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Power and Choice in International Trade:

How power imbalances constrain the South's choices on free trade agreements, with a case study of Uruguay

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ABSTRACT

North-South Regional and Bilateral Trade Agreements (RBTAs) are spreading rapidly. RBTAs restrict the policy space of developing countries and perpetuate a hub-and-spokes trading system. In 2006 Uruguay, a tiny developing country, turned down the US's offer of an RBTA. The Uruguayan political elite did not make this decision over concerns for policy space, or because they were well-served by Mercosur. They were obliged to reject the Agreement because of the political costs at domestic and regional level. In the modern political economy, the choices of small developing countries are hugely constrained by the actions of more powerful players. Developmental South-South alliances are difficult, if not impossible, to form.

CONTENTS

1. INTRODUCTION

The number of regional and bilateral trade agreements (RBTAs) between the US and developing countries has grown rapidly in recent years, nowhere more so than in Latin America and the Caribbean (LAC). Starting with the North American Free Trade Agreement (NAFTA) in 1994 between the US, Canada and Mexico, the US has since formed trade agreements with a further twenty developing countries, nine of which are in LAC (USTR, 2008*a*). This trend is reconfiguring the global economy in ways that appear likely to disadvantage developing countries. RBTAs go beyond the agreements made in multilateral negotiations in the World Trade Organisation (WTO) both in terms of market access and 'behind the border' regulations. They give developing countries preferential and stable access to the US market, yet also place restrictions far greater than those of the WTO on their autonomy to control policy on intellectual property, inward investment, trade, and government procurement. RBTAs restrict developing countries' ability to implement a process of state-led development guided by industrial policy (Shadlen, 2005). Given the rapid spread of RBTAs and their profound consequences, building an understanding of firstly, the approach of developing countries to these agreements, and secondly, the constraints on their choices, is of great importance.

In 2006 the United States offered Uruguay the chance to sign an RBTA. Amid the tide of Agreements sweeping the region, this tiny developing country turned down the offer from the largest economy in the world. The case of Uruguay, which appears to be a dramatic outlier, helps us to understand the decision-making process of a small developing country in the Americas, the trade politics of the Southern Cone of Latin America, and the constrained choices of weak players in the global economy.

1.1 RBTAs: Promises and Pitfalls

The United States' preference for RBTAs is part of its strategy of 'competitive liberalisation', where, 'by using the leverage of the American economy's size and attractiveness to stimulate competition for openness, we will move the world closer towards the goal of comprehensive free trade' (Zoellick, 2002). The US aims to create a streamlined global economy in which its transnational firms can take advantage of cheaper production costs in developing countries, without fearing that their intellectual property will be stolen, their assets appropriated, or their national competitors given preferential treatment (Shadlen, 2008*a*). The liberalisation agenda is based on the premise that free trade is good for developing as well as developed countries as it enables each country to specialise in its area of comparative advantage and so reap greater gains from trade. Yet this overlooks the possibility that developing countries may need to manage the development process in order to create new areas of dynamic comparative advantage, an approach that RBTAs severely restrict.

Today's developed countries used protective tariffs and loose intellectual property regulations, as well as managing inward investment, to make the transition from agrarian economies to producers of high value-added goods and services (Chang, 2002). This transformation enabled countries to gain the dynamic gains from trade, such as economies of scale and knowledge spillovers, and so experience increasing returns and sustained economic growth. The transition to a developed economy was managed by the state, rather than being guided purely by market forces. The determination with which developing countries resist 'behind the border' regulations in multilateral negotiations at the WTO demonstrates that they understand the detrimental effect of such agreements on their opportunities for long-term development.

1.2 Incentives for Developing Countries to Sign RBTAs

In spite of these disadvantages, there are strong pressures on developing countries to sign RBTAs. Amongst the most important are the increasing competitiveness of the world economy, and constrained choice due to power imbalances in the global political economy. There are additional sources of pressure, which are discussed further in Section 2.1.

As we enter the 21st Century, the contest for access to rich-country markets is intense. Global markets have become exceptionally competitive following the entry of the East Asian countries into international trade, particularly China. Competition is further exacerbated by: the consensus that developing countries' prospects for rapid growth are best enhanced through exporting manufactured goods; the fall in transport costs; and multinational corporations' policy of relocating manufacturing plants to favoured developing countries (Shadlen, 2008*b*). WTO membership is now almost universal, and so developing countries find themselves obliged to seek preferential access beyond the access granted by WTO membership ('Most Favoured Nation' (MFN) access) in order to compete (Shadlen, 2008*b*). An RBTA with the US provides secure and stable preferential access to the largest economy in the world.

Central to understanding the incentives for developing countries to sign RBTAs is an appreciation of how power imbalances in the global economy constrain actors' choices. Supra-national institutions, including trade agreements, are assumed to solve collective action problems and create gains for all players (see for example Keohane, 1984). But where institutions combine weak and powerful players, they may leave the weaker players worse off than the original status quo (Gruber, 2000). Gruber argues that powerful players are able to create supra-national institutions that benefit them, without needing to take into account the preferences of weaker players. An RBTA between a powerful country and a third country will create a 'fear of exclusion' effect. Countries outside the agreement fear being excluded from the powerful country's market by those with preferential access. This can generate a chain reaction in which, as more and more countries sign RBTAs, those left behind are increasingly pressured to follow suit, even though they preferred the pre-RBTA status quo. This effect can be seen in action in the Americas.

1.3 Uruguay: The Story of an Outlier?

Uruguay declined the US's offer of an RBTA in 2006, even though incentives for it to accept appear strong. Ten to twenty percent of the country's exports go to the US (INE, 2008). An RBTA would reduce or eliminate the high tariffs that Uruguay currently pays on its largest export sector to the US, namely agro-industrial products, particularly beef. Further, Uruguay exports several key products to the US under the WTO's Generalised System of Preferences (GSP), meaning that they are granted tariff-free access as a concession in light of Uruguay's developing country status but, without an RBTA, this access is subject to the whims of American politicians. Finally, several LAC countries with large markets have entered into RBTAs with the US in recent years, and Uruguay is suffering from fear of exclusion.

The case study reveals that Uruguay is not the outlier it initially appears to be. The Uruguayan government has not lost interest in an RBTA with the US, but was forced to decline it by the high political and economic cost it would have entailed. Their decision was based principally on two factors. Firstly, they faced fierce resistance from disgruntled elements within the governing left-wing coalition (the *Frente Amplio*), and proceeding with the RBTA threatened to disrupt the unity of the party. Secondly, Uruguay's membership of the Southern Cone Customs Union, Mercosur[1], was under threat if they signed the RBTA. As will be shown, Uruguay is poorly served by the Union, which is dominated by Brazil and Argentina, but nonetheless, leaving Mercosur to seek RBTAs with third parties would be politically and economically very costly. Uruguay did not turn down the US's offer because they believed they had better opportunities within Mercosur, or out of a desire to safeguard their policy space. The country continues to seek ways to deepen trade relations with the US without the label of 'Free Trade Agreement', and to lessen the political cost of a possible future RBTA.

[1] Mercosur's members are Brazil, Argentina, Paraguay, Uruguay and, since 2005, Venezuela, although Venezuela has not yet been ratified as a full member.

I will argue that this causes us to question the feasibility of developmental South-South alliances. The competitiveness of the modern global economy combined with the pull of preferential access to powerful country markets puts huge pressures on developmental regionalist projects. Added to this are the difficulties created by power imbalances within South-South groupings, which further erode their unity. I will argue, further, that a small developing country such as Uruguay may not have the freedom to make the choice between a North-South RBTA and a South-South alliance, as their decisions are constrained at every turn by more powerful players.

1.4 The Structure of this Paper

Section 2 of this paper is a review of theoretical explanations of developing countries' incentives for signing RBTAs. It focuses on the growing competitiveness of the international economy, the concept of 'go-it-alone power' and the fear of exclusion effect created by other RBTAs, and changing domestic political constellations due to prior liberalisation. As membership of Mercosur played a large part in Uruguay's incentives for declining an RBTA with the US, I also discuss theories of 'New Regionalism' and the possibility of developmental South-South alliances. Section 3 is a case study of Uruguay. Trade data is used to evaluate Uruguay's commercial dependence on the US, including trade under the GSP scheme, and to compare Uruguay's export profile with that of other LAC countries that have signed RBTAs to evaluate the influence of the fear of exclusion effect. Having established that Uruguay has strong incentives to sign an RBTA, I go on to discuss their deterrents, starting with domestic political resistance. I then analyse Uruguay's position within Mercosur. I argue that the scant rewards of membership push Uruguay to seek trade agreements with third parties, but membership also acts as a strong deterrent due to the political and economic costs of leaving the Union. Finally I evaluate the factors behind Uruguay's final decision and its options for future insertion into the global economy. Section 4 concludes with an assessment of the implications of the case study findings for the future spread of RBTAs, the possibility of developmental South-South alliances, and the options of small developing countries. I also make a comparison with the Association of South-East Asian Nations (ASEAN).

