficient policy space for industrial development. The final section summarizes the main arguments of the paper and raises some political economy questions regarding why LAC nations are willing to forego so much more policy space than those same nations are willing to accept at the WTO.

I. Trade Politics and the Development Process

The politics of trade in nations that still hope to ‘catch-up’ with higher income nations needs to be treated differently than the political economy of trade in the developed world. In most mainstream discussions, the political economy of trade is dominated by extensions of the Ricardian, Heckscher-Ohlin, and especially Stolper-Samuelson (S-S) models of trade, to the political realm. Such extensions are inadequate for analyzing countries in the development process because developing countries need to *change* the structure of their economies toward sectors where they do not yet enjoy a comparative advantage. Traditional economic and political analysis examines or assumes a situation whereby a nation seeks to improve prospects for sectors where it already has a comparative advantage. Any theoretical approach that starts from a static perspective then will be very limited.

Textbook neo-classical trade theory stresses the need to liberalize those sectors where a nation enjoys a comparative advantage-- in the present. Under a trade treaty, exports will expand in those sectors where a nation enjoys a comparative advantage. Extensions of S-S models refer to those sectors as the “winners.” The “losers” are those domestic sectors that have to face import competition with trading partners that have a static comparative advantage in a given good at the time. The “winners” are obviously strong advocates for the treaty and the losers are more often than not, against. Most mainstream political analysis thus analyses how the winners politically organize in order to get a treaty passed—at both the international and domestic level. When the theory is taken at face value and the treaty does not pass, these analysts assume a collective action problem exists whereby the losses to the losers are seen to be highly concentrated but the gains to the winners are too dissipated (see

Aggarwal et al, 2004). In addition to the producer surplus that could be gained through exporting new goods where the nation has a comparative advantage, consumers experience a welfare effect from cheaper imports. Yet a collective action problem exists because the consumer beneficiaries are too scattered to organize in their interest and thus a coalition among the consumer and producer beneficiaries is not strong enough to defeat the protectionists that do not want to face import competition.

All this economic and political activity takes place in an assumed world where comparative advantages are static and that nations literally “enjoy” the comparative advantages they hold at the time of a trade negotiation. The process of economic development is to fundamentally change the structure of an economy from one based largely on a handful of primary products to a more diversified economy that can be competitive in a variety of commodities as well as in industry and the newly dynamic services sector. That means that a nation wishes to develop new comparative advantages in the future. There is a long history of theoretical perspectives on diversification or building dynamic comparative advantage that is much too vast to cover here (see Ocampo et al, 2009; Lall, 2005, and Jomo, 2005). What is common throughout this literature is the need for the state to play a role in economic diversification because the market will not automatically bring about such diversification.

There are thus at least three key issues that need to be overcome in such a context. First, nations have to make a “choice” between static and dynamic development when considering trade negotiations. Second, domestic politics in the developing country will tend to favor the choice of a trade treaty because the winners of a dynamic approach are by definition politically active and powerful in the future, not the present when the negotiations

will take place. Third, if a treaty is signed it may constrain the ability of a developing nation to deploy policies for dynamism.

Equation one (1) exhibits the “choice” that developing countries face. A nation can choose to liberalize in the present with the hope that such a path will bring growth. A nation can choose to put in place policies for industrial development and diversification that might bring more sustained growth in the future. Each path is rife with risk. Choosing static comparative advantage can be risky because the terms of trade for that particular export basket may deteriorate over time, be subject to unstable price volatility, may trigger “dutch disease”, or be in sectors that are depletable (or substitutable) over time or where ecological factors limit its long run use. The dynamic path is also highly uncertain, because it has to outweigh the net present value of the opportunity cost of foregoing the static comparative advantage AND be successful in the sense that it overcomes numerous political economy obstacles (rent seeking, picking winners, reciprocal control mechanisms, etc) in order to actually develop the productive capabilities to be competitive.

$$(\Pr[CA_{i,t_0}]) \leq NPV(\Pr[CA_{i,t_{35}}]) + NPV\left(\frac{(\Pr[CA_{i,t_0}])}{NPV(\Pr[CA_{i,t_{35}}])}\right)_{t_0-35} \quad (1)$$

Put formally, a nation may picture its prospects as weighing the probability (Pr) of realizing gains from trading in a sector (i) where it currently (“T” subscript zero) enjoys a comparative advantage (CA) versus the net present value of the probability of realizing a comparative advantage in a more dynamic sector in the future (say 35 years later) in addition to the opportunity costs of foregoing the free trade (left hand term) during the entire period.

During trade negotiations between a (highly) developed nation such as the US, and LAC nations still seeking to industrialize, the US seeks to solidify its current comparative advantages in high-tech manufacturing, services, and (artificially so) in agriculture by securing more market access in LAC for those goods and “protecting” that access through further regulations (in the treaty) on intellectual property, investment rules, services regulation, and more. Those sectors in the US are highly organized politically and can overcome collective action problems by spending enormous amounts of time and resources on campaigns to convince citizens of the benefits of a treaty tilted in the favor of US interests (Mayer, 1998).²

When a less developed country hoping to build dynamic comparative advantage enters a negotiation with a higher income nation like the US, one would think there is cause for concern. A trade treaty that grants market access to the US for the sectors listed above would render the corresponding sectors “losers” that could never compete with their US counterparts. Combining the collective action idea with the dynamics of development then, one needs to think of collective action issues over time. The short-term winners (owners of primary commodities or light manufacturing) are highly concentrated and lobby hard for a government to pursue an agreement with the US and to ratify it at home when signed. But the longer run winners (those sectors that will be dynamic in the future, and future consumers) are by their very nature weak, dissipated, or even non-existent in the short term in the sense of their ability to participate in current politics and are thus the “losers” of a trade treaty.

² Political scientists also focus heavily on ‘realist’ and “constructivist” theories to explain trade politics. Often in rich nations, as Mayer (1998) shows, “winning” interests align with political actors concerned with US power (realism) and evoke “symbolism” to help win votes in public (constructivism).

