Development DESTIN Studies Institute

Working Paper Series

LSE

ISSN 1470-2320

2005

No.05-62

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The Global Politics of Regional Integration in the Americas

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Published: October 2005

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July 2005

Abstract
This paper explores the relationship between China's emergence as a global economic power and the dynamics of regional economic integration in the Americas. I argue that concern over diminishing shares of the US market triggers a race to lock in stable and preferential access to the US for manufactured exports, and that collective action dilemmas among Latin American and Caribbean (LAC) countries allows the US to extract deep concessions in exchange for this market access. In the first section, I use specialized trade data to consider the extent to which LAC countries are threatened by China's growing export presence. In the second section, I explain why countries have an interest in establishing regional integration agreements (RIAs) with the US as a means for securing preferential market access that is secure, stable, and non-removable. In the third section I analyze what the US demands in exchange for such market access, reviewing the provisions of RIAs regarding the management of foreign investment and intellectual property. Having considered how the threat from China might encourage countries to seek RIAs with the US and why countries might be wary of such agreements, in the fourth section I consider a set of explanations for LAC countries' variable enthusiasm for the US agenda. The conclusion reviews the findings and discusses avenues for future research.

China, the WTO, and the Search for Better-than-MFN Access to the US:

The Global Politics of Regional Integration in the Americas

In this paper I explore the relationship between China's entry in the World Trade Organization (WTO) – and more generally China's emergence as a global trading power – and the process of regional economic integration in the Americas. The US economic strategy in the western hemisphere features an agenda based on deep integration through bilateral and

regional agreements, whereby countries that are prepared to undertake extensive economic reforms with regard to national regulatory practices can receive enhanced access to the US market. The proposed "Free Trade Agreement of the Americas" (FTAA) and various regional and bilateral agreements with the US embody this deep integration/market access exchange.[1]

Responses to the US agenda vary throughout the region, with some countries showing extreme enthusiasm and others displaying a more cautious approach. Five countries of Central America have rushed to join the US and have signed the Central American Free Trade Agreement (CAFTA), to which the Dominican Republic is also a party. Panama has initiated bilateral negotiations. Among South American countries, after Colombia began to negotiate an RIA with the US, fellow Andean countries Ecuador and Peru quickly followed suit and the three countries are now negotiating collectively with the US (Bolivia is participating as an observer).[2] In contrast, a number of other larger countries, such as Argentina, Brazil, and Venezuela, have shown no interest in bilateral agreements and only tepid interest in the hemispheric FTAA. While Latin American and Caribbean (LAC) responses to the US agenda are of course driven by multiple factors, the objective of this paper is to examine how a changing external environment marked by China's participation in the global trading system influences countries' responses to this agenda.

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[1]I use bilateral and regional agreements interchangeably, and I refer to them as all Regional Integration Agreements (RIAs). The US agenda clearly extends beyond the western hemisphere, as RIAs have been signed or are being negotiated with a wide range of developing countries in Asia, Africa, and the Middle East.

[2]Mexico and Chile also have RIAs with the US, though both processes precede China's entry to the WTO. NAFTA entered into effect in 1994, and negotiations for the US-Chile agreement began in the mid-1990s, only to be suspended when the Clinton Administration was unable to get "fast track" authorization renewed by Congress in 1997.

I argue that the emergence of China as an export power and a full participant in the WTO has triggered a dynamic whereby countries that are dependent on the export of light manufactures to the US become increasingly attracted by the possibility of negotiating RIAs with the US. But RIAs come with significant costs: preferential market access to the US that is stable and reliable does not come cheap, and much is expected in exchange. Importantly, international competitive dynamics can alter countries' assessments of the relative costs and benefits of negotiating an RIA. Thus, even when the net benefits of such agreements may be questionable, the competitive pressures unleashed by China and the obstacles to collective action among neighbouring LAC countries may contribute to the proliferation of RIAs throughout the region.

The paper consists of four sections. First, I consider the extent to which LAC countries are threatened by China's growing export presence, not with regard to their own markets but with regard to exports to the US. I examine precisely what LAC countries are exporting to the US, and I contrast these countries' export profiles with China's export profile. The goal of this section is to present a picture of diversity in the region: depending on what countries export, some countries are more sensitive to the threat posed by China's increased export prowess than others.

In the second section I explain why countries have an interest in establishing an RIA with the US as a means for securing preferential market access that is secure, stable, and non-removable. To that end, I contrast the sort of preferential market access that most LAC already enjoy under the General System of Preferences (GSP) with the market access promised by RIAs. To illustrate countries' concerns with and desires for this type of market access, I present new data on export dependence that is more appropriate than standard measures for this sort of analysis.

Having established why some LAC countries might be particularly eager to obtain stable, preferential market access to the US, the third section takes a step back and examines what the US demands in exchange for such preferences. Here I examine, briefly, the components of the US deep integration agenda. By reviewing the provisions regarding the regulation of trade and the management of investment and intellectual property (IP), I aim to illustrate that RIAs feature an intensified version of the same bargain of increased market access in exchange for deep integration that is at the center of the multilateral trade-investment-IP regime governed by the WTO. The section aims to draw attention to the serious dynamic developmental costs of RIAs.