1.5 Methodology

The case study of Uruguay is a single case selected on the dependent variable (i.e. that it did not sign an RBTA with the US). A single case approach provides the opportunity to carry out an empirically rich exploration this apparent outlier. The compromise is that this method makes it more difficult to generalise the findings to a broader population (George & Bennett, 2005). However, the study deepens our understanding of trade relations between the Southern Cone and the US which, I would argue, is central to an understanding of trade relations in the Americas overall. Further, it allows us to make some general, but contingent, statements about the position of small and relatively powerless developing countries in the modern global economy, and about the feasibility of developmental South-South alliances.

For the case study I carried out semi-structured telephone interviews with three Uruguayan academics. I also used a combination of primary and secondary sources including government documents, newspaper, magazine and journal articles, and books.

2. TRADING TRENDS: NORTH-SOUTH AGREEMENTS TAKE THE WORLD BY STORM

North-South free trade agreements are spreading rapidly across the globe. In LAC alone, since NAFTA in 1994, the US has signed RBTAs with Costa Rica, Honduras, Guatemala, Nicaragua and El Salvador (CAFTA, 2003), the Dominican Republic (DR-CAFTA, 2004), Colombia (2006), Peru (2007), and Panama (2007) (USTR, 2008*a*). The Americas makes a particularly interesting study, due to the rapid spread of RBTAs in the region and the influence the US as global hegemon. In the following section I review the literature on developing countries' incentives to sign RBTAs, with a focus on the Americas. This is followed by a brief study of New Regionalism and theories of developmental South-South alliances in the modern global economy.

2.1 Developing Country Drivers

2.1.1 The Nature of the Modern Global Economy

During the latter half of the twentieth century, economic development strategies based on a command economy or import-substitution industrialisation (ISI) became discredited. The collapse of the Soviet Union in 1989 terminally undermined the credibility of planned economies. Meanwhile, the ISI strategies adopted in Africa from the 50s until the 70s, and in Latin America up until the 80s, failed to produce the hoped for results. In Latin America the 80s was labelled the 'lost decade'. Growth across the continent averaged 1.3% per year (García, 2005), and the debt crises and recession of the 80s and early 90s constrained the choices of political elites (Grugel, 1999). Openness replaced ISI as developing country leaders' principal strategy, driven by the gains to be made from economies of scale in producing for global markets (Fernandez & Portez, 1998). Liberalisation was also driven by the desire to attract Foreign Direct Investment (FDI), which came to be seen as a central tenet of economic development, in a turnaround from the hostile attitude towards it in earlier decades (Graham, 2000).

Although some of the pitfalls of rapid trade liberalisation are now recognised, openness continues to be the only option that appears viable to most developing country leaders. The majority of developing countries participated in the Uruguay Round of trade talks that ran from 1986-1994, and many more have since joined the organisation created as a result of those talks - the WTO. Negotiations at the WTO are currently stalled however. The Doha Round was troubled from the start, and on 30th July 2008, the talks collapsed for the third consecutive year (FT, 2008). Meanwhile, George Bush senior's 'Enterprise for the Americas' initiative for a hemispheric free trade bloc (the Free Trade Area of the Americas - FTAA) also collapsed in 2005, in large part due to resistance from Mercosur (Phillips, 2004), leaving those countries that do wish to liberalise with few options but RBTAs.

Meanwhile, the international economy is becoming increasingly competitive. The entry of China into the global market has been harmful to LAC countries, which have seen their traditional advantage in access to the US market due to proximity eroded by China's rock-bottom prices, exacerbated by falling transport costs (American Enterprise Institute, 2008). In this environment, less competitive developing countries are compelled to seek market access better than that afforded by MFN status under the WTO in order to compete. MFN status obliges all members of the WTO to extend equal conditions to all other members. RBTAs create an exception to this rule, by allowing signees to grant concessional trading conditions, better than those afforded to other WTO members (Shadlen, 2008*b*). The preferential conditions created by RBTAs give developing countries a chance of competing with their more efficient rivals.

Liberalisation is driven not only by the perceived advantages of higher volumes of trade, but also by a desire to attract FDI. Up until the early 1980s, developing country governments tended to see FDI as exploitative, transferring wealth to the home country government while bringing little economic benefit to the host country. Further, FDI was perceived to be an imperialist weapon designed to exert political influence (Graham, 2000), and this was often the case, especially during the Cold War. Developing countries' perceptions of FDI have since (generally) taken a dramatic turnaround. This change has many causes, but two of the principal factors are firstly, increased competition amongst transnational firms which means that FDI is now offered on better terms; and secondly, the debt crisis of the early 80s created a preference for fixed, rather than liquid investment on the part of developing country governments. Developing country policy is increasing aimed at attracting FDI. RBTAs, with their behind-the-border regulations on investment and intellectual property, provide a means of doing so.

2.1.2 Power Politics and Supra-National Institutions

The choices of developing countries are constrained by the actions of powerful global players. Gruber (2000) argues that the status of large, developed countries gives them what he labels 'go-it-alone power': the ability to form supra-national institutions that benefit them without taking into account the preferences of weaker players. Weaker players are unable to exert leverage over more powerful countries as their far smaller market size makes threats to restrict market access or offers to extend it ineffective in international negotiations. When powerful players form supra-national institutions, they may leave weaker players worse off than the original status quo, yet these players are powerless to influence the process.

Gruber (2000) uses NAFTA to illustrate the theory. The US and Canada signed an RBTA in 1989, effectively granting Canadian imports to the US market preferential access. There was a substantial overlap between Canadian and Mexican imports to the US, so Mexico saw its market access threatened. The status quo had been changed for Mexico without its participation, from a situation in which it competed with Canada on equal grounds to a situation where Canada had a significant advantage. In the new status quo, the Mexican political elite was compelled to begin negotiations to enter into an RBTA with the US and Canada, even though it was fraught with political risks for the president, Carlos Salinas, and his *Partido Revolucionario Institucional* (PRI) (Gruber, 2000). Amongst its opponents were large state-owned enterprises, landowners and agricultural producers, organised labour and the government bureaucracy. Peasant farmers were threatened by cheap (subsidised) corn imports from the US, and on the very day that NAFTA was due to come into effect, a peasant insurgency erupted in the province of Chiapas. Political opposition to the agreement destabilised Mexico's political system, which discouraged foreign investors and neutralised the FDI-attracting effect that NAFTA was designed to create. Salinas entered NAFTA because the change in the status quo had left him with little other choice. The evidence suggests that it was politically damaging for him and his party, while the economic benefits it brought the country are highly debatable (Gruber, 2000).

The story does not end with NAFTA. All LAC countries, with the exception of Cuba, have a substantial degree of trade dependence on the US, and NAFTA changed the status quo for all of them. Mexico now had an advantage in accessing the US market, and the 'fear of exclusion' effect took hold in countries with overlapping export profiles. NAFTA was a key factor in the sudden enthusiasm of many to sign RBTAs with the US. As Robert Zoellick all too readily acknowledges, it is the US's power, derived from its market size, that makes its strategy of 'competitive liberalisation' so effective (Zoellick, 2002).

2.1.3 Political Trade Dependence

Many developing countries already have preferential access under the WTO's Generalised System of Preferences (GSP) scheme which makes provision within the WTO Agreements for developing countries to be treated more favourably than other WTO members (WTO, 2008). However, GSP market access is a unilateral concession and is therefore liable to change according to the political climate in the granting country (Shadlen, 2008*b*). Shadlen (2008*b* : 8) has created a measure of how dependent developing countries are on GSP concessions from the US, which he labels 'political trade dependence' and which is represented by 'the share of a country's total global exports that enter the US under preferential import schemes'. The unstable nature of GSP makes sustained investment and growth in sectors benefiting from the scheme difficult, and countries may seek RBTAs to stabilise and secure their market access. Shadlen finds a correlation between countries with high levels of political trade dependence on the US and those that have signed RBTAs.