A short illustrative example may be helpful. If the United States and South Korea entered into negotiations in 1970, South Korea would probably have a comparative advantage in rice, and the United States would probably have had a comparative advantage in cars. From a static perspective one would expect South Korean rice producers pushing for the deal, as well as US carmakers. South Korean automakers and US rice growers were probably less keen on the idea. Simple calculations however, could show that in a static sense that the gains to the rice growers would outweigh the losses to the South Korean auto sector. Fast forward 30 years later and in actual negotiations between these two countries South Korea wants to protect its rice sector and the US wants to protect its car sector. In South Korea's case they deployed a blend of industrial policies to develop a world class auto sector (Amsden, 2001). In 1970 that sector, though formidably strong in 2010, did not exist or was too fledgling to be politically active. If South Korea had signed an agreement in 1970 they might not have an auto sector now. Implicitly, South Korea decided that it would incur sometimes heavy costs of waiting to climb the technology ladder. As the equation above implies, South Korea had to put together the capabilities to develop an auto sector, beating the odds to have a comparative advantage. For those 35 years they had to forego some growth that would have occurred when they were trying to develop the auto sector. They could have both exported more rice and imported better cars during that whole period. South Korea chose not to do that, overcoming the collective action problem that the political forces supporting long-run productive capacities were not as strong. South Korea's 2010 growth dynamics are greatly benefited from having industrial shipping, auto, and other high –value added sectors.

Trade treaties with nations still needing to develop comparative advantages add yet another obstacle for nations hoping to diversify for development. In the last section of the

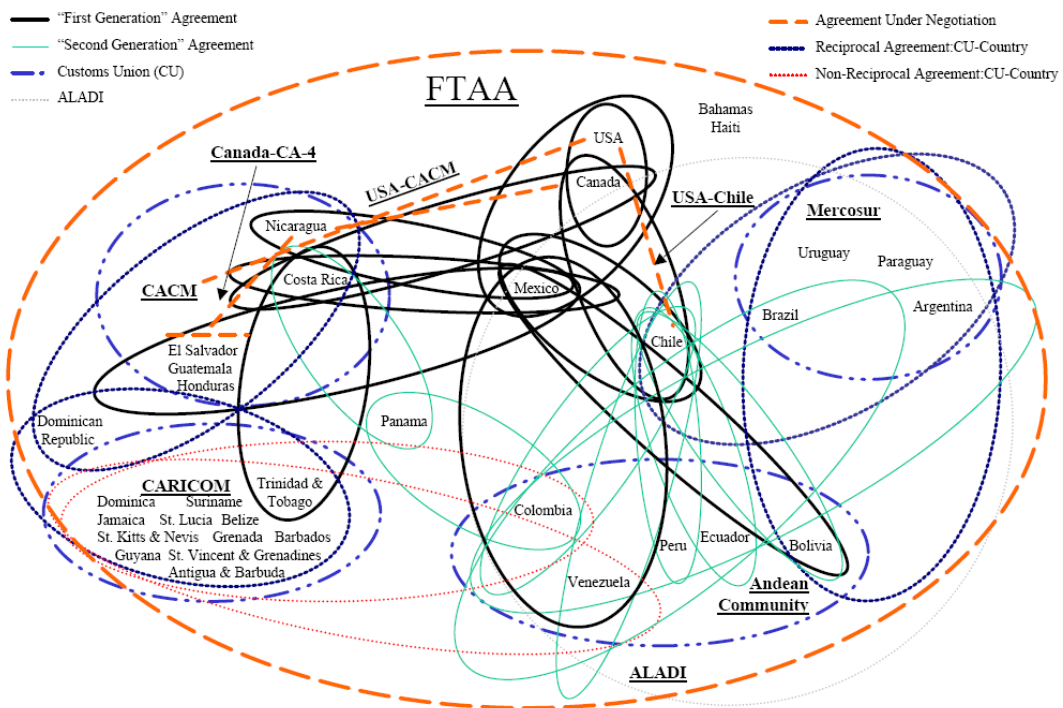
paper I examine how the problems of assuming static comparative advantage and collective action problems interact with other political forces to (partly) explain why LAC continue to sign treaties with the US that may not be in the interest of long run growth in LAC.

II. Macro Impacts of FTAs in the Americas: Stability and Growth

Over the past two decades there has been a six-fold increase in the number of FTAs in the world economy. Nowhere has this proliferation been more prevalent than in Latin America (LAC), where 33 of the 39 countries belong to at least one FTA (World Bank, 2005). Figure 1 depicts what has been termed the “spaghetti bowl” of FTAs in the region—a tangled web of trade agreements like none other in the world. This part of the paper shows that the gains from these agreements have been relatively small, and they may trigger more macroeconomic instability.

Spearheading a great deal of the recent wave of FTAs in the region have been agreements with the United States. At this writing, the US has completed agreements (though not always ratified) with Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, and Peru. Discussions for a Free Trade Area of the Americas (FTAA) commenced in 1993 and included all LAC nations except for Cuba. These discussions have been put on hold and perhaps even put away forever.

Figure 1: The “Spaghetti Bowl” of FTAs in the Western Hemisphere



This section of the paper shows that by all accounts the economic gains from FTAs in LAC are smaller than if LAC pursued global trade liberalization under the WTO. Moreover, it shows that the agreements will bring small gains in terms of growth, worsen current account positions, deplete tariff revenue, appreciate the exchange rate, and worsen the terms of trade for LAC nations. Finally, it will be shown that measures such as prudential capital controls that can be used to buffer some of these negative effects are not permitted under US trade deals.

Most estimates of the gains from trade come from the computable equilibrium (CGE) models. The most recent and well-known CGE estimates of the gains from FTAs have been calculated by the World Bank and published in *Global Economic Prospects, 2005*. In that report the Bank’s CGE projections use a 2001 base year and perform an experiment where

they simulate changes in economies in 2001 without trade policy changes and then with trade policy proposals at the global and regional levels. The results of these exercises are presented in Table 1 and show that in all scenarios developed countries stand to gain the majority of benefits and that global trade negotiations result in the largest gains for developing countries.

Table 1

Benefits of Global versus Regional Trade Agreements for the Americas

	Global trade	RTAs with Large Countries	RTAs without Large Countries	Global trade	RTAs with Large Countries	RTAs without Large Countries
	<i>\$ billions</i>			<i>percent</i>		
United States	24.9	32.3	10.7	0.2	0.3	0.1
Brazil	8	1.5	-1.7	1.4	0.3	-0.3
Mexico	0.3	-1.5	-1.3	0	-0.2	-0.2
Rest of LAC	16.3	0.9	6.4	1.6	0.1	0.6
Developing Countries	108.8	-21.5	-6.6	1.2	0	-0.1
World Total	263.3	112	40.3	0.8	0.3	0.1

Source: World Bank, Global Economic Prospects, 2005; Table 6.2

In this table the estimates for “global trade” in columns 1 and 4 are a scenario of full global merchandise trade liberalization in all nations of the world. In other words all nations fully liberalize trade among all fellow WTO members. In columns 2 and 4 “FTAs with Large Countries” estimate the benefits of all developing countries signing independent agreements with the United States, EU, Japan, and Canada. “FTAs without Large Countries” in columns 3 and 6 present simulations based on the assumption that all but the large developing countries are signing bilateral agreements with the major developed nations listed above. The excluded countries are Brazil, China, India, Mexico, and Russia.