Although the threat from China might encourage countries to seek stable and preferential market access to the US (sections one and two), countries might be wary of accepting the terms of such access in the form of RIAs (section three). The question, then, is why some are more eager than others to enter into RIAs with the US. I turn to that question in the fourth section, considering a set of explanations for LAC countries' variable enthusiasm for the US' deep integration agenda, even when the costs may exceed the benefits. Particular attention is paid to the difficulties of collective action for developing countries that may independently wish to stay out of an RIA but are fearful of losing further market access to their neighbours. I illustrate the strategic interaction with a set of elementary "games" in which individual rationality leads to the collective embrace of the US agenda.

In the conclusion, I summarize the main points of the paper and consider some of the important issues that are not addressed in this paper, in particular how China's WTO membership affects its own demand for LAC exports.

Export Structures in Latin America and Caribbean

China's full participation in the global trading system means that most favored nation (MFN) treatment is no longer sufficient for many developing countries.[3] MFN treatment now means "equivalent-to-China" treatment, and given the reduction in transportation costs and China's virtually unlimited supply of low-cost labor, this equivalence in tariff treatment can be threatening.[4]

The China threat is likely to be felt most strongly by those developing that have relatively non-diversified export structures, and moreover those that share with China similar export profiles in labor-intensive manufactured goods. In other words, if a country depends on a relatively few number of goods for its export revenues, that country is likely to be more threatened by the entry of new competition for shares of export markets; and if a country's exports are not just concentrated but concentrated in sectors where China has a heavy presence, then the concerns will be even greater. Although the sectors of concern are not limited to apparel and textiles, as we shall see, the concerns in those sectors become particularly acute with the termination of the Multi-Fibre Arrangement in 2005.

To gain insights on countries' relative sensitivity to the China threat, I have compiled data on export profiles of the 32 countries in Latin America and the Caribbean that are participating in negotiations with the US for the FTAA.[5] Using data from the United States

[3]MFN, which is the cornerstone of the multilateral trading regime, requires all members of the WTO to provide all other members with equal treatment (i.e. everyone is your "most-favored nation"). Goods from countries that are not members of the WTO, however, can be discriminated against. China received MFN treatment from the US while negotiating accession to the WTO, but this was never entirely stable, as it was a concession rather than a treaty obligation.

[4]One obvious response to this threat is to search for access to the US market that is better than MFN, which is possible through negotiation of preferential trade agreement.

[5]This includes every sovereign country in South and Central America and the Caribbean with the exception of Cuba.

International Trade Commission (dataweb.usitc.gov), I analyze the structure of each countries' exports to the US according to 2-digit Standard International Trade Classification (SITC-2) codes. The dataset is constructed to indicate the percent of each country's total exports to the US in each SITC-2 category, annually from 1996-2003 and averaged over the eight-year period.[6]

The data reveal an extraordinarily low degree of diversification with regard to LAC countries' exports to the US. As Table 1 illustrates, for every country in the region, with the single exception of Brazil,[7] three SITC categories account for greater than two-fifths of total exports to the US. Only four more countries (Mexico, Paraguay, Argentina, and Uruguay) fall below the fifty percent threshold.[8] For the remaining twenty-seven countries, three types of exports account for greater than half of total exports to the US.

[6]The full dataset is available from the author upon request. Gruber (2001) relies on similar figures to demonstrate convergence in the structures of Canadian and Mexican exports to the US in the period preceding negotiations of the North American Free Trade Agreement. Whereas Gruber uses single-digit categories (SITC-1), I use the two-digit categories. The advantages of using two-digit data are simply that they provide more detailed information on export structures, though the drawback is in presentation. Gruber presents the ten categories captured in his dataset in simple bar graphs, but this form of presentation is not possible when working with sixty-nine SITC-2 categories (not to mention the greater number of countries).

[7]Canada is included in the tables but not discussed in text.

[8]And here, Argentina and Uruguay just squeeze in below the bar, only thanks to non-rounding in the case of Uruguay.

In fact, for fourteen countries, *one* single alone item accounts for more than forty percent of total exports to the US. Table 2 lists these countries, noting the type of export.[9] It is worth noting that for seven of the countries in Table 2, the single, ultra-important export is apparel (SITC-2 category 84). Of these seven countries, five have negotiated RIAs with the US (El Salvador, Guatemala, Honduras, Nicaragua, as part of the US-Central American agreement, with the Dominican Republic joining as well), and Jamaica has expressed an interest in doing so.[10] For Costa Rica, also party to CAFTA, apparel is most important export as well, accounting for greater than one-quarter of the country's exports to the US. For Colombia, on Table 2 on account of petroleum exports but a country that is also embarking on RIA negotiations with the US, apparel is the third most important export to the US.