2.1.4 Domestic Politics

Political elites make their decisions based on both international and domestic pressures. RBTAs will be supported by groups of powerful exporters who stand to gain from better market access, while those who stand to lose are less competitive firms, small farmers, and possibly the general population if an RBTA damages prospects for sustained development. Powerful exporters are well aware of what they stand to gain, are well funded and organised, and are generally able to exert a strong influence on the governing elite. Those who are disadvantaged, in contrast, are diffuse and poorly organised, and often unaware of what they stand to lose (Shadlen, 2008*b*). Shadlen (2008*b*) argues that this effect has been magnified by the trade liberalisation that has occurred during the current wave of globalisation. Liberalisation has created and/or strengthened exporters who stand to gain through further liberalisation, and who are likely to put pressure on governing elites to sign RBTAs.

2.1.5 Conclusion

Among the most important drivers for developing countries to sign RBTAs are: an increasingly competitive global economy in which MFN access is no longer enough; fear of exclusion from large markets in the wake of other Agreements; political trade dependence under the GSP scheme; pressure from powerful domestic exporter groups. Incentives for developing countries to sign RBTAs in the modern global economy are very powerful, but each country's approach will depend on the structure of its economy, its trading partners and export profiles, and its domestic politics. In the case of Uruguay, membership of Mercosur has had a critical influence on the decisions of the ruling elite regarding international trade. With this in mind, in the following section I review theories of new regionalism and South-South developmental alliances.

2.2 New Regionalism

2.2.1 Models of New Regionalism

'New Regionalism' is distinguished from the regionalism of the 50s and 60s principally by its objective of global integration. The regionalism of the middle of the 20th Century was aimed at creating self-sufficiency and independence in blocs of developing countries, to protect them from the destructive forces of global capitalism and imperial powers. In contrast, and in line with changing attitudes towards the benefits of openness, the emphasis of New Regionalism has been to create a position of strength from which countries integrate into the global economy in terms of both trade and capital flows (Stubbs, 2000). Regionalism with the aim of global integration is often labelled 'open regionalism'. Open regionalist projects are characterised by agreements that lock in neoliberal reforms, and by a push for liberalisation as a bloc, beyond the preferences of individual countries (Cammack, 2002). New Regionalism is a broad category, and regionalist projects have multiple aims amongst which global integration carries varying degrees of importance.

Nesadurai (2003: 48) develops four theoretical alternative models of New Regionalism. Two are variants of open regionalism: 'neoliberal regionalism' engages with globalisation, is open to further liberalisation and aims to reduce the role of the state, while the 'FDI model' also engages with globalisation but is ambivalent regarding the role of the state and primarily concerned with attracting FDI. The third model is the 'resistance model', in which political elites are concerned with social and distributive issues, labour is privileged over capital and the aim is to seek insulation from market forces. Finally, 'developmental regionalism' engages globalisation eventually, but only following a period of protection during which domestic economies and industries have time to develop their competitiveness. Domestic-owned capital is privileged over foreign-owned capital initially and the political elite are concerned with long-run growth. Nesadurai argues that the developmental regionalist model enables political elites to preserve domestic social agendas threatened by globalisation. She argues that the Association of South-East Asian Nations (ASEAN) is an example of developmental regionalism.

In a similar vein, Hettne (1999*a*: 22) proposes that modern South-South regionalism is a form of developmental regionalism that aims to bring processes of globalization under national political control. He compares New Regionalism to Polanyi's Second Movement; regionalism represents the return of the 'political' in the global economic sphere, and enables political elites to intervene in favour of crucial values, including development, security and peace. Within this overarching framework, Hettne (1999*b*: xxvi) argues that regionalism can be a way for developing countries to become self-reliant, an outcome which is not feasible as a lone player. Further, South-South regionalism enables collective bargaining, which improves the bargaining position of any single country. In Hettne's view, new regionalism is a developmental, political response to globalisation which aims to insulate developing countries from the excesses of the system.

2.2.2 Mercosur and New Regionalism

The Mercosur project has its origins in the late 80s rapprochement of Brazil and Argentina. In 1988 the two countries signed the Treaty of Integration, Cooperation and Development, that committed them to creating a Common Market within ten years (Vizentini, 2002). Faced with the union of their two far larger and more powerful neighbours, Uruguay and Paraguay had little option but to join what was 'essentially a bilateral arrangement' (Cammack, 2002: 220). Just as in Gruber's (2000) account of the formation of NAFTA, Brazil and Argentina have 'go-it-alone power' within Mercosur. They changed the status quo for Uruguay and Paraguay with no input from the smaller countries. The Treaty of Asunción was signed in 1991, creating Mercosur and committing the four member countries to the creation of a Common Market by 31st December 1994 (Vizentini, 2002: 197).

Mercosur was broadly seen as a neoliberal regionalist project, aimed principally at facilitating integration with third markets (Phillips, 2004). The objective was to create an environment in which liberalising reforms could be implemented, reforms for which there was very little domestic support in either Brazil or Argentina (Cammack, 2002). Yet Mercosur does contain aspects of the 'old regionalism', or of what Nesadurai might classify as developmental regionalism. As a Customs Union Mercosur is a Free Trade Area with a Common External Tariff (CET) set at between 0 and 20% (Mercosur, 2008). The arrangement serves to liberalise trade within the Union, while providing industries within Mercosur with protection from the global market. Member countries are not officially allowed to sign RBTAs with third parties, as this would puncture the CET. Further, Mercosur has a parliament and a strong political mandate, unlike the majority of new regionalist projects which are primarily economic unions (Grugel & de Almeida Medeiros, 1999). It seems possible that Uruguay was discouraged from defecting from Mercosur to sign an RBTA with the US by the Union's developmental features, combined with the increased bargaining power gained by negotiating as a bloc with Brazil and Argentina. I will discuss this possibility further in Section 3.

3. URUGUAY: THE STORY OF AN OUTLIER?

Uruguay's political elite chose to turn down an RBTA with the US despite the powerful incentives described in Section 2, and the additional challenges created by its tiny domestic market given that Uruguay's population is 3.5 million (ECLAC, 2006). In the following section I will analyse the pressures faced by Uruguayan politicians when making their decision. Section 3.1 is a brief history of Uruguay's trade agreement negotiations with the US, while in Section 3.2 I use trade data to analyse Uruguay's drivers in terms of trade dependence, political trade dependence and fear of exclusion. Section 3.3 explores how domestic political opposition acted as a deterrent to signing the RBTA, and in Section 3.4 I argue that Uruguay's dissatisfaction with Mercosur led it to seek agreements with third parties, but membership also acted as a deterrent, due to the political and economic costs of withdrawal. In Section 3.5 I summarise the factors that influenced the Uruguayan political elite's final decision, and discuss future options for insertion into the global economy.

3.1 History of Negotiations with the US

Negotiations with the US began under the centre-right *Partido Colorado* government of Jorge Batlle in 2002. Batlle had developed a good relationship with George W. Bush, and the two countries set up a Joint Commission on Trade and Investment in 2002, which led to the announcement of their intention to negotiate a Bilateral Investment Treaty (BIT) in November 2003 (USTR, 2008*b*). The BIT was concluded in September 2004, and inherited by Tabaré Vázquez and his left-wing coalition government, the *Frente Amplio*, when they won the October 2004 elections.

The *Frente Amplio (FA)* is a coalition of twenty-one parties and alliances, ranging from far left elements such as the *Movimiento de Participación Popular* (MPP), mainly formed of ex-Tupamaro guerrillas, and the Communist Party, to the considerably more centrist *Assemblea Uruguay*, led by the pro-free trade Minister of Economics, Danilo Astori (FT, 2007*a*). Despite the ideological objection of many elements within the FA to a close relationship with the US, the new government continued to negotiate with their powerful northern neighbour, and in 2005 the Uruguayan senate ratified the BIT (INVEST-SD, 2005). Meanwhile, Mercosur was playing a major role in the breakdown of the US FTAA initiative by refusing to accept the deep integration provisions of the FTAA if the US did not reduce agricultural subsidies (Carranza, 2006). The bifurcation of approaches between Uruguay and Mercosur demonstrated that, despite its left-wing credentials, the FA did not intend to follow the lead of Argentina and Brazil's centre-left governments in resisting deeper trade relations with the US.