Under full global trade liberalization the World Bank estimates that the gains from trade would be \$263.2 billion or a one time increase of global GDP of 0.8 percent in 2015.

More than half of those gains go to developed countries, and LAC would receive \$24.6 billion. It should be noted that the gains from global trade liberalization are relatively small at this point for developing nations, but even smaller under FTAs. Under both the FTA scenarios developing countries stand to lose, \$21.5 billion and \$6.6 billion respectively. If LAC signed FTAs with all of the large developed and developing countries the gains would be merely \$900 million. If they signed FTAs with developed countries without the large developing countries participating the LAC gains would be \$3.4 billion. In other words, the benefits of FTAs for LAC countries would range from four tenths of one cent per day in 2015, to one and three-quarters cents per day in 2015. That is for the countries that gain. However, as can be seen by the single country estimates that are available, Mexico and Brazil could be losers under these scenarios.

Table 2 presents recent estimates regarding US treaties with various LAC nations. In these cases we can see that the welfare gains are very small (and sometimes negative).

Table 2

Welfare Benefits vs. Tariff Losses

Country	<u>Welfare Gain*</u> <i>(Millions of 2004 Dollars)</i>	<u>Tariff Losses</u>
Colombia	-163	633
Peru	-43	195
Costa Rica	201	115
El Salvador	171	82
Guatemala	296	178
Honduras	80	80
Nicaragua	48	21
Total	590	1,304

* For CAFTA countries: Hilaire, Alvin and Yongzheng Yang (2004), "The United States and the New Regionalism," IMF Working Paper WP/03/206, p19

* For Colombia and Peru: Duran Lima, Jose, Carlos J. de Miquel and Andres R Schuschny (2007), "Trade Agreements by Colombia, Ecuador, and Peru with the United States: Effects on Trade, Production, and Welfare, p88.

**For tariff losses: Tanzi, Vito, Alberto Barreix, and Luiz Vella (2008), Taxation and Latin American Integration, IADB, p 34.

The third column of the table exhibits that tariff losses are estimated to be \$1.3 billion for these nations. As Paus and Abhuggatas in this volume show, tariffs as percent of tax revenue are on average 10 percent for LAC. These losses cited above represent a loss of 10-23 percent of tariff revenue. This is no small amount in the wake of the financial crisis where funds are needed to put in place counter-cyclical macroeconomic policy.

In a study for the Inter-American Development Bank, Giordano and co-authors (2010), these treaties are also expected to worsen current account balances and exchange rate positions. According to these authors, GDP is expected to increase by one half of one percent due to the treaty, while imports increase more than exports (thus accounting for most of the gains as consumer surplus gains), the exchange rate appreciates, and terms of trade worsen.

All US treaties also prohibit the use of capital controls as prudential measures to cool exchange rate appreciation and to remedy balance of payments problems. The free transfer of funds to and from the US is a core principle of US BITS and FTAs, as well as those of most other capital exporting countries. When a host nation violates that principle, or if capital transfers violate the other principles, a nation Argentina, after its crisis in 2001-02 was subject to numerous such claims in the hundreds of millions of dollars.

Of all the treaties the US has signed there is only one clear exception to this rule, the balance-of-payments exception found in NAFTA. Article 2014(1) can be invoked when the host state “experience serious balance of payments difficulties, or the threat thereof.” Like similar exceptions at the WTO and OECD, use of the exception must be temporary, non

discriminatory, and be consistent to the IMF Articles of Agreement (thus capital controls can only be aimed at capital account transactions unless approved by the IMF).

Chile is a nation that has deployed capital controls to some success. The US negotiated FTAs with Chile and Singapore (who had also used capital controls in the wake of the 1997 Asian crisis) at the turn of the century, both went into force in 2004. The limits in the US model on capital controls became major sticking points for both Chile and Singapore. In fact, during the negotiations with Chile, USTR head Robert Zoellick had to intervene with the Finance Minister of Chile to salvage the negotiations over this issue. During those negotiations the US negotiated a “compromise” that, with some variation, has been used in agreements with Singapore, Peru, and Colombia. Interestingly however, it has not become a matter of practice. Such a cooling off period was not included in the 2004 Model BIT nor the FTAs with DR-CAFTA, Panama, and others.

The compromise has since become known as the ‘cooling off’ provision whereby the US cannot file a claim as in violation of the investment provisions until a period of one-year after the provision has been deployed. The cooling off periods are illustrated in an Annex to the agreements. The rationale would be that the host nation may need to address or stem a financial crisis and that the nation should not be subject to claims in the middle of such action. However, and this is important, the cool off period allows a foreign investor to sue for damages related to capital controls that were deployed during the cool off year, but cannot file the claim until after that year. To be clear, an investor has to wait one year to file a claim related to capital controls to prevent and mitigate crises, but that claim can be for a measure taken during the cooling off year (Hornbeck 2003).

It should also be noted that these provisions are not mutual. The cooling off period is only for investors suing “a Party other than the United States.” Finally, the Annexes agree that once the claim is brought, only “actual reduction of the value of the transfer” counts as a loss. Loss of profits, loss of business, and other similar consequential or incidental damages cannot be recovered. All of these agreements include some exceptions to the Annex, instances where the cooling off period and limitation on damages does not apply: payments on current transactions, on transfers associated with equity investments, and loan or bond payments.

III. The Microeconomic Costs of FTAs with the US: Endogenous Productive Capacity

Economic theory states that when the market fails, policy instruments should be deployed to correct the distortions created by private markets (Lipsey and Lancaster, 1956). This theory is referred to as the “second best” theory, and states that government policy can offset market failures. Economists have also argued that the WTO has focused on reducing tariff rates, rather than economic distortions—reducing rates can simply maintain existing distortions and even exacerbate such distortions (Kowalczyk, 1989; Kowalczyk, 2002). In such an environment, some development economists call for government intervention used in a careful manner are one of a myriad tools that can work as second best solution to the distortions occurring through trade liberalization. Indeed, in an environment rife with market failure it has been argued that it is the role of government to precisely “get the prices wrong” in the short and intermediate term to combat the fact that late industrializing countries would not be able to advance given present market structures. In other words, market failures send the wrong signals to firms in developing countries and have to be combated with market

failures themselves in order to set a new equilibrium (Amsden, 1992; Chang, 2003, Rodrik, 2005).