In addition to the concentration of exports, we are also interested in precisely what sorts of goods countries are exporting. For many countries the principal exports to the US are in primary products, but the greatest sensitivity from China would be expected among countries that rely on exporting light manufactured goods. Table 3 indicates the countries for which light manufactures are one of the country's top five exports to the US. The list includes basic electronics, apparel, and footwear, the mainstays of export-processing in the developing world, plus an SITC-2 category for miscellaneous light manufactures. Again, the Central American countries and the Dominican Republic (plus the English-speaking Caribbean) stand out.

The real issue, however, is not the level of export concentration or even what goods LAC countries are exporting to the US, but the extent to which exports are concentrated in

[9]When the (admittedly arbitrary) threshold is lowered to thirty percent of exports to the US the list grows by seven, and the number of countries for which one item alone accounts for this level increases to twenty-one.

[10]Haiti no doubt would be interested if the island wasn't consumed by other problems.

sectors where Chinese exports have a significant presence. Table 4 presents data on China's exports to the US. All SITC-2 codes that account for greater than 1% of total exports are listed, and the sixteen codes together account for 91% of China's exports to the US over the 1996-2003 period. Here too we see a concentration of exports, in that the top three SITC codes account for 41% of total exports, though by this measure China's export structure appears significantly more diversified than most LAC countries. Were China included in Table 1, for example, only Brazil would appear more diversified. Nor does China display hyper-concentration, in that the single biggest entry accounts for roughly one-fifth of total exports, and this code (SITC-2 89) is a miscellaneous category.

Importantly, China appears most similar to LAC in the sectoral breakdown of exports, particularly the importance of light manufactures. For all China's apparent diversity, the data suggest that almost all the exporting is in labor-intensive light manufactures. The seven SITC codes used to make Table 3, the most typical light-manufactured goods, are the most important seven export sectors for China. The implication of this, then, is that China is directly competitive with the LAC countries that stand out in the first three tables.

To further develop the comparative analysis of LAC and Chinese export structures, I contrast the data on LAC countries with similar data on the structure of China's exports to the US over the same time period. The challenge here is to devise a measure of competitive vs. complementary export structures (Zeng 2002). I take the sum of the top three lines for each country, and multiply that amount by the sum of those same three SITC-2 lines for China. For example, if a country's top three exports are in SITC-2 categories 82, 84, and 85, I multiply the sum of that country's export shares of these three types of products by the sum of China's export shares in SITC-2 categories 82,84, and 85. I then sort the LAC countries to obtain a

ranking of the extent to which LAC countries' export profiles are similar or different from China's.[11]

The middle column of Table 5 reports the scores on this measure, ranging from .002 (Uruguay) to .258 (Haiti). The median score is .055, and the mean is .066. The full possible range on this measure is from .000 to .411. The lowest possible score would be obtained in the case of a country for which the top three exports are goods that China exports none of to the US. Uruguay is close to this, for the top three export sectors are leather (SITC-2 #61), beef (SITC-2 #01), and unclassified commodities (SITC-2 #93); exports of these sectors contribute very little to China's total (.08%, .00%, and .38%, respectively). The highest possible score would be obtained in the case of a country for which the top three exports are not only in the same goods as China's top three exports, but where these three SITC codes account for *all* of that country's exports to the US (.411 x 1.00). Not even Haiti, the country that scores the highest on this measure, comes close to this.

Countries with highly concentrated export profiles rank high on this measure. That is, the countries that rank towards the top of Table 1 all tend to have high scores on this measure as well. This is not terribly surprising, given that the LAC countries with the most hyper-concentrated export structures tend to export light manufactures, and China's most important

[11]Note that I base this measure on the sectoral breakdown of China's export shares. An alternative (and perhaps better) way of demonstrating China's presence in a given sector would be to use China's contribution to total global exports to the US by each SITC-2 category. Because from the perspective of a given LAC country, what matters is not the extent to which the goods the country exports to the US are important to China, but the extent to which the country is exporting to the US goods in sectors where Chinese exports have a significant presence.

exports are concentrated in light manufactures as well. In sum, countries with less-diversified export structures also have China-similar export structures.[12]

The third column in Table 5 indicates the extent to which each country's score on this measure is above or below the mean. In general, countries that are above the mean embrace the US RIA agenda more enthusiastically than those with scores below the mean. Indeed, the only countries with negative scores (degree of similarity with China in terms of export profile is below the mean) that appear to be enthusiastic supporters of RIAs are Chile and Ecuador.[13] When one looks at the countries with positive scores (above the mean), virtually all of these countries are actively involved in solidifying RIAs with the US. The puzzling cases remain the English-speaking countries of Belize, Jamaica, and the three islands of the Lesser Antilles.[14]

To summarize this section, the point of this basic overview of export structures has been to demonstrate that many LAC countries are threatened by China's export prowess, but the degree of sensitivity and threat vary throughout the region. All other things being equal,

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[12]One point that immediately jumps off the page is the that the English-speaking Caribbean islands rank remarkably high, with the reason being their concentration in SITC-2 category #77 (electrical appliances and parts).