In 2005 the US formally offered Uruguay a full Free Trade Agreement, under the soon to expire 'Trade Promotion Authority'(TPA), an authority granted by Congress for the President to negotiate trade deals which Congress can approve or disapprove, but cannot amend. In an interview with the newspaper Busqueda in July 2006, Economics Minister Danilo Astori indicated that Uruguay was keen to sign the agreement, stating that an RBTA with the US was 'a strategic and fundamental step in order for Uruguay to achieve an improved level of development' (Busqueda, 2006)[2]. Yet in late September of that year, President Vázquez confirmed that Uruguay would not sign an RBTA, and would instead enter into a Trade and Investment Framework Agreement (TIFA) with the US (El Espectador, 2006). The TIFA contains none of the strong commitments of an RBTA. It is essentially an agreement that the two countries will continue to negotiate on trade in goods and maintain the provisions of the BIT.

Vázquez gave his reasons for turning down the RBTA as insufficient time to negotiate within his coalition party and to fully understand the consequences of the agreement before TPA expired (El Espectador, 2006). As I demonstrate in the following sections, the reasoning behind this momentous decision was, in reality, far more complicated.

3.2 Drivers: Trade Dependence, Political Trade Dependence and Fear of Exclusion

Uruguay has two primary export markets: the US and Brazil, with Argentina in third place (refer Figure 3.1). Mercosur as a whole remains a more important export market than the US, but the US market has gained importance throughout the early years of this century, while Brazil has lost importance. Uruguay clearly has strong incentives to gain preferential access to the US market which is the destination of 10 to 20% of its exports. Nonetheless, as revealed by figure 3.2, Uruguay's trade dependence on the US in 2006 was lower than the majority of other LAC countries in the years before they signed Agreements, with the notable exceptions of El Salvador and Chile. This may be one reason why Uruguayan incentives to sign an RBTA were less compelling than those of their more northerly neighbours.

[2] All translations by author.

Figure 3.1: Uruguay´s Export Markets

Source: Author's own elaboration using data from INE (2008)

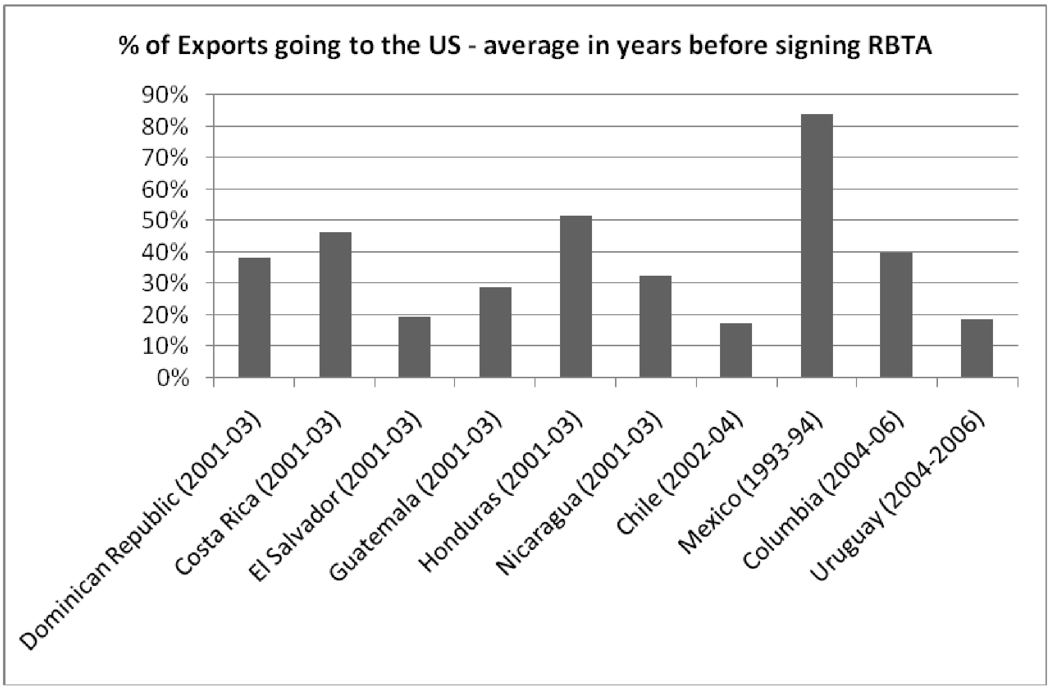

Figure 3.2: US Trade Dependence of Countries that have signed RBTAs & Uruguay

Source: Author's own elaboration using data from: SIECA (2008), Secretaria de Economia Mexico (2008), Mincomercio (2008), INE (2008), ProChile (2008)

Uruguay's political trade dependence averaged 8.3% between 1996-2001 (Shadlen, 2008*b*: 9). This puts it above the median in LAC, and Shadlen finds that the majority of countries with this level of political trade dependence have signed an RBTA with the US. Uruguay's main exports under GSP are upholstery leather, raw cane sugar, prepared or preserved beef and certain types of cheese (USTR, 2008*c*). Aside from raw cane sugar, these are the agro-industrial products in which Uruguay is focussing its economic development strategy. They have a strong comparative advantage in primary production in these sectors, and add value through processing (Astori, 2005). In late 2006, when Uruguay's political elite was making its decision on the RBTA, US Trade Representative Susan Schwab let it be known that the US government was reviewing whether to maintain its GSP concessions (APdM, 2006). She stated that the revision 'should not be interpreted in any way as a punitive measure', but the move demonstrates the instability of GSP concessions and the extent to which they can be used as a political tool. Gaining secure and stable access for these products to the US market provided a strong incentive for Uruguay to sign an RBTA.

Given the spread of RBTAs in the Americas in recent years, it seems likely that fear of exclusion would be a driver for Uruguay to sign an Agreement with the US. The impact of the fear of exclusion effect depends on the extent to which a country has overlapping export profiles with those that have signed RBTAs. Figure 3.3 shows exports to the US from Mexico, Chile, the DR-CAFTA countries and Uruguay for 2006 by sector according to Standard International Trade Classification (SITC) 1, which is the broadest classification of commodity groupings. The graph suggests that there is not a high degree of overlap between Uruguay's primary export sectors to the US and those of countries in the region that have signed RBTAs. Broad commodity classifications can be misleading however. Figure 3.4 shows exports of food and live animals broken down into SITC 2 groupings for the same countries, and Figure 3.5 gives this information for manufactured goods. Once again, the graphs reveal little overlap. Uruguay has two clearly dominant markets in the two commodity groupings; meat and leather respectively, while for the other countries these sectors have little importance. The obvious conclusion is that fear of exclusion had little impact on Uruguay's decision.