Table 3 exhibits the core policies used by developed and developing countries to correct for market failures and jump start development. It should be noted that LAC's record with these types of policies was weaker relative to other nations that used them. Per capita growth rates when experimenting with such policy in the 1970s for instance were 3.3 percent annually in LAC compared to 5.2 percent in East Asia. Relative to their performance under the neoliberal period however, no country except Chile has had a faster growth rate since 1980 then during the period 1950 to 1980.

Table 3**Deepening Commitments Under PTAs**

<u>Policy Instrument</u>	<u>WTO</u>	<u>LAC PTAs</u>
Goods trade		
Tariff sequencing	*	X
tax drawbacks		
Intellectual Property		
Limiting Patent Scope	X	X
Short patent timelines with exceptions	X	X
Compulsory licenses		X
Subsidies		
Export	X	X
R&D	*	X
Distribution	*	X
Environment	*	X
Cost of capital		
Foreign Investment		
Local Content	X	X
Trade Balancing	X	X
Joint Ventures		X
Technology Transfer		X
R&D		X
Employment of Local Personnel		X
Tax Concessions		
pre-establishment "screening"		X
capital controls		X
Other		
Human Capital		
Administrative Guidance		
Movement of People	*	X
Provision of Infrastructure		

Table 3 shows the extent to which the core industrial policies used to correct market failures are permissible under the WTO and FTAs between the United States and LAC. An “X” mark a situation that is not permitted under trade rules, an asterisk “*” indicates that such an instrument has been proposed to be outlawed under the ongoing Doha negotiations but is not yet prohibited, a blank space indicates cases where the “policy space” remains to use such an instrument.

The table reveals that there is still considerable policy space under the WTO for industrial development, a finding that is well documented (see Shadlen, 2005). However, in almost every case LAC nations are “trading away” their ability to deploy such policies in FTAs with the United States. As will be discussed in the next section, this is particularly puzzling given that the gains are relatively small of such FTAs and given that LAC nations have coalesced to oppose proposals to eliminate similar measures under the WTO.

Successful industrial policy relied on tariff protection and subsidies to help foster national firm capabilities (Amsden, 2001). Under FTAs between the US and LAC nations most tariff lines are negotiated to zero over a period of time. This constrains the ability of nations to perform tariff sequencing where they chose not to bind certain sectors or bind them at a high level. This left room to apply tariffs at a higher level for certain sectors during periods of industry support and reducing or shifting them to other sectors later in time (Akyüz, 2005). There is still considerable room for such policy under the WTO, however, the formula being negotiated for manufacturing tariffs under the Doha Round will make it considerably more difficult (Gallagher, 2007).

As for subsidization, as is shown in Table 3 FTAs constrain the ability of LAC nations to subsidize domestic sectors relative to the WTO. There is a burgeoning discussion regarding the “comeback” of industrial policy in LAC (Peres, 2006). The new industrial policy has been referred to as “open economy” industrial policy because it relies on providing credit to domestic firms to combat the market failures regarding the cost of capital (Melo, 2001; Schrank and Kurtz, 2005). According to Melo these instruments include loans for working capital, discrete capital goods, project finance, export credit, overseas marketing and export finance—some of which are discriminatory in the sense that that they favor domestic

firms. Schrank and Kurtz perform a regression analysis and find that those LAC countries that deploy a larger share of this family of industrial policies perform better in terms of exports. The WTO has recently begun to crack down on export credits (see the recent Brazil-US cotton case) and many of the FTAs in the region have a financial services sector that explicitly mentions export credits and loans as actionable.

Loose intellectual property rights were core strategies used by developed and developing countries alike in order to gain access to new technologies and practices. Late-comer developers limited the areas of activity where patents (referred to as patent scope) were granted to increase technological diffusion and development to national firms. What's more, late-comers allowed for shorter patent periods (for foreign firms) so ideas were diffused into the public realm more quickly. Table 4 is misleading here because it implies that there is little difference between the WTO and FTAs in LAC. Indeed, Shadlen (2005) argues "developing countries that enter into regional-bilateral agreements with the U.S. typically accept obligations in the area of IPRs that go far beyond what is required as WTO members," (767). Under FTAs the ability to limit patent scope is indeed restricted under both scenarios as depicted in Table 4 but under FTAs the ability to limit patent scope is less flexible. What's more, whereas the WTO grants patent protection to an invention for 20 years, FTAs in the region typically include clauses requiring extensions beyond 20 years. Regarding compulsory licenses nations would use these instruments to lower prices, encourage foreign firms to source locally, and gain access to knowledge. Under the WTO countries can largely determine the grounds for compulsory licencing. Under FTAs compulsory licenses are limited to national emergencies. These fairly drastic differences has led Shadlen (2005b) to conclude that:

On all three of the dimensions used to IP management—government’s abilities to determine which knowledge becomes private property, to provide for exceptions to patent-holder’s exclusive rights, and to hasten arrival of the time that private knowledge enters the public domain—FTAs place significantly more burdensome and onerous obligations on developing countries than TRIPS does (27).

In addition to the policy space for industrial development, intellectual property rules in FTAs make it more difficult to address public health in a nation. For instance, whereas under the WTO states have obligations regarding the treatment of test data (allowing local generic pharmaceutical firms access to trial data allows them to produce generics in a more timely and less costly fashion) the US requires a minimum of five years of data exclusivity in FTAs (Shadlen, 2005). A recent study on the impacts of U.S. intellectual property rules on an FTA found that medicine prices in Jordan increased twenty percent after the signing of the US-Jordan Free Trade Agreement. In addition, the study found that data exclusivity has stalled the development of generic drug competitors for 79 per cent of the drugs newly introduced by 21 foreign pharmaceutical firms between 2002 and mid-2006, that otherwise would have been available in an inexpensive, generic form. The study also found that “additional expenditures for medicines with no generic competitor, as a result of enforcement of data exclusivity by multinational drug companies, were between \$6.3m and \$22.04m. These expenditures have required that both public health system and individuals pay higher prices for many new medicines that are needed to treat serious non-communicable diseases (NCDs), such as hypertension, asthma, diabetes, and mental illness. For example, new medicines to treat diabetes and heart disease cost anywhere from two to six times more in Jordan than in Egypt, where there are no TRIPS-plus barriers” (Oxfam, 2007, 2). A study of quinolones in India found that the annual welfare losses to the Indian economy were \$450

million. Eleven percent of those losses accrued to domestic producers and the rest to Indian consumers. In contrast, the profit gains to foreign producers were only \$53 million per year (Chaudhuri et al, 2004).