[13]Chile is an outlier for most of the arguments in this paper. It is a primary-product exporter that sought an RIA with the US throughout the 1990s. Part of the logic here is a strategy by the post-Pinochet Concertación government to lock-in the model and retain business support (Silva 1999). Ecuador is best understood in terms of the fear of exclusion and the collective action problem, discussed below.

[14]All five are members of the British Commonwealth. Perhaps the most pressing questions, however, are why Belize is not part of CAFTA, and why Jamaica is not begging to join, as the DR did.

the greater the threat, the greater the incentive to search for preferential, better-than-MFN access to the US market.

The Demand for Stable Market Access

Before considering the politics of market access in the Americas, it is worth emphasizing the importance of the particular type of market access that LAC countries seek. Countries concerned with the threat from China will not merely seek preferential, better-than-MFN market access, but rather preferential, better-than-MFN market access that is *stable* and *secure*. Here it is important to recall that many LAC (and other developing) countries already enjoy preferential, better-than-MFN access through the GSP and GSP-like programs. In the LAC region, prominent examples of such programs include the Caribbean Basin Trade Preferences Act (CBPTA) and the Andean Trade Preferences Act (ATPA). In fact, the US has a range of such programs, and a considerable share of developing countries' exports to the US enter under such preferential schemes.[15]

The principal limitation with GSP access, and the source of the instability, is derived from its nature as unilateral concessions that are easily removable and alterable. Countries can be included or excluded, and product lines can be expanded or retracted, not via negotiations between the involved parties but on account of changing needs and demands of the granting country. That is, alterations to preferences – be they changing coverage of goods eligible for duty-free access or country eligibility and the determination of a country's "graduation" – are made internally within the US. To be sure, concessions granted under the

[15]Though the focus here is on LAC countries, GSP-like schemes are not regionally limited. The African Growth and Opportunity Act (AGOA), for example, is also a GSP-like program. See Mattoo, Roy, and Subramanian (2003). GAO (2002) presents a comparison of GSP schemes administered by the US and EU.

CBPTA, ATPA, and AGOA are more stable than those granted under ordinary GSP program, since these are special pieces of legislation; but they still depend on periodic renewal. RIAs, in contrast, are not subject to renewal and as a result provide significantly more stability: the preferential market access is locked in.

The unilateral and concessionary nature of GSP invites opportunism and abuse on the part of a wide range of interested actors within the US. Import-competing producers find reasons to reduce preferences in given tariff lines, while users of imported inputs search for reasons to retain or extend preferences. GSP becomes, in short, a "political football," and the extensive GSP hearings conducted and reports compiled by the USTR provide strong – albeit anecdotal – evidence of this phenomenon.[16]

Moreover, because GSP concessions are unilateral and are not bound under the WTO, they can be removed without compensation. A developing country cannot invoke WTO rules and challenge the US (or any other preference-granting country) under the WTO's Dispute Settlement Mechanism (DSM) for revoking a concessionary trade preference.[17] The result of this is that developing countries may seek to lock-in and stabilize preferential, better-than-MFN treatment to the US market.

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[16]My emphasis here is on changes in trade coverage, but one could also refer to changes in countries' eligibility as a function of conditions. Here we have a similar story to that of the IMF and World Bank, in that non-reciprocal conditions invites opportunism as the actors designing the conditions know that they will not have to live by the conditions they create for others (Kapur 2004).

[17]The on-going case between India and the European Union over the EU's GSP scheme qualifies this statement. However, even if the appellate board upholds the initial ruling on discrimination and thereby limits the range of the EU's prerogatives, within the new limits the EU will still retain the ability to make alterations on its own and without either consulting or compensating affected developing countries.

The concern for locking in preferential access is likely to be greatest among those countries that are not just dependent on the US for exports, but, more precisely, are dependent on the US's preferential market access schemes. This distinction is important, for it is the latter sort of dependence that exposes developing countries to American political opportunism. We can call this "political trade dependence."

To measure political trade dependence, I have constructed an index that is based on the share of a country's total global exports that enter the US under preferential treatment (GSP and other preferential arrangements). It is important to underscore the difference between this measure and other measures of trade dependence. The standard measure used in IPE is a country's exports to the US as a share of the country's total exports. Some (e.g. Zeng 2002) have supplemented this with a measure of asymmetrical export dependence, which takes trade dependence one step further: country X's exports to the US as share of total exports relative to US exports to X as a share of total US exports. Neither of these measures address the central problem, however, that of country's dependence on preferential access and thus vulnerability to unilateral concessions being removed. After all, that a country exports highly to the US is vulnerable to fluctuations in the US demand derived from the US business cycle and changing patterns of production in the US, but the country is not necessarily exposed to the GSP-USTR political football. If the US removes trade benefits from a WTO member it must do so in a non-discriminatory manner, unless the trade benefits are granted under GSP. A developing country – even a developing country that is highly dependent on the US for exports – can take the US to the DSM for removing MFN trade benefits, but the same country lacks this recourse in the case of the GSP's better-than-MFN preferences being removed.[18]

[18]Again, the India-EU case qualifies – though does not gainsay – this point.