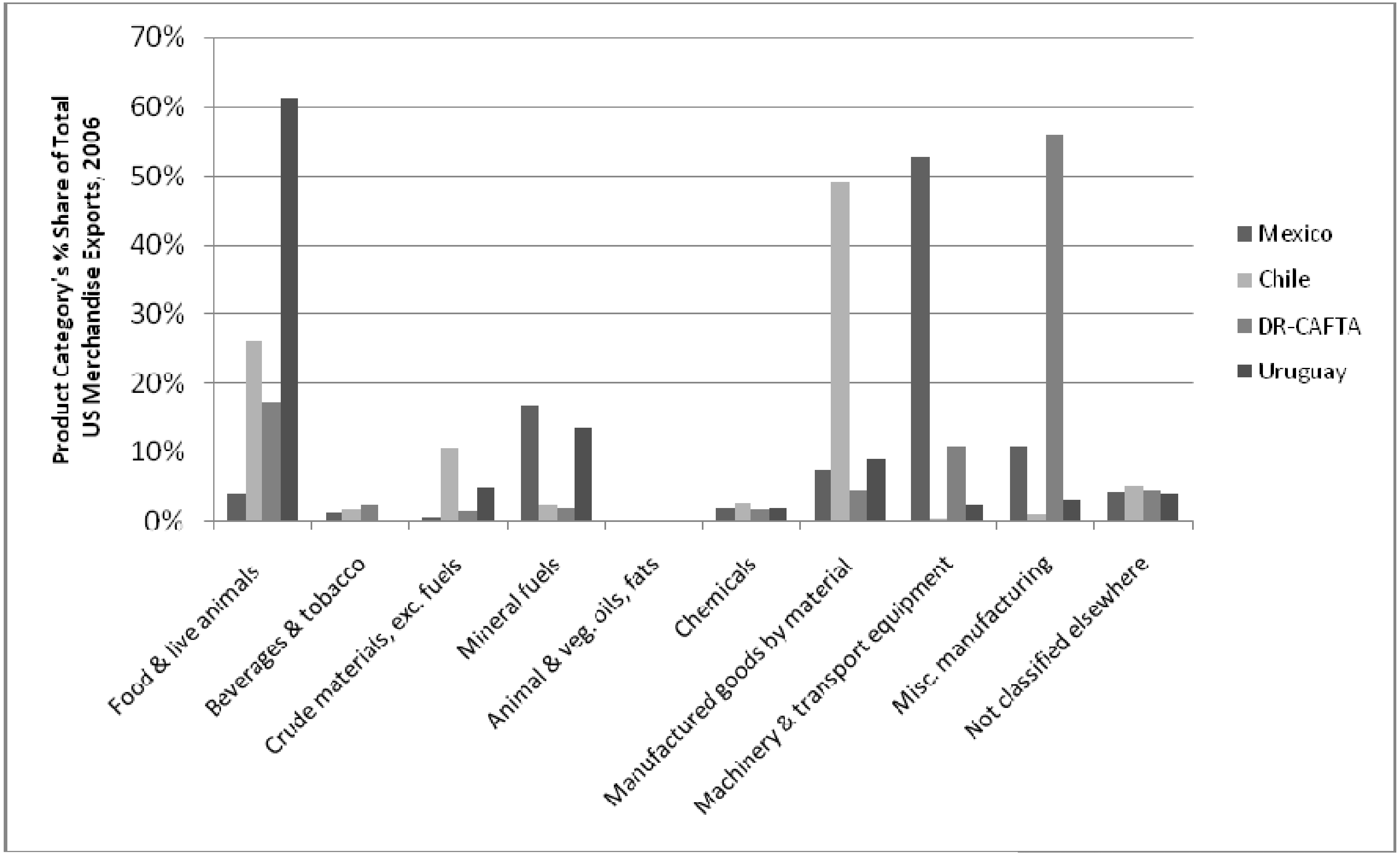

Figure 3.3: Exports to the US 2006: Uruguay and countries having signed RBTAs

Source: Author's own elaboration using data from US Census Bureau (2008)

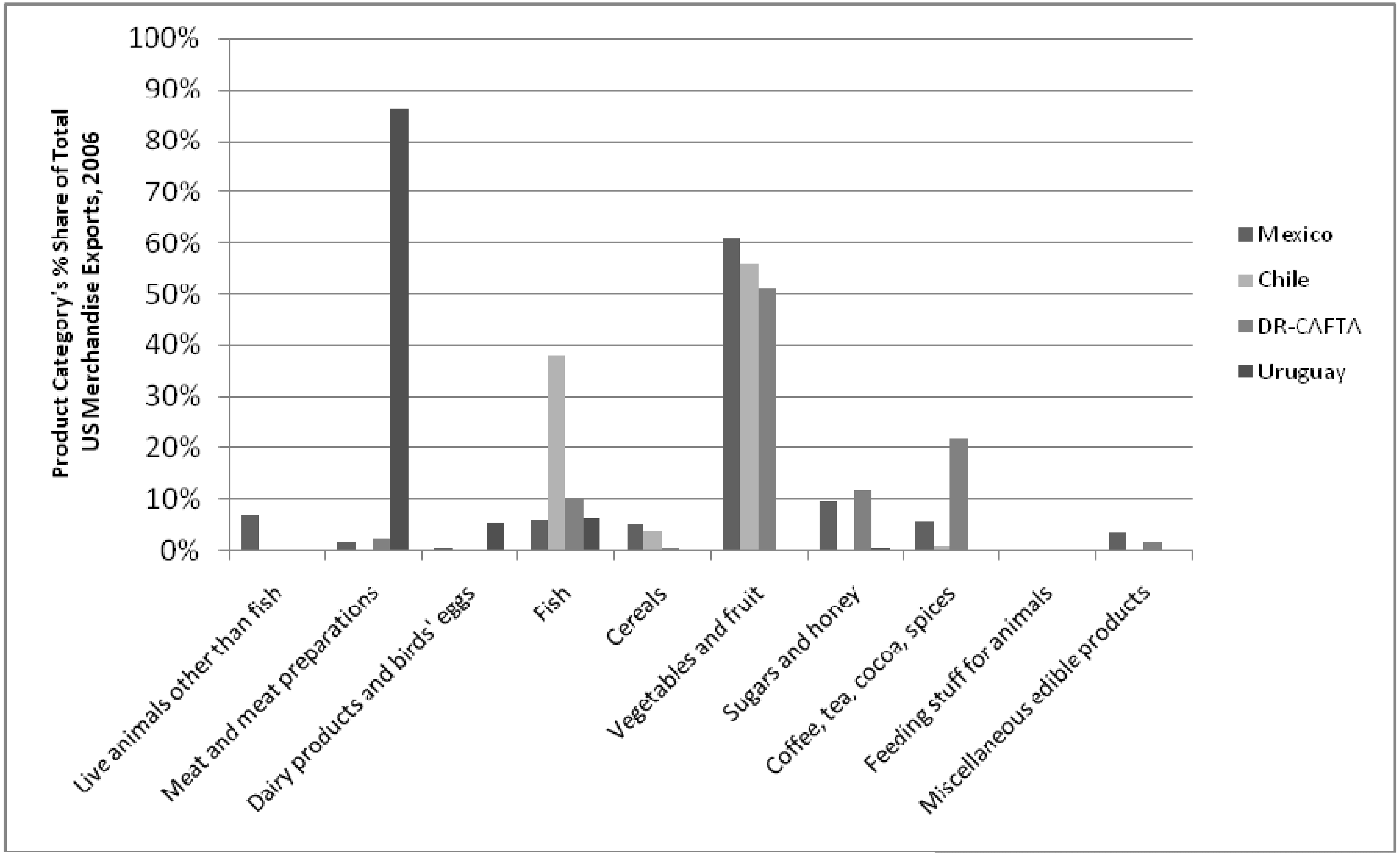

Figure 3.4: Exports to the US: SITC 2 Commodity Groupings – Food and Live Animals

Source: Author's own elaboration using data from US Census Bureau (2008)