Equally important for obtaining access to knowledge and technology has been through foreign direct investment (FDI). Many nations require joint ventures between foreign and local firms and/or perform research and development so that local firms gain access to know-how and production processes. Others require that a certain amount of nationals be employed in the firm or that certain amounts of inputs by the foreign firms be purchased from local firms. Perhaps most important is the fact that nations under the WTO can “screen” foreign firms before they move to their country. This is referred to “pre-establishment rights.” Post-establishment a nation has to treat a foreign firm as equally as it does a national firm (national treatment) but pre-establishment a nation has leeway to negotiate with foreign firms over the development of technological capabilities. It is interesting to note that nations in LAC when they negotiate FTAs amongst themselves they tend to grant each other the flexibility of screening but under FTAs between LAC and the United States the U.S. insists that national treatment is extended to the pre-establishment phase of foreign investing as well (Haslam, 2004). The WTO has deemed requiring local content standards illegal but virtually all of these other instruments are still permissible. Ironically, under FTAs developed countries often use rules of origin clauses to implicitly require for US “local content” purchases but this is seldom permitted by developing countries. China (the largest recipient of FDI in the world for 2005) is notorious for using many of these instruments that are permissible under the WTO to build local technological capabilities. FTAs constrain the ability of nations to use all of the instruments in Table 4

except for the ability to grant tax concessions to foreign firms. What's more, most if not all FTAs restrict the ability of nations to impose capital controls on foreign portfolio investment.

Another aspect of investment components of FTAs with the U.S. is that they deploy an "investor-state" dispute system rather than a state-to-state system like that in the WTO. Whereas in the WTO a firm that had been damaged by a particular policy has to petition its national government to file a claim against the nation that has imposed damaged, under US FTAs (like US Bilateral Investment Treaties) the firm can directly sue the host nation for damage. Mexico has faced \$1.7 billion in such claims since the signing of NAFTA (CPA, 2007).

Last but not least, nations have relied on a relatively flexible global labor regime at different periods of time. Many of the East Asian nations sent their best and brightest to Western universities and firms to learn and work. These individuals would then return home to contribute to government labs or national firms (Kim and Nelson, 2000). The easing of labor mobility rules is one of the foremost demands of developing countries at both the WTO and FTAs. Indeed, according to official estimates by the World Bank the benefits of a relatively small opening for labor in the developed world would bring over three times the benefits (more than \$300 billion) to the developing world (Winters, 2004).

According to Table 3, LAC nations signing agreements with the United States can solely deploy tax drawbacks, human capital and infrastructure investments, and administrative support to local firms to build productive capacity. Such measures are not seen as sufficient enough to foster industrial development in the 21st Century (Rodrik, 2005).

IV. The Political Economy of Trade Agreements in the Americas

The previous sections have shown that the gains from FTAs in the Americas are relatively small and that the costs could be considerably high. If this is true, then why is LAC one of the most proliferate regions in terms of FTAs? Economic theory and the popular press would lead one to believe that LAC negotiators are acting rationally when signing the slate of trade agreements discussed in this paper. This section of the paper demonstrates that the collective action issues discussed earlier, as well as ‘power’ and ideas-- may go a longer way in explaining the political economy of trade agreements in the Americas than more traditional approaches.

Of course there are political forces at work that partly explain why LAC signs so many trade deals. The static winners in both the US and in LAC of trade agreements are very concentrated and political strong in the present. They create alliances at home and abroad to push for such treaties. But there is more to it than that. In addition to these static interest-based explanations, LAC nations sign agreements because they are in a rat race whereby they feel the need to keep access to the US before a neighbor does (the ‘hub and spoke’ effect), because of asymmetric bargaining power in the negotiations, because of ideological reasons, and because of the collective action problem identified earlier.

Economic theory, and political economy in a liberal context, views trade treaties as providing public goods that bring benefits to each actor involved in the negotiation. Therefore, the creation of such regimes is a function of the rationality of the actors involved (while acknowledging that the distribution of benefits could be unequal) (Keohane, 2001; Gilpin, 1987). This notion can only partially explain why LAC has been signing FTAs with

the US. Yes of course it is in the interest of each nation to maintain access to the largest economy in the world, but the terms of such access seem to have little flexibility built into them.

Hubs and Spokes: the rat race for access to the US market

A variant of neo-classical trade theory provides useful insight about the gains from patchwork FTAs such as those that are occurring in the hemisphere. While acknowledging that the gains from global trade are larger, Kowalczyk and Wonnacott (1992) have demonstrated that in a world of negotiating numerous FTAs rather than global negotiations or even a larger Free Trade Area of the Americas that nations will see it in their interest to sign an agreement before their geographical neighbors so as to capture benefits from their rivals. The authors show formally that a nation's income can increase if it signs an FTA with a large economy such as the US (which they call a "hub") and potentially decrease if others sign with the large economy and the particular nation does not. If a nation negotiates an FTA with a large "hub" economy (and others do not) they can experience both a volume of trade increase and see their terms of trade improve. Reductions in tariffs on both sides of the negotiation increases the volume of trade between the two nations. Terms of trade may increase as well because the participating nation (which they call a "spoke") will experience higher prices for its exports.

For those nations that do not participate the opposite can be true—they can experience a reduction in trade volumes due to not participating in the agreement and a terms of trade deterioration because their import and export prices might be higher relative to participating nations. The hub and spoke theory is much harder to model and generate

empirical results, but the framework does indicate when such a race will benefit or cost a nation engaging. However, if one looked at early CGE estimates of Mexico's entry into NAFTA, most put the gains at approximately 3 percent of GDP (see Stanford, 2003). This theory can help explain why many nations not only see it as in their rational interest to enter into a FTA with the US, but to do it first. However, one cannot be sure that the gains will be positive.

FTAs are mini "grand bargains" where the US exchanges market access for many of the measures that may be "costly" if removed from domestic policy tool kit. However, the benefits of market access are perceived as outweighing the costs of losing policy space and trade diversion. This is especially true given that the counterfactual of losing access to the U.S. market could be quite damaging for many countries and that there is a possibility that losing out on the US market if some of your neighboring nations get their first can be costly.

