

Mark S. Manger. *Investing in Protection: The Politics of Preferential Trade Agreements between North and South.* Cambridge: Cambridge University Press, 2009. 267 S. ISBN 978-0-521-74870-4.



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This book is about the political economy of North-South Preferential Trade Agreements (PTAs) through the lens of a political scientist. Following an overview, chapter 2 lays the framework which provides further explanations for what economists have referred to as the ‘domino theory’ of PTAs. The domino theory says that countries will want to join a PTA to get market access, as for example Great-Britain joining the EU in 1972. Regional trade agreements have proliferated in the last twenty years, numbering over 300 reported to the WTO. World Trade Organisation, *The WTO and preferential trade agreements: From co-existence to coherence*, Geneva 2011. During the period covered in this book, PTAs were mostly North-South, what Melo and Panagariya J. de Melo / A. Panagariyaeds, *New Dimensions in Regional Integration*, Cambridge 1993. called the new regionalism since it was North-South as opposed to a first wave when RTAs were either North-North or South-South. Melo and Panagariya attributed this change largely to a change of perception in developing countries in the face of the growing evidence that the inward-led development industrialization strategies had failed. Manger adds a new

dimension: Foreign Direct Investment (FDI) by Northern Multinational Enterprises (MNEs) in Southern countries as the key drivers to this wave of North-South PTAs. According to Manger bilateral and regional trade deals satisfy the political demands of MNEs who invest in developing countries to produce for developed markets. To ease vertical integration or just to produce high-end goods in the North and low-end goods in the South, MNEs seek to reduce trade barriers at home and abroad.

The more interesting aspect of Manger’s thesis—developed in chapter 2—is that MNEs no longer see the WTO as the best way to meet their trade liberalization needs. Unlike multilateral deals, PTAs can be used to raise barriers for competitors from non-members since, in the absence of trade barriers, North-South liberalization would attract “beacheads” of FDI from outsiders, turning the ‘developing country into a back door to the market of the northern partners’ (p. 3). Hence Rules of Origin (RoO) ‘close the back door’ as they are designed to the disadvantage of outsiders and to provide protection for the insiders.

And for the service sector where first-mover advantages can be important because of network effects, market and regulatory structures can be designed to penalize outsiders.

Thus, it is the possibility of discriminating against outsiders that makes lobbying for PTAs by exporters more attractive than lobbying for multilateral trade liberalization. That the discriminatory and trade diverting aspects of PTAs represents their main attractiveness because the gains to exporters outweigh the costs to import-competing industries is not new, but the focus on MNEs and RoO has not been brought forth although some observers have noted that the most lenient RoO are in the ASEAN region where the 'factory Asia' model of development has resulted in trade concentrated in intermediate products with most finished products sold to non-members, hence simple and lenient RoO. O. Cadot / J. de Melo / A. Portugal-Perez, *Rules of Origin for Preferential Trading Arrangements: Implications for AFTA of EU and US Regimes*, in: *Journal of Economic Integration* 22 (2007) 2 p. 288-319; O. Cadot / J. de Melo, *Why OECD Countries Should Reform their Rules of Origin*, in: *The World Bank Research Observer* (2008) 23, p- 77-105; O. Cadot / C. Carrère / J. de Melo / A. Portugal-Pérez, *Market Access and Welfare Under Free Trade Agreements: Textiles under NAFTA*, in: *The World Bank Economic Review*, 19(2005) 19, 3, p. 379-405. . Faced with this discriminatory situation, non-members will trigger 'defensive' agreements (in response to these 'offensive' agreements).

The remaining chapters interpret these predictions with detailed case studies involving Northern (EU, US, Japan) and Southern (Mexico, Chile, Malaysia and Thailand) partners, each time giving evidence that MNEs were most often the driving force behind each agreement. Pride of place is reserved to RoO that have been covered in a number of recent books and reports. A. Estevadeordal / K. Suominen / R. Teh (eds.), *Regional Rules in the Global Trading System*, Cambridge

2009. Chapters 3 to 5 deal with the bilateral PTAs involving Mexico. Chapter 3 shows that strict RoO was the political price to pay for NAFTA. While most observers attribute the announcement of the start of NAFTA negotiations to the surge of FDI to Mexico, Manger shows conclusively (see figure 3.1) that FDI inflows started following the unilateral trade liberalization, rather than later with the announcement of NAFTA negotiations. He discusses the negotiation of RoO in the textiles and automotive sectors. He shows how the RoO negotiated by the 'big three' US auto producers were designed to set up Mexico as a platform for selling in the US market while at the same time raising the costs of entry for Japanese firms if they chose to produce in Mexico to sell to the US market as they would be induced to buy more expensive parts from NAFTA suppliers. This account fits well with econometric estimates that show that RoO were more restrictive in industries with higher tariffs and that these restrictive RoO allowed NAFTA producers of intermediate goods to raise their prices when selling in the Mexican market, leading to the conclusion that North-South PTAs like NAFTA amount to 'giving away with one hand' (by reducing tariffs) while at the same time 'taking away' with the other (by raising the costs of intermediates in the southern partner). It is this asymmetric distribution of the rents generated by PTAs that led Cadot and de Melo to suggest that, on welfare grounds, OECD countries should simplify their RoO. Chapter 4 then shows how, following NAFTA, the EU was brought to negotiate a 'defensive' PTA with Mexico as MNEs realized that they were being shut out of the North American market by NAFTA because of the resulting competitive disadvantages for EU MNEs, including those in services. The same 'defensive script applies to Chapter 5 for the Japan-Mexico FTA. Chile's PTAs are covered in chapter 6. As Chile has a very open trade regime, there is not much to talk about. A final chapter is devoted to Japan's FTAs with Malaysia and Thailand.

The book is well-crafted with a host of important and convincing institutional details on the negotiations that support the overall argument. The emphasis on RoO is well taken and the emphasis on MNEs provides an angle that has been largely overlooked in the abundant literature on RoO. In a broader perspective, one might note the change of paradigm about the driving force of PTAs. Omitting the overarching political motives for PTAs (not covered in the book), in the 20th century, regionalism was largely a bargain about an exchange of market access. In the 21st century, North-South PTAs are about another bargain: the Southern partner carries out unilateral trade and domestic reforms in exchange for the FDI from the Northern partner that will bring the necessary logistics services necessary to compete in a world where outsourcing is growing rapidly. In this new world, PTA proliferation is no longer about slowing down multilateral MFN tariff reduction to maintain a bargaining chip for future PTA negotiations as suggested by Manger (p. 221), but rather about going deeper in the reduction of barriers to services. Indeed, in the world of 'global value chains' protection becomes a hurdle to participate in the growing outsourcing of tasks.

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