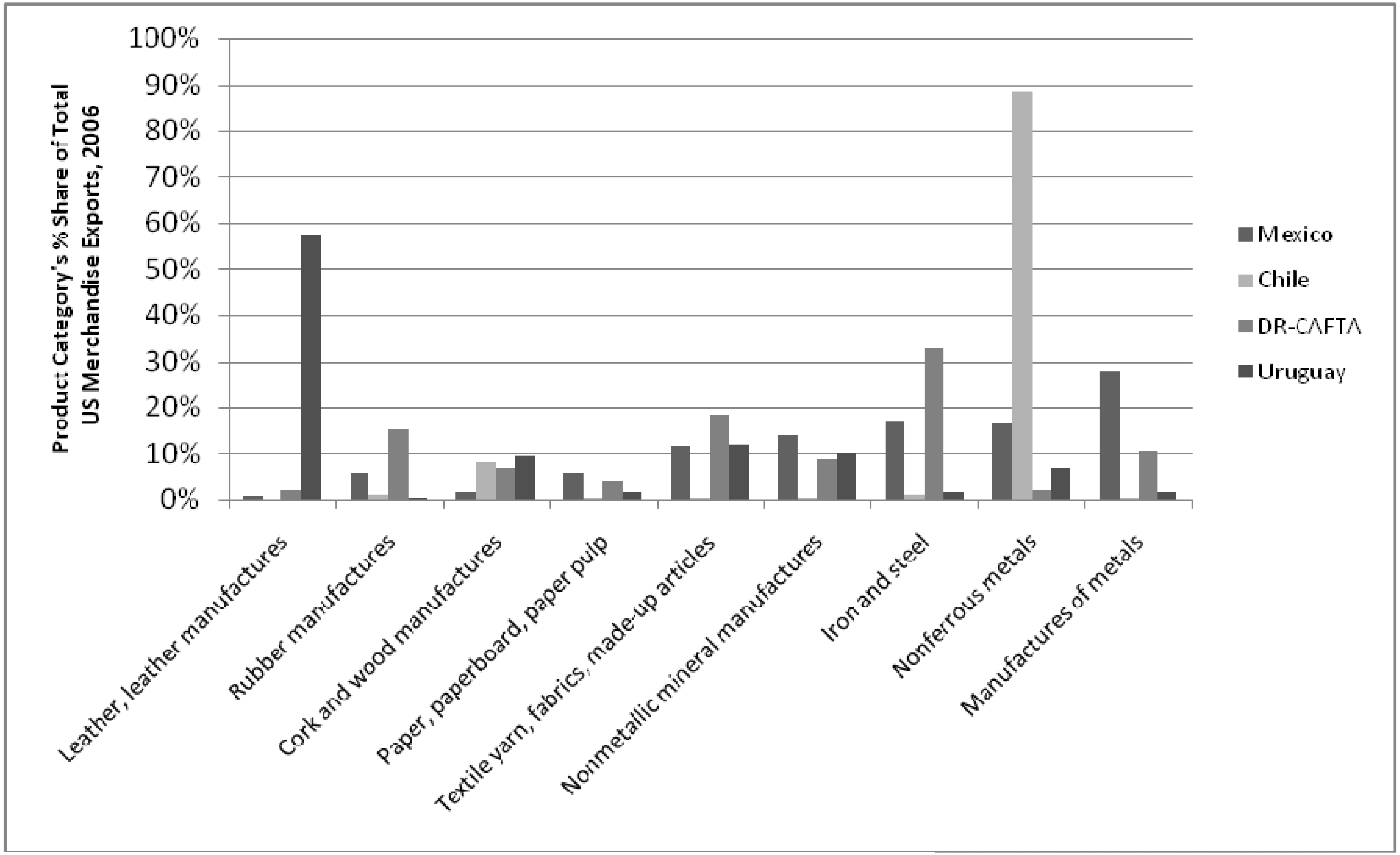

Figure 3.4: Exports to the US: SITC 2 Commodity Groupings – Manufactured Products

Source: Author's own elaboration using data from: US Census Bureau (2008)

Two factors cause us to question this conclusion. The first is that the markets of the other countries considered here, particularly Mexico, are far larger than that of Uruguay. Although they export *proportionally* less, the quantity they export may put them in direct competition with Uruguay. For example, in 2006, meat made up 86% of Uruguay's food and live animals exports to the US, and 2% of Mexico's, but the value of Mexico's meat exports was 50% those of Uruguay. Similarly, leather products make up 57% of Uruguay's manufactured exports, and just 1% of Mexico's, but the value of Mexico's leather exports was three times that of Uruguay (US Census Bureau, 2008). Despite the lack of obvious overlap in export markets, Uruguayan politicians and exporters were bound to feel some fear of exclusion when these far larger markets were granted preferential access to the US market. Secondly, in April 2006, a group of Uruguayan export bodies consisting of the Rural Association, the Chamber of Industry, the Merchants' Chamber of Country Products and the National Chamber of Trade and Services wrote a public letter expressing their joint support for a Uruguay-US RBTA. One of their five stated reasons was:

> 'Uruguayan exports have become less competitive in the United States, due to the preferential access which other countries in Latin America and the Caribbean have gained to this market, by signing Free Trade Agreements or through other special access programmes' (CIU, 2008).

The concern of this powerful group demonstrates that fear of exclusion must have played a part in the decision-making process of Uruguay's political elite. Nonetheless, the data reveals that it was not the driving force that it is likely to have been for other countries in the region with more closely overlapping export profiles.

3.3 Deterrent: Domestic Resistance

3.3.1 Resistance within the Governing Coalition

As discussed in Section 3.1, the FA is a coalition party containing a broad range of political persuasions, including far-left elements ideologically opposed to closer trade relations with the US. Keeping this diverse coalition united presents a huge challenge, but is vital to the party's ability to govern. The principal proponent of the RBTA was the Economics Minister**,** Danilo Astori, who was seen by many to be 'piloting the country's international politics', and who was supported by his own party (*Asamblea Uruguay*) and two further major parties within the FA (Brecha, 2006). Vázquez appeared to side with Astori throughout negotiations. The most vocal opponent was the Foreign Minister and head of the Socialist Party**,** Reinaldo Gargano, who threatened to resign if Uruguay signed the RBTA (LARR, 2006*a*). The FA's largest party, the MPP, was also opposed to the RBTA (Prensa Latina, 2006), as were the Socialist Party and five other coalition parties (Brecha, 2006). Had Vázquez chosen to sign the RBTA, he would have alienated several ministers within his own cabinet, and several of the parties that formed the coalition. This would have caused fragmentation within the FA and made the task of governing close to impossible. The high domestic political costs of signing an RBTA were a major disincentive for Vázquez (da Silvera, 2008: Vaillant, 2008*a*: van Rompaey, 2008*a*: interviews).

3.3.1 Resistance within the Public & Civil Society

Civil society presented some resistance during the negotiations, particularly the association of small and medium enterprises and the Students' Federation (Clemente, 2008). The labour movement in Uruguay fragmented during liberalisation in the 80s and 90s (Phillips, 2004), and resistance from the unions was moderate and slow to materialise. Added to this, the FA stood to lose little public support over its policy, as the main opposition parties – the *Partido Nacional* and the *Partido Colorado* – are both considerably more right-wing and pro-free trade than the FA. Public opposition played a relatively minor role in Uruguay's decision-making criteria.

3.4 Deterrent and Driver: Position within Mercosur

The power imbalances within Mercosur are manifest in its rules and structures of governance, which bestow greater benefits on its larger members. Uruguay's economic growth strategy is two-pronged: firstly to take advantage of the expanded market created by Mercosur to 'develop industries with economies of scale and knowledge spillovers'; and secondly to make agreements with third parties (whether through Mercosur or individually) to 'develop and export traditional agro-industrial products' (Uruguay Presidency, 2006: 7). Uruguay sees Mercosur as having obstructed it on both fronts. Its first set of grievances relate to the Union's internal functioning in terms of trade liberalisation, policy harmonisation and institutionalisation.

Trade liberalisation within the union remains incomplete. Little has been done to eliminate non-tariff barriers, such as onerous anti-dumping procedures, long detentions of trucks on borders, and excessively onerous norms and standards (Uruguay Presidency, 2006). Uruguay and Paraguay also find themselves disadvantaged by Mercosur's 'double tariff', whereby products imported from outside the region pay a further tariff when they are traded within Mercosur. The stated ambition of the member countries to harmonise policy beyond free trade in order to create conditions for a full Common Market has also failed to be realised (Phillips, 2004). Little has been done to harmonise macroeconomic policy in terms of fiscal policy, public debt, and inflation (Astori, 2005). Brazil demonstrated its unwillingness to sacrifice its own policy space for the sake of harmonisation when it devalued the *real* in 1999 without consulting the other members, despite the huge impact of this decision on their economies (Vizentini, 2002). Finally, Uruguay suffers from the lack of institutionalisation of Mercosur. The governing structures of the union have remained informal, with no supra-national legislative authority, and no formal dispute resolution mechanism (Phillips, 2004). Important decisions are often made at national level, an arrangement that suits the more powerful members, but leaves the interests of Uruguay and Paraguay unheard (Astori, 2005). In an official document presented to Mercosur's Common Market Council, the Uruguayan Presidential Office states:

> 'the failure to create an expanded market in Mercosur, due to the persistence of non-tariff barriers and the absence of effective progress in other areas (public policy, macroeconomic coordination, integration of production, anti-trust law), has impeded the development in Uruguay of that class of manufacturing production in which scale determines efficiency' (Uruguay Presidency, 2006: 6).