Older trading arrangements with LAC were under the Generalized System of Preferences which were unilateral in nature. In other words the U.S. granted preferential access to the nation and demanded little in return. Under contemporary FTAs the negotiations are premised on "reciprocity" where measures are exchanged. Given that few individual LAC nations offer much market access to the U.S., negotiations (from the perspective of US interests) can be seen as maintaining access to the US market in exchange for the reform of domestic regulatory standards in the developing country in such a manner that will favor (or at least level the playing field) US firms (Shadlen, 2006). What's more, hub and spoke theories and the counterfactual of potentially losing a nation's preference

suggest that it may be even more of the interest of a nation to enter into an agreement with the US.

Market Power, Political Power

As is abundantly clear from the previous discussions, the size and dynamism of the U.S. market plays very strongly in forming the “rational” decisions of LACs when it comes to FTAs. Economic realists differ from liberals in stressing that it is the very power of the US market and its negotiating body that constrains the set of “rational” policies that countries like those of LAC can choose from. What’s more, especially in the case of FTAs between the US and LAC, there is a question regarding whether both sides have positive gains. This section of the paper takes a closer look at the nature of the asymmetry in bargaining power between the US and its trade partners in LAC and discusses the negotiations through such a lens.

Albert O. Hirschman’s 1945 classic *National Power and the Structure of Foreign Trade* argued that a nation can exert its power over weaker nations through foreign trade. In a negotiation between a large economy and a smaller one the nation with the larger economy has the upper hand. Thus, the negotiation becomes one over the extent of the conditions that the larger economy will put on the smaller economy in return for access to the larger economy. With this framework in mind, columns 4 and 5 in Table 7.7 below exhibit the relative differences between the U.S. and LAC nations in terms of market size (column 3 and income). On average the US economy is over six thousand times as large as its trading partners and US income is on average over sixteen times those in LAC.

It has been convincingly argued that such power asymmetries are accentuated in the case of LAC because the US has dangled the loss of a nation's GSP's as a consequence of not entering into an FTA (Zoellick, 2005; Bhagwati, 2008). Many of the GSP systems have been in place for over twenty years and have determined the export profile of many nations. Building on earlier work by Gruber (2001) and Moe (2005) that argues that weaker nations participate in institutions that may not be in their interests because Shadlen (2007) argues that many LAC countries negotiate FTAs with the US where they trade away significant development measures out of "fear of exclusion." Thus, Shadlen argues that US economic power provides a choice set that is not a choice between an FTA or no FTA but a choice between an FTA or no FTA when a neighbor receives an FTA and the nation in question potentially loses its preferential access to the US market. The U.S. can assert a power constrained choice set, as Shadlen argues, because of the asymmetry of bargaining and market power demonstrated in Table 7.6.

These power asymmetries put "hub and spoke" arguments in a different light. Yes it may be rational for a nation to partake in an FTA under such conditions but the power of the US has constrained the choice set of the nations negotiating with the US. Nicola Phillips (2005, 3) writes:

The ideological dimensions of the regional project are often overlooked in a focus on the technical details of trade negotiations and the political bargaining processes under way in the region, but they are crucial to an understanding of the nature and the politics of the emerging regional economic regime. More specifically,the U.S.-led approach of a distinctly "hub and spoke" set of regionalist arrangements, as a key means by which to capture control of the governance agenda and to ensure that the

regional economic regime takes a form consistent U.S. interests and preferences. The growing prioritization to bilateralism has become the predominant strategy to this end. The leverage afforded to the U.S. by the bilateral negotiation of trade agreements acts to stimulate primary influence over the shape of the rules that constitute the regime, and the primary functions associated with the task of its governance, firmly in the agencies of the U.S. State.

To illustrate this point Shadlen calculates an index of “Political Trade Dependence,” to demonstrate that the LAC countries for whom exports receiving preferential access under GSP constitute the largest share of total exports are the most likely to sign FTAs with the U.S. The measure of political trade dependence is reproduced for each country in Table 7.6 and is the share of a country’s total exports that enter the U.S. under preferential schemes. Countries with high scores on the scale appear most eager to establish FTAs with the US. For example, the all of the Andean countries negotiating FTAs and the six countries that signed DR-CAFTA are all above the median (Honduras, the DR, and Nicaragua all 300 percent or more above the mean). The next column calculates trade dependence (percentage of a nation’s exports to the US over total exports) and shows that many of the same nations are very dependent on the US for all their exports.

In terms of the domestic politics that form the preferences of states, Column 3 of Table 4 exhibits the percentage of total exports that go to the U.S. for each LAC nation where data is available. On average over one third of all LAC exports go to the U.S. and for countries like Mexico it is well over 75 percent. Behind these exports are very significant domestic coalitions pushing for opportunities to expand such exports—and certainly not lose such access (Thacker, 2000). Juxtaposed with such short term incentives the kinds of firms

and general welfare improvements that might result from many of the policies “traded away” for market access are at a disadvantage in domestic politics.

Table 4

Asymetric Bargaining Power Between the US and LAC?				
<i>Country</i>	<i>Political Trade Dependence</i>	<i>Exports to US</i>	<i>GDPUS/GDP_i</i>	<i>IncomeUS/Income_i</i>
Bahamas*	-	77.5%	2,006	2
Nicaragua	31.4%	29.3%	2,428	43
Dominican Republic	26.7%	40.2%	480	14
Honduras	21.2%	36.4%	1,611	37
St. Kitts and Nevis	18.1%	71.2%	29,085	5
Haiti	12.4%	86.4%	2,670	75
Costa Rica	11.9%	49.7%	610	9
Guatemala	10.8%	26.7%	498	20
Bolivia	9.3%	13.9%	1,152	34
Peru	8.7%	24.8%	185	17
Belize	8.5%	50.6%	11,277	10
Trinidad and Tobago	8.3%	42.3%	1,158	5
Uruguay	8.3%	8.6%	493	6
Ecuador	7.9%	38.3%	586	26
El Salvador	7.7%	18.7%	737	17
Colombia	4.9%	43.4%	116	17
Grenada	4.3%	38.5%	25,077	9
Brazil	3.8%	24.7%	16	10
Guyana	3.7%	33.2%	13,508	35
Jamaica	3.6%	33.0%	1,207	11
Venezuela	2.3%	56.4%	81	7
St. Vincent and the Grenadines	2.2%	2.6%	29,383	12
St. Lucia	2.1%	17.6%	15,048	8
Dominica	2.0%	6.1%	37,874	9
Barbados	1.9%	14.9%	-	-
Panama	1.9%	47.5%	842	9
Chile	1.8%	18.6%	126	7
Argentina	1.0%	10.9%	36	5
Paraguay	0.8%	3.0%	1,241	24
Suriname	0.5%	21.0%	10,555	16
Antigua and Barbuda	0.1%	19.0%	14,286	4
Mexico	0.1%	88.7%	17	6

Numerous studies have examined the role of power, interests, and ideas in Latin American trade politics with respect to the United States. However, the majority of these analyses focuses on just one of these factors and seldom acknowledges the relative importance of other independent variables. This last section of the paper synthesizes the disparate literature on the political economy factors that determine why LAC nations sign

agreements with the United States under the terms they do. In a more formal sense, if signing an agreement is a dependent variable what are the independent variables that determine a signature and how might we think about the relative importance of each factor?