Table 6 presents data on political trade dependence for the set of LAC countries over the period 1996-2001.[19] The second column indicates the raw scores over the 1996-2001 period, and the third column reports the scores relative to the mean of .072. Countries with higher scores on political trade dependence appear most eager to establish RIAs with the US. The CAFTA six and the Andean four are all above the mean (except for Colombia). Note the case of Mexico, which has an extraordinarily high level of export dependence on the US according to standard measures, but ranks at the very bottom of this measure. NAFTA locks in and stabilizes better-than-MFN preferences. Note the case of Mexico, which has an extraordinarily high level of export dependence on the US according to standard measures, but ranks at the very bottom of this measure. NAFTA locks in and stabilizes better-than-MFN preferences (prior to NAFTA Mexico had one of the highest PTD scores in the region, while now it is the lowest).

The following section considers the conditions under which countries can obtain stable and preferential market access to the US. Though the US exacts a high price, as we shall see, for countries with similar export profiles as China and that have PTD scores, the price of stable and secure better-than-MFN market access may be one they are prepared to pay.

The International Politics of Market Access

Bilateral and regional agreements with the US can provide developing countries with market access that is shielded from political opportunism and cannot be easily removed. Mexico's low ranking on the political trade dependence measure, on account of NAFTA, clearly demonstrates this. But RIAs also require countries to relinquish a broad range of policy

[19]The table has 31 countries, because the denominator (total exports) is unavailable for the Bahamas.

instruments to regulate national economic activity. Developing countries can anchor their integration in the international economy to multilateral institutions, such as the WTO, or to bilateral and regional arrangements with the US. Contrasting the implications of these two different sorts of agreements for economic policy provides insights into the high price to be paid for reducing political trade dependence.

In a basic sense, participation in multilateral and regional agreements entail similar trade-offs. In both cases, greater degrees of "shallow integration" means that developing countries can receive increased market access for traditional and non-traditional exports, while greater degrees of "deep integration" means that developing countries must accept new constraints regarding the management of inward foreign investment and intellectual property (Lawrence 1996; Haggard 1995). The central bargain underpinning both sorts of arrangements is that the price to be paid for increased market access is to sacrifice many important and traditional tools of industrial policy.

But each side of this basic bargain is magnified in the case of regional agreements: in exchange for even greater market access, the carrot that makes regional agreements attractive to many countries, developing countries must relinquish yet more regulatory instruments. To put it another way, regional agreements, particularly regional agreements with the US, embody an "intensified Uruguay Round bargain."

Though the differences between the trade-offs involved in regional and multilateral agreements are more a matter of degree than a matter of kind, the implications are critically important. The reasons for this importance is that the additional constraints imposed by regional agreements are most threatening to the remaining vestiges of industrial policy in developing countries. Countries whose integration into the global economy is guided by their obligations as members of the WTO retain the rights and opportunities to implement industrial strategies that are designed to alter comparative advantages and achieve upward

mobility in the international economic order (Tussie 1997; Amsden and Hikino 2000), but the constraints imposed by regional accords effectively eliminate these options. In short, the price to be paid for increased market access under bilateral and regional accords is that countries must relinquish the very tools that historically have been used to capture the developmental benefits of integration in the international economy. The following paragraphs consider the deep integration concessions by examining provisions regarding investment and intellectual property.

Regional agreements are considerably more restrictive than the WTO in the realm of investment. Most fundamentally, the RIA template, like the many Bilateral Investment Treaties (BITs) negotiated by the US, constitutes a broad-based "investment agreement." Whereas the WTO agreement on Trade-Related Investment Measures (TRIMS) is narrowly focused on investment measures that are deemed "trade-related," RIAs address investment independently of any measure's relationship to trade. Thus, countries' ability to screen foreign entry, limit ownership in certain sectors, compel joint ventures and technology transfer, and encourage hiring of local managers, to provide but a few examples of investment measures that remain acceptable activities under the WTO, are greatly reduced (if not eliminated) under RIAs. In addition, because RIAs tend to define "investment" more broadly, covering services and financial flows, the obligations of and limits placed upon states as well as the rights bestowed on investors cover virtually all aspects of the economy. Lastly, RIAs typically include investor-state arbitration clauses. In sum, however restrictive the WTO's TRIMS agreement may be with regard to developing countries' ability to manage inward foreign investment (UNDP 2003), the bilateral/regional template is *significantly* more so. The price of preferential and stable access to the US market is to mothball these aspects of the state's regulatory capacity.