Uruguay is also deeply dissatisfied with Mercosur's external relations. Uruguay joined Mercosur understanding it to be an example of 'open regionalism', and a platform from which to integrate with the world economy (Phillips, 2004: Uruguay Presidency, 2006). The results have been disappointing. Mercosur has remained significantly 'inward-looking', measured by trade/GDP and in comparison to other blocs in LAC (Phillips, 2004: 89). Mercosur's policy, led by Brazil, has been to sign RBTAs with other developing countries, particularly in LAC. It has Agreements with Colombia, Ecuador, Bolivia, Chile, and Peru (SICE, 2008). Outside LAC, Mercosur has an RBTA only with Israel. Its long-running attempts to create an RBTA with the European Union have stalled (Clarín, 2005) and, under the stewardship of Brazil, it has resisted closer trade relations with the US. For a country of Uruguay's size, trade relations with larger markets are key to economic development (Vaillant, 2008*a*: interview), but Mercosur's rules prevent Uruguay from forming RBTAs with countries outside the union on an individual basis. The CET is seen to protect the industries of the larger members, particularly Brazil, while enforcing 'levels of protection far superior to that consistent with the development [of the smaller members]' (Uruguay Presidency, 2006: 15). These conditions have led the Uruguayan Presidential Office to conclude that 'Uruguay finds itself obliged to honour a commitment which is proving very costly', and that 'the flexibility to negotiate with third parties... is the escape valve which would permit the smaller members...to reduce the costs of stagnation...resulting from the failure to fulfil the commitments [of the Union]' (Uruguayan Presidency, 2006: 16).

As regards FDI, Uruguay has benefitted from its membership of Mercosur, but to a smaller degree than the larger countries. While FDI to Uruguay increased more than fourfold between 1990-2001, FDI to Brazil and Argentina (before the financial crisis) increased by multipliers of nineteen and eight respectively (Phillips, 2004: 184). Uruguay currently has an offer of its largest foreign direct investment ever; a $1.7bn project to construct paper mills on the border with Argentina in a Finnish-Spanish joint venture (FT, 2006). Argentina has blocked the deal on the grounds that the mills would cause pollution of the river that borders the two countries, although the investors have assured the Argentineans that the mills would comply with international standards. Argentinean protestors have been blocking the bridges between the two countries since the dispute first erupted in early 2005, causing massive disruption to movement of goods and people. The conflict has created high levels of tension within Mercosur, and Brazil's unwillingness to step in is seen in Uruguay as a demonstration of how the power imbalances within the Union, manifested in Brazil and Argentina's 'bilateralism', damage its own chances of development (FT, 2007*b*).

There was speculation at the time of the negotiations that the process was a ploy on the part of the Uruguayans; that by making a veiled threat to leave the Union they aimed to gain better conditions within Mercosur (Economist, 2006: Brecha, 2007). Although Uruguay does not have great economic significance in Mercosur, its departure would be politically very damaging to the larger partners. Brazil**,** in particular**,** sees Mercosur as central to counter-balancing US hegemony in the region (Fishlow, 2004), and a demonstration of the unity of the Southern Cone's left-wing governments (Vaillant, 2008*a*: interview), a project which would be dealt a heavy blow by Uruguay's defection. The idea that the Uruguayan political elite was never serious about the RBTA is discredited by the intensity of negotiations between the US and Uruguay, and within the governing coalition. Nonetheless, the Uruguayans were aware of the impact of their threat to defect, and were using it to try to gain one all-important concession: the ability to sign RBTAs with third parties while remaining a full member of Mercosur. The political elite's petition for this outcome was stated on numerous occasions (Astori, 2006: Abreu, 2006: BBC, 2007), including a letter from Vázquez to Lula while he was acting as pro-tempore President of Mercosur in September 2006. Vázquez stresses the increasing asymmetry between the large and small members of Mercosur and requests that the Union 'create flexibility to allow Uruguay and Paraguay to explore relations with third countries' (Vázquez, 2006*a*). President Lula of Brazil made it clear that this would not be accepted. In a meeting in September 2006, Lula told Vázquez that 'it is not possible to pierce the spine of the regional bloc; that is, the customs union defined by the common external tariff'[3], while Brazilian Foreign Minister Celso Amorim explained that 'to be a full member of Mercosur, it is necessary to be part of the customs union' (Clarín, 2006). Uruguay's bid to be granted special conditions as a smaller member was blocked by Mercosur's de-facto leader.

Despite all its disadvantages, leaving the Union is not seen as a feasible option. This is reflected in Vázquez and Astori's public speeches, in which they speak positively of their position in Mercosur, and strongly deny the possibility of leaving it (Vázquez, 2006*b*: Astori, 2006). Uruguay lies at the geographical centre of Mercosur, sandwiched between Brazil and Argentina, and Mercosur remains Uruguay's primary export market. Politically and economically, Uruguay's relations with its two giant neighbours are of vital importance. While Uruguay's discontent with Mercosur could be seen as a driver to sign an RBTA with the US, the fact that it would have to leave the Union to do so is a strong deterrent.

3.5 Sources of Uruguay's Enthusiasm for an RBTA and Future Options

Uruguay shares with other LAC countries pressures to sign RBTAs that are a direct result of the market power of the US. These are trade dependence and political trade dependence on the US, and fear of exclusion from their market in the wake of other Agreements. Mercosur could potentially act as a counterweight to these pressures, but the Union does not serve Uruguay as a developmental alliance, and is even seen to restrict its economic development. In the opinion of one Uruguayan academic, 'Brazil as the leader would have to do little more than eliminate barriers to trade, initiate some industrial chain integration and make a greater commitment to implementing redistribution mechanisms to gain Uruguay's satisfaction with Mercosur' (van Rompaey, 2008*c*). There is little indication that Brazil will implement these changes and, while it does not, the pressure on Uruguay to seek an RBTA with the US will remain strong.

Uruguay's decision-making process was also influenced by the structure of its economy and its economic policy, which result in the conservation of policy space being a low priority. Uruguay de-industrialised in the 70s under the unilateral liberalisation undertaken by the military dictatorship (Vaillant & Ventura-Dias, 2004), and its industrial base was further eroded when it opened its economy to the other Mercosur members in the early 90s (Vaillant, 2008*a*: interview). Uruguay's exports are primarily agricultural and agro-industrial**,** areas in which it has a strong comparative advantage, and which do not require significant protection (Vaillant, 2008*b*). Uruguay's economic development strategy has no strong industrial element. Rather

[3] Quotation from newspaper article, not President Lula

the aim is to add value to agro-industrial products; to grow the services sector, for example transport, communications and tourism; and to develop activities that utilise Uruguay's high human capital, for example software and biotechnology (Astori, 2005). Although some members of the political elite believe that 'it is very difficult to think of the long term without industrial insertion' (Quijano, 2007), this opinion is not widely held. As one Uruguayan economist puts it '[the argument the Uruguay needs to conserve its policy space] is not valid and does not apply to a small economy like Uruguay which has already restricted its policy space very significantly and profoundly liberalised its economy when it signed a free trade agreement with such large neighbours as Brazil and Argentina' (Vaillant, 2008*a*: interview). There is some concern about intellectual property regulations (Busqueda, 2007), but generally the benefits in terms of economic development are seen to outweigh the disadvantages, and resistance within the governing coalition is primarily ideological, rather than based on concerns about policy space (da Silvera, 2008: interview).

Uruguay's primary motivation for signing an RBTA with the US is simple: it would like to export more primary and agro-industrial products (particularly beef) to the US market, without paying the high tariffs it currently faces. The short term gains to be made from preferential access are a powerful incentive. In a democratic system with opposition parties that are more pro-free trade than the FA, sacrificing short term gains for long term industrial development would be a risky path for the Uruguayan political elite.

Uruguay now appears to have two possible options. The first is its current approach; continue to negotiate with the US under the TIFA while remaining a full member of Mercosur and continue to strive for a '*Mas y Mejor Mercosur'* (More and Better Mercosur) (Vázquez, 2006*c*). Uruguay has little leverage within Mercosur beyond threatening to leave, and there are only so many times it can use this strategy. Meanwhile, Mercosur's structure and rules will continue to be dictated by its more powerful members, and will continue to reflect their interests. Uruguay has little hope of bringing about major change.

Secondly, Uruguay could play '*á la Chile'***,** an option which Astori firmly supports and Vázquez takes a strong interest in (Busqueda, 2006). In this scenario, Uruguay would downgrade to 'associate member' status in Mercosur and would then be free to sign an RBTA with the US (as did Chile in 2004) and follow Chile's example of pursuing RBTAs with as many countries as possible in order to obtain the all-important expanded market. But there are differences between Chile and Uruguay that make this option less feasible for the smaller country. Chile went through a painful process of state reform during Pinochet's dictatorship, during which public enterprises and banks were rapidly privatised, small firms went bankrupt and only the most competitive survived (Ffrench-Davies, 2004). Meanwhile Uruguay's public sector is large, with the majority of the services sector under state ownership (Vaillant & Ventura Dias, 2004), and there is little appetite for reform amongst the public. Without this reform, it is likely that Uruguay would struggle to successfully integrate as a lone player (Martínez Larrachea, 2008: Clemente, 2008). Chile exports products of great interest to many major economies, particularly copper, whereas Uruguay's major export markets are agricultural products which are highly sensitive in developed economies. Uruguay may therefore struggle to generate the interest that large economies show in creating trade agreements with Chile. A further obstacle is that Mercosur's other members may not be willing to permit Uruguay to downgrade to associate member status (da Silvera, 2008: interview). Tempting though playing '*á la Chile'* may seem, its feasibility for Uruguay is questionable.