An interesting counterfactual is to look at how many LAC behave when in larger coalitions, and among themselves. Paradoxically, many LAC nations have fought hard to preserve the right to deploy core industrial strategies in WTO coalitions while at the same time “trade them away” in FTAs with the United States. In the earlier days of the WTO’s Doha Round developed nations proposed numerous measures that would reduce the policy space for deploying loose intellectual property rules, enforcing policies for foreign investment that would create linkages to the domestic economy, and so forth. Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Ecuador, El Salvador, Guatemala, Mexico, Paraguay, Peru and Venezuela all opposed the further constraining of policy space at the Cancún Ministerial of the Doha Round. Yet of these countries, Chile, Colombia, Costa Rica, El Salvador, Guatemala, Mexico, and Peru have all signed FTAs with the United States which ban the very measures they fought hard to protect under the WTO (Narlikar and Tussie, 2004). What’s more, Phillips (2005, 9) shows that many LAC nations objected to much of the initial FTAA agenda as well “virtually without exception, LAC negotiators initially adhered to the principal that an FTAA process should be merely “WTO-compatible.” Finally, Haslam (2004) shows that when nations from LAC sign bilateral investment treaties with each other they allow for a great deal more flexibility in terms of policy space than what they end up signing in deals with the U.S.

The “Power” of Ideas

Previous analyses attempting to explain why LAC nations have engaged in so many FTAs with the U.S. have somewhat discounted the fact that neo-liberal ideas and ideology have permeated LAC over the past twenty-five years more than perhaps in any other developing region. Goldstein and Keohane (1995) have argued that if actors do not know the outcome of a particular policy decision they will resort to beliefs that will help them estimate the causal effects of their actions. By the time the majority of FTAs were under negotiations, neo-liberal presidents were in power and were backed by full (or near fully) transformed bureaucracies. Such elites were not in favor of the policies that were being “traded away” in the first place. Indeed for them negotiating FTAs was win win. They received permanent or improved market access with the US and were able to use the FTA to push through reforms that they wanted to do (but perhaps couldn’t yet domestically) anyway.

There have been numerous studies in the sociology literature documenting the spread of neo-liberal ideas throughout the Americas. Indeed, there is a considerable literature on how the “technopols” played a significant role in “freeing politics and markets in Latin America in the 1990s.” Technopols in LAC have been defined as political leaders who are at the highest level of government and political party life, who took neo-liberal (and democratic) ideas seriously and were able to help transform their nations toward these ideas. Technopols seized a critical moment in LAC history in the early 1980s which paved the way for them to almost fully come into power by the 1990s. That moment was the aftermath of the macro-economic crises in the early 1980s. Dominguez writes:

At the moment of economic crisis, there was available an international pool of theoretical and empirical ideas that emphasized the utility of markets; these ideas had become dominant in the industrial countries during the 1970s and the 1980s, precisely when these technopols-in-the-making lived there. These market-oriented international ideas were nested in economics departments, the international financial institutions, and in major private foundations, which fostered and funded the spread of ideas through the think tanks and teams founded by these technopols. The international context was favorable as well because these ideas were supported by the U.S. government, its major allies, and public and private international financial institutions. They “demanded” competence from the economic policy makers of Latin American countries. Technically trained leaders, therefore, would help to generate international and eventually domestic political legitimacy (Dominguez, 1997, 26).

This transformation of course became known as the Washington Consensus. Table 7.7 provides a list of each of the FTAs that has been signed between the US and a nation from LAC since the economic crises of the early 1990s. Columns 5 and 6 name the president of the nation at the time of signing an FTA, the person’s political party, and whether or not the party and/or president is considered neo-liberal by various experts in political science.

Table 7.7

Does Ideology Matter When Latin Americans Sign Trade Agreements?				
Country	Date of BIT	Date of FTA	Government	Neo-liberal?
Nicaragua	July 1, 1995	May 28, 2004	Violeta Barrios de Chamorro, National Opposition Union (BIT), Enrique Bolaños, Alliance for the Republic (DR-CAFTA)	Y
Dominican Republic		August 5, 2004	Hipólito Mejía, Dominican Revolutionary Party	Left-leaning
Honduras	July 1, 1995	May 28, 2004	Carlos Roberto Reina Idiáquez, Liberal Party of Honduras (BIT), Ricardo Maduro, National Party (DR-CAFTA)	Y
Haiti	December 13, 1983		Dr. François Duvalier	Y
Costa Rica		May 28, 2004	Abel Pacheco, Social Christian Unity Party	Y
Guatemala		May 28, 2004	Óscar Berger, Grand National Alliance	Y
Bolivia	April 17, 1998		Hugo Banzer, Nationalist Democratic Action	Y
Peru		April 12, 2006	Alejandro Toledo, Peru Possible	Y
Trinidad and Tobago	September 26, 1994		Patrick Manning, People's National Movement	Y
Uruguay	November 4, 2005		Tabare Vazquez, Frente Amplio-Encuentro Progresista	Left-leaning
El Salvador	March 10, 1999	May 28, 2004	Armando Calderón Sol (BIT), Francisco Guillermo Flores Pérez (DR-CAFTA), Nationalist Republican Alliance	Y
Colombia		November 22, 2006	Álvaro Uribe, independent liberal	Y
Grenada	May 2, 1986		Herbert Blaize, New National Party	Y
Jamaica	February 4, 1994		Percival Noel James Patterson, Jamaican People's National Party	Left-leaning
Panama	October 27, 1982	December 19, 2006	Ricardo de la Espriella (BIT), Martin Torrijos, Democratic Revolutionary Party (FTA)	Y
Chile		1-Jan-04	Ricardo Lagos, Coalition of Parties for Democrac	Left-leaning
Argentina	November 14, 1991		Carlos Menem, Justicialist Party	Y
Mexico		December 17, 1992	Carlos Salinas de Gortari, Institutional Revolutionary Party	Y

Source: Column 1 (UNCTAD, 2007), Column 2 (USTR, 2007), Column 3 and 4 (Kline and Wiarda)

The table reveals that the vast majority of nations were neo liberal in nature at the time of signing a trade agreement with the US. However, the Dominican Republic, Uruguay, Jamaica, and Chile can be considered “left-leaning” to various degrees. This shows that while ideas do indeed matter, the forces articulated by liberals and realist must also be at play. As posed earlier, FTAs are not necessarily consistent with neo-classical economics (Panagarya, 1999). It thus might appear as a contradiction that neo liberal governments would support FTAs. However, these writing on the role of ideas stress stressed that the Washington Consensus has become an *ideology* where the “free” market is dominant. FTAs represent “free trade” and are very much consistent with the ideology of free trade but not necessarily with the economics of free trade.