The magnified restrictiveness of RIAs is still greater in the case of IPRs. Like the regulation of inward DFI, the management of IP has historically been a cornerstone of national development strategies, affecting the course by which foreign technologies diffuse throughout the local economy. Patents, the key form of intellectual property with regard to development, confer limited monopoly rights to the owners of new, non-obvious, and industrially useful ideas.[20] But the monopoly rights are limited in three ways: (1) the rights are non-automatic, in that the "owner" must apply for a patent and the state must formally grant private ownership rights;[21] (2) the rights are temporally bounded, in that when patents expire what is private property enters into the public domain; and (3) the rights are non-absolute, in that the third parties have some automatic rights of use and the state has rights to regulate how the patentee uses her private rights. The important point to underscore here is that these limitations – how easy or difficult it is to obtain a patent, how long the exclusive rights last, and the extent to which the patentee can exclude others from freely using the idea and operate independently of state regulations – are established by national patent regimes. Developing countries' patent regimes have typically set these limitations so to create more opportunities for local firms to access (largely) foreign innovations.[22]

As in the area of investment regulations, countries have significantly fewer options for IP management under regional accords than under the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Whereas TRIPS substantially reduces countries' leeway, thus moving toward harmonization, the RIA template goes

[20]These are the three basic criteria that define an invention as patentable.

[21]Chris May (2000: 16) remarks that the state does not protect what we call property because it is property, but rather that we call it property because the state protects it.

[22]Given that most patentable innovation occurs in wealthier countries, developing countries' patent regimes essentially set the terms by which foreign ideas are acquired and put to use locally.

significantly further. Establishing private rights becomes more automatic (states have limited ability to declare certain types of inventions "non-patentable"), the private rights are longer (patent terms are a minimum of twenty years and more easily renewable), and the private rights are more absolute (third-party use and the state's regulatory discretion are both significantly circumscribed).

The objective of the two previous paragraphs has simply been to drive home the point that the US drives a hard bargain: stable and preferential access to the US market is not easily obtained. This bargain has serious developmental implications. We can think of development strategies as consisting of instruments that are intended to exploit comparative advantages and also instruments that are intended to generate new comparative advantages. I've argued that (1) both multilateral and regional agreements involve similar trade-offs, in that developing countries obtain increased opportunities to pursue their comparative advantages but in exchange they sacrifice the rights to use the array of industrial policies that countries have traditionally used to generate new productive capacity in new sectors, and (2) the trade-offs are intensified in regional agreements. In a nutshell, developing countries can reduce their political trade dependence, but the price for preferential, stable, and unremoveable access to the US market is effectively the end of industrial policy.[23]

Irresistible Temptation: Domestic Political Economy, Collective Action and Fear of Exclusion

Up to here the paper can be summarized as such: the competitive pressures unleashed by China's participation in international trade makes some countries acutely concerned with

[23]Or at least the end of industrial policy as it has historically been conceived. A number of authors discuss new opportunities for "open-economy" industrial policy (e.g. Schrank and Kurtz 2005; Pangestu 2002; Hoekman and Koestecki 2001).

securing preferential access to the US market that is stable and non-removable, but the costs of obtaining this are extraordinarily high. So why do it?

One explanation would be that policymakers in some LAC countries reject the logic used in the previous section to depict RIAs as developmentally costly. To be sure, neoliberalism has taken hold throughout the region, and arguments about the desire (not to mention capacity) to manage inward investment and IP are rejected by many economists and policymakers. Yet most LAC countries – even those that embrace the RIA agenda in the Americas – doggedly seek to retain policy flexibility and maneuverability in the multilateral arena. If countries were so keen to give up these policy tools, if the policymakers believed that retiring industrial policy instruments is the rational thing to do, then we would not expect to see the degree of conflict we witness over deep integration at the multilateral level.

A more political explanation is that those actors within a given developing country who stand to benefit from increased market access have more influence over policy than those who stand to lose from diminished industrial policy tools. Exporting firms may be more organized, active, and politically influential than firms that might benefit from regulating inward DFI or technology transfer via tighter management of patents. This is particularly likely to be the case in countries that have already liberalized their economies, as many of the sectors and firms most threatened by the sacrifice of industrial policy instruments will have already been displaced. Also, on account of having small domestic markets, many smaller countries were never in a position to manage inward DFI effectively for national development purposes. Nor did all developing use their patent regimes in developmental fashions. Given the natural curvilinear pattern of patent protection, with countries first offering reduced protection as income increases before later increasing protection, smaller and poorer countries that never experienced the decline in patent protection are less likely to have domestic sectors and constituents that stand to lose (at least in the static sense) from

implementing TRIPS or RIA-styled TRIPS Plus obligations. Thus, the strongest business opponents to RIAs are likely to be politically weak, if even existent.