Uruguay's options depend a great deal on the future strategy of the US. US interest in an RBTA with tiny Uruguay is not based on trade or economic opportunities (da Silvera, 2008: Vaillant, 2008*a*: interviews: van Rompaey, 2008*b*). Rather, it is a strategic move to counter the growing strength of the alliance of left-wing governments in South America, which includes Chavez's Venezuela, Lula's Brazil, Kirchner's Argentina and Morale's Bolivia. The trade deal is seen by many to be part of the power play between the US and Venezuela for dominance in South America (IHT, 2006: LARR, 2006*b*). Bush, who had previously shown little interest in an RBTA with Uruguay, made the offer as Venezuela was preparing to join Mercosur in 2005. The power-play between Venezuela and the US is unlikely to disappear in the near future, but a change of government in the US may make a big difference to Uruguay's options. If, as seems probable, a Democratic government is elected in November 2008, they are likely to moderate the policy of signing multiple RBTAs pursued by the pro-free trade Republicans. The ball may then be out of Uruguay's court or, as Vázquez put it when explaining why the US offer merited serious consideration, 'sometimes the train only passes once' (Vázquez, 2006*b*).

4. CONCLUSION

4.1 Between a Rock and a Hard Place: Uruguay's Constrained Choices

Pressures for developing countries to sign RBTAs are intense, particularly in Latin America. Uruguay initially appears to be an outlier, but closer inspection reveals that the country's political elite was enthusiastic about the prospect of an RBTA. They did not turn down the US offer because they were concerned over policy space. Nor did Uruguay reject the Agreement because they believed they had better options within the developmental-regionalist alliance of Mercosur. Nesadurai's (2003: 180) assertion that 'regionalism will only be as strong as the self-interest of its member states' is well illustrated by Mercosur, which functions as a developmental alliance only for its larger members. Rather, the domestic political costs of the RBTA, and the political and economic costs of leaving Mercosur, were seen to be too high.

Uruguay's eagerness is in spite of the fact that many of the drivers discussed in Section 2.1 are not fully applicable to its case. Its trade dependence on the US, though significant, is low compared to many countries in LAC, and it does not have substantially overlapping trade profiles with other countries in the region that have signed RBTAs. Groups of domestic exporters may have had some influence on the government, but in general Vázquez was far more concerned with how the decisions made would affect relations within the party than relations with exporters. As principally an exporter of agricultural products, and with little in the way of industrial policy, Uruguay could be seen as a prime candidate for lack of interest in an RBTA given that reductions in rich-country agricultural subsidies cannot be negotiated through RBTAs (Phillips, 2005) and Uruguay has little interest in accessing the US's huge manufactured product market[4]. Uruguay's enthusiasm stems from its desire to export more agro-industrial products, particularly beef, to the US. The country's interest in an RBTA, despite the relative weakness of many of the principal drivers proposed in the literature, demonstrates the power of the pull of the US market.

An RBTA with the US would have brought Uruguay benefits in the short-term through an increase in GDP due to increased and tariff-free agro-industrial exports. In the long term, Uruguay's preferential access would have been eroded by the spread of RBTAs, their loss of policy space would have made long-term economic development policies more difficult to implement, and the agreement would have served to perpetuate the hub-and-spokes model of trade in the Americas. A US RBTA cannot be described as a great option for Uruguay, but it is an option that in any case they were not able to pursue, in large part because of constraints put on them by their powerful neighbour, Brazil. A tiny country, politically and economically sandwiched between the US and Brazil, Uruguay has a definitively 'power-constrained choice set' (Moe, 2005: 227).

4.2 ASEAN: A Successful South-South Alliance?

The South-South regional project that can be most easily compared to Mercosur is ASEAN. The ASEAN member countries formed the ASEAN Free Trade Area (AFTA) in 1991 with six member states: Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Brunai. Vietnam, Laos, Mynamar and Cambodia have since joined (Nesadurai, 2003). Nesadurai (2003: 42) argues that ASEAN is an example of developmental regionalism as the leaders engaged in 'a period of temporary and limited resistance to aspects of globalisation through which attempts are made to enable domestic business to eventually participate in global market activities'. There are some fundamental differences between AFTA and Mercosur. AFTA is a Free Trade Area rather than a Customs Union, so it does not have a CET and member countries are permitted to form trade agreements with third parties. However, while the ASEAN countries remain underdeveloped, this would run counter to the developmental regionalist objective that Nesadurai argues is the group's *raison d'être*, as engaging in an RBTA with a developed country removes the protection provided by the alliance.

A further difference is that AFTA does not have such pronounced power imbalances between member countries as Mercosur. Nesadurai (2003: 154) argues that a process of 'compliance bargaining' occurred in the early days of AFTA, in which 'members accepted downward revisions to original commitments but also engaged in institution building... as they attempted to re-balance growth and distributive concerns at the regional level'. This process prevented disputes from resulting in the breakdown of the project. We do not see this occurring in Mercosur and this, I would argue, is due to the huge power imbalances, which enable Brazil and Argentina to pursue their own interests without taking account of the preferences of Uruguay and Paraguay. South-South alliances may be more feasible where member countries are relatively balanced in terms of market size.

ASEAN countries suffer from the same temptation to form alliances with more powerful countries however, and many of the member countries have agreements with third parties. Countries such as Singapore, which has multiple RBTAs, could be seen to be sufficiently

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[4]Although the country's lack of industrial policy also removes the need to protect fledgling industries, which is one of the principal disincentives for signing these agreements.

developed as to no longer require the protection of the alliance. Some of the less developed countries have also signed Agreements however. For example, Thailand has RBTAs with China and Japan amongst others (BOI, 2008), and the Philippines has an (as yet unratified) Agreement with Japan (RP Government, 2008) and is, according to media reports, about to start negotiations with the US (Business Mirror, 2008). These agreements give cause to question ASEAN's developmental regionalist characteristics. Further, the possibility that South-South alliances function better where member countries are similarly powerful is of little use to tiny countries such as Uruguay. An alliance of minnows would neither create a significantly expanded market nor substantially increase bargaining power, and is not a viable alternative to North-South RBTAs. Any Agreement with more powerful countries is likely to result in poor terms for weaker players.

Further comparison of the characteristics of Mercosur and ASEAN would make a valuable contribution to understanding whether there are types and constellations of South-South alliances that are feasible, and to what extent they can be 'developmental'.

4.3 Constrained Choice in a Liberal World Economy

Evidence from this paper suggests that developmental South-South alliances that benefit all members and have 'old regionalist' characteristics such as tariff barriers to protect fledgling industries and a strong political element, are difficult, if not impossible, to form in the modern global economy. The pull of the US market is just too powerful for the majority of developing countries to resist, and power imbalances within South-South alliances result in weaker players being disadvantaged, and so looking for other options.

The intense competitiveness of the global economy, combined with the US's enormous market power, makes the spread of RBTAs inevitable as long as the US continues its 'competitive liberalisation' policy. Small countries such as Uruguay have little prospect of improving their chances of making an industrial transformation and gaining protection from the excesses of the global market by forming South-South alliances. At the core of my argument is the idea that power imbalances in the global economy place constraints on the choices of weaker players. In the case of Uruguay this can be observed in multiple dimensions. Uruguay is pressured into seeking an RBTA with the US due to the US's market power, even though in the long term it is likely to be harmful. Mercosur does not function as a developmental alliance for Uruguay as it is dominated by the far more powerful Brazil and Argentina. When Uruguay made the difficult decision that an RBTA was the best option, it was prevented from taking this course by its powerful neighbours, particularly Brazil, upon whom it is politically and economically dependent. Finding a strategy that leads to economic development depends on having options, but small developing countries find their choices severely constrained by the actions of more powerful players. They are left with scant tools with which to take on the task of generating growth and reducing poverty.

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