Technopols put together teams of technocrats that helped form and sustain coalitions with the private sector that helped ensure passage of FTAs. Babb (2001) has shown how

neo-classical Mexican economists were fairly powerless relative to their heterodox counterparts. Over the course of one generation Mexico became infamous for being run by US-educated neo-classical economists. Some of the high profile members of this group became presidents and ministers, but Babb shows how this trend became the norm even for lower levels of government bureaucracy as well. Thacker (2000) shows how neoliberal technopols and technocrats shared goals and created coalitions with many large exporting Mexican firms. Indeed in Mexico and across LAC the prospect of an FTA provided an opportunity to push through reforms that were on the technopol agenda anyway but did not have enough momentum to be passed. Packaged as part of a larger deal with the US, leaders were able to argue to their publics that such was the price of the larger agreement which would benefit all.

Dynamic Comparative Advantage and the Collective Action Problem

Neo-classical trade theory and liberal theories of trade regime formation are static in nature. That is, the “deal” is more often than not a function of the interests, costs, and benefits of the negotiating nations at a specific point in time. However, many of the industrial development policies outlined in the previous section are policies to create dynamic comparative advantages. As discussed earlier, if South Korea was to enter into a trade agreement with the U.S. it would have been in the static interests of South Korea to produce and export rice and for the U.S. to produce and export steel—given the relative factor endowments (South Korea had no steel at all in 1970) and resulting coalitions (Amsden, 1989). However, South Korea had a more dynamic view, choosing to forego short term costs for higher long term benefits. By 2000 South Korean steel is one of the most formidable in the world. Indeed, the U.S. put protective tariffs on South Korean steel in 2002 under fears

that the U.S. industry would be severely damaged by South Korean steel. What's more, by 2007 when South Korea entered an FTA with the U.S. they had to exempt rice from the treaty because it was no longer efficient or competitive relative to the U.S.

This poses a collective action problem in the short term when a trade agreement is under negotiation (Shadlen, 2007). By their very nature many of the industrial policies that developing countries want to maintain the ability to deploy are policies to correct market failures so that firms and general welfare benefits can be created in the future. Thus, the beneficiaries of such policies are either small and weak or not even yet in existence. In 1970 the steel industry in South Korea did not exist. To take a Latin American country example, Brazilian aircraft did not exist before the late 1960s, when Brazil would have been advised to export coffee. Brazil's aircraft industry would not have been able to survive a free trade deal with the U.S. then, but now Embraer is one of the most formidable members of the sector. Previous literature discussing the outcome of FTAs in the literature have argued that the winners of the agreements are diffuse and the losers are concentrated to explain why the FTAs in the hemisphere have been laboring processes (Salazar-Xirinachs, 2004). Here the opposite argument is made to explain why in the end the majority of LAC nations have signed agreements with the US: the beneficiaries are highly concentrated in the industries that already have access to the US market in the present and the losers are diffuse across the domestic economy, small and weak, or non-existent.

Previously published analyses of NAFTA illuminate this assessment. Thacker (2000) showed how Mexico's large exporting firms joined coalitions within the state and in the US to lobby for an agreement. Shadlen (2004) provides an analysis that reveals that smaller domestic firms were not able to get adequate representation at the table. Wise and Pastor

(1993) also add that many of the losers were very diffuse and further strapped by information asymmetries at play—many potential actors were simply not aware of the costs. Shadlen (2004) adds however that although firms were not privy to the needed information about the effects of NAFTA that their representatives in business associations were, and that it is still a puzzle that they did not do more to defend their members.

V. Summary and Suggestions for Future Research

This paper has attempted to bring together and expand upon disparate literatures on the economics and political economy of trade policy in the Americas in order to help us understand the dynamics behind trade politics between the US and LAC. The paper has three key points. First, that the official modeling estimate regarding the benefits of FTAs between the US and other LAC nations are very small. Second, that the costs of such agreements in terms of lost policy space are significant. Third, that despite the high cost of free trade with the US, LAC nations “trade away” the ability to build dynamic comparative advantages because of a sense of urgency to sign agreements before their neighbors do, because of asymmetric bargaining power between the US and the LAC nations with trade deals, because of the power of ideas and ideology in LAC in support of the Washington Consensus, and because nations can’t solve the collective action problem whereby the main beneficiaries of dynamic comparative advantage have no ‘voice’ at the negotiating table.

In this paper, an analysis of the causes of the Latin American FTA paradox is conducted, drawing from the literature on international political economy. It is argued that viewing these agreements as rational win-win bargains has only limited significance. Economic and political power and ideas help explain the dynamics of trade negotiations in

LAC. The paper argues that to some extent the deal on the table offers a constrained set of choices for LAC nations to negotiate about and therefore defines the set of interests of negotiators. There is not much room to maneuver because the US has the power to not only pull out of the negotiations, but to revoke special preferences that many LAC have enjoyed for many years and to deny a nation entry into the largest market in the world. This lends credence to Chang's (2002) thesis that developed countries are "kicking away the ladder" of development enjoyed by the developed countries in earlier times. It also demonstrates that LAC is "trading away that ladder." In the face of US power at the bargaining table, LAC nations lack (formidable) countering interest group pressure because the benefits are concentrated and the costs are disparate—some of these costs (and benefits) fall on future generations and constituents that obviously have no voice in the negotiations. Finally, the leadership of LAC nations were fundamentally engrained in a "free market" mindset. Although instruments by which they pursued such beliefs were at times inconsistent with the free market neo-classical economics that formed the beliefs to begin with, such details were lost in a frenzy to sign trade agreements and similar measures for more than a decade.

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