Note that this is the opposite of standard explanations of trade politics, where the beneficiaries are presented as diffuse, unaware of their interests, and unorganized, while those who stand to lose are typically presented as concentrated and strong (cite, e.g. Destler). In the present case, the move from unilateral liberalization to reciprocal liberalization and deep integration is likely to feature well-organized winners who are well-aware of how they stand to gain from the proposed policy change (e.g. firms operating in and around already-established export-processing zones), and diffuse and disorganized losers – especially in smaller countries. Indeed, some of the strongest resistance to CAFTA, for example, came not from import-competing industries (the "usual suspects") but from consumer groups and health activists concerned that increased patent protection required by the US would drive up the price of medicines and reduce countries' abilities to secure essential medicines.

Yet it might also be the case that each country is indeed worse off by entering into an RIA with the US, but that the costs of *not* participating are even higher, particularly if a neighbouring country enters an agreement. That is, collectively it might make little sense to join, but, according to this logic, one thing that is certainly worse than entering into an RIA with the US is being left out of one that includes neighbouring countries. In this case, the threat posed by China may make an RIA with the US seem attractive, notwithstanding the very serious costs; and the competitive nature of liberalization may serve to ratchet the incentives through the region (Guzman 1997-98).

Both the collective action problem and the neighbourhood effects can be conceptualised in terms of strategic interaction, using simple games. Take two countries, e.g. Colombia and Honduras, each with the option of either negotiating or not negotiating an RIA with the US. The preferences are presented as ordinal, with 1 the lowest and 4 the highest.

The “game” is different than a prisoners’ dilemma simply because the cells that include each actor’s worst outcome do not correspond to the other actor’s best outcome. Instead, the best result for both actors is to avoid entering into an RIA with the US, the NW cell (see Figure 1). Unlike in PD, this cooperative outcome is stable, *provided that each actor is attempting to maximize its interests*. That is, if Colombia does not enter into an RIA, for example, Honduras obtains a better outcome by also not entering (and vice-versa, because the payoffs are symmetrical); and movement away from the cooperative outcome only generates less desirable results for whoever defects. So while in the Prisoners’ Dilemma each actor’s strategy of maximizing interests leads to the SE cell, in this scenario such strategies can lead to NW outcome.

Figure 1

		Colombia RIA with US?	
		No	Yes
Honduras RIA with US?	No	***4,4***	1,3
	Yes	3,1	2,2

Yet this stable cooperative outcome depends on each actor attempting to maximize its interests. If the countries are neighbours, however, it is reasonable to expect that each actor’s strategy will not be to maximize its interests but rather to minimize its losses. Colombia may not have an interest in an agreement, and what Honduras does may not affect this calculus, but the possibility of Peru or Ecuador having such an agreement is threatening. Such a scenario would penalize Colombia relative to its neighbours, it would fear loss of market

access and opportunities to attract foreign investment. Thus, as problematic as RIA with the US may be for Colombia, not having one while Peru (or Ecuador) does may be worse.

We can capture this dynamic by adjusting the payoffs in the cells. The use of ordinal scores in the first game obscures the relative costs of the NE and SW cells. If, instead of the worst outcome being "1" we represented the worst outcome with a score of –5 (or better yet, a skull and crossbones), indicating that it was something to be avoided at all costs, then this game also yields the SE outcome (see Figure 2). Both Colombia and Peru, now fearing the NE and SW outcomes, respectively, will enter into an RIAs with the US.

Figure 2

		Colombia RIA with US? No	Yes
Peru RIA with US?	No	4,4	-5,3
	Yes	3,-5	***2,2***

The logic deployed here builds on Gruber (2001), who argues that weaker countries may participate in plurilateral institutions that are not in their interests simply because other countries will, and the costs of participating, though greater than the previous status quo, are less than the costs of not participating (see also, Guzman 1997-98). Fear of a neighboring country entering into an agreement with the US effectively changes the status quo, making it in each country's interest to do the same. Once one country begins to negotiate, other countries may feel a pressure to do so out of fear of exclusion.

Note that we get the same result with asymmetrical preferences as well (Figure 3). Take the same two countries, only this time suppose that Colombia wants an RIA regardless

of what Peru does (perhaps the benefits seem exceptionally high and the costs insignificant). Colombia might prefer to have an RIA by itself rather than Peru having one as well (4 in SW to 3 in SE), so as to capture a greater share of the rents, but that weighting has no effect on the outcome: Colombia will enter into an RIA with the US. Peru, in turn, will do so as well, since the SE cell is preferable to the SW cell.[24]

Figure 3

		Peru RIA with US?	
		No	Yes
Colombia RIA with US?	No	2,4	1,3
	Yes	4,1	***3,2***

The question that has to be asked in all of this, however, is the extent to which these dynamics are affected by China. While it is true that each country would probably fear its neighbor gaining better access to the US market regardless of China, the competitive pressures that are derived from China's emerging export prowess are what make entering into such agreements at all desirable in the first place. Put another way, in assessing the benefits and costs of an RIA, for some countries the benefits – stable and reliable better-than-MFN access to the US market – only outweigh the costs – relinquishing regulatory policies – because MFN access to the US market itself is made less valuable by China's emergence as a major exporter of light manufactures.

[24]And if we were to repeat the exercise of replacing the scores of 1 with skull and crossbones, we'd get the same outcome.

Of course, once it becomes clear that collective action problems will lead to a proliferation of RIAs with the US, it then becomes in the countries' interests to negotiate an agreement among themselves as well. By negotiating a multicountry RIA, e.g. CAFTA, rather than separate bilateral agreements with the US, Central American countries can minimize ancillary damages derived from the hub-and-spoke arrangement that would otherwise ensue. The issue here is that if each country has its own bilateral agreement with the US, separate rules of origin regulations would reduce the capacity of producers in Honduras to source inputs from Guatemala, for example, to export to the US. Such limitations would dampen the possibilities for specialization and the emergence of a regional division of labor, and subsequently reduce the ability of any single country – especially small countries – to get the most out of the (already limited) arrangement.

To summarize, it might very well be that for each country the most sensible strategy of integration is via the WTO rather than via RIA with the US. However, if pressures created by China's entry make RIAs appealing, and if fear of exclusion makes resisting the temptation difficult in any case, broader collective agreements with the US can at least present a least-worst outcome. Importantly, this outcome (e.g. CAFTA, rather than a series of bilateral agreements between individual countries and the US) is desired by the US too, for it provides a larger market and reduces transaction costs of dealing with multiple rules of origin regimes. Although CAFTA may be worse for each country than the WTO status quo represented by the NW cell (or worse for just one country, as in the asymmetrical game), since collective action difficulties are likely to lead to bilateral agreements, an agreement such as CAFTA – a fifth option – becomes in each country's interest. And since this is in the US interest as well, CAFTA becomes feasible. The upshot, then, is that regional cooperation emerges out of individual countries' inability to resist the temptation of the US' deep integration agenda.

Finally, this dynamic does not necessarily extend all the way to the FTAA, because some countries are less affected by China's entry into WTO and are not dependent on exporting preferentially to the US market. For these countries, the carrot of the RIA bargain is not worth the stick. Take, for example, the cases of Argentina and Brazil. These countries are not willing to make the concessions required by the US for stable, preferential market access, and the fact that Chile has such market access (and Andean countries will soon) appears not to be problematic either. The result is that we see a series of bilateral and plurilateral RIAs with the US.[25]

Conclusion

Because shallow integration among countries reveals existing regulatory barriers, it is not terribly surprising that the reduction in global tariff levels would be followed by some push towards deep integration. Moreover, because more sensitive policy areas are generally easier to negotiate in smaller groups, because and regulatory coordination might be easier among neighbours, it is natural to expect deep integration to advance furthest within distinct regions of the global economy (Milner 1998). Yet while this logic offers a compelling explanation of the general trend towards regionalized deep integration, it cannot explain the sudden spike in such agreements in the Americas, or the diversity of interest in deep integration among Latin American and Caribbean countries.

In this paper I have attempted to explain patterns of deep integration in the Americas (or, more specifically, patterns of interest in RIAs among LAC countries) by considering the effect of China's entry in the WTO. I have highlighted the countries with similar export

[25]Alternative outcomes are "FTAA lite," in which the US makes fewer concessions on market access while the Latin American and Caribbean countries make fewer concessions on deep integration, or simply a less-comprehensive FTAA with limited membership.

profiles, I have highlighted countries that are eager to solidify and stabilize the preferential access to the US market that they already enjoy. I then showed the high price to be paid for such access, in terms of the diminished space for regulatory instruments to manage inward DFI and IPRs. In short, countries still have room for pursuing strategies of industrial upgrading and diversification under the WTO, but these opportunities are significantly reduced in the case of the RIAs, whether bilateral or plurilateral. I then explain some countries' embracement of the RIA agenda – notwithstanding the costs – by introducing domestic political economy and considering how the costs of exclusion can alter countries' orientation.

Future research would provide more systematic analysis of the link between hypothesized causes and effects. Given the various factors presented in text and the tables, and the existence of outliers and deviant cases at most points, multiple regression analysis could certainly help tease out the conditions under which some factors matter more than others. The challenge to such analysis, however, is settling on a useful measure of the outcome (i.e. the dependent variable). Since all the countries are involved in FTAA negotiations, it would make more sense to use a basic binary coding of whether or not a country is negotiating a bilateral-regional agreement with US – but that introduces problems of selection, since the US offer of an RIA is not presented to all countries with equal enthusiasm.

As a final point, it is worth considering important implications of China's entry in the WTO that the paper has neglected. I have focused on China as an exporter, particularly an exporter to the US, but China is also a major importer. Abundant foreign reserves yield an extraordinary capacity for imports. China's rapid industrialization has created an explosive demand for capital goods, machinery, petrochemicals, and basic commodities (e.g. metals, ores, copper, nickel, zinc, aluminum, iron). China consumes one-fifth to one-third of global

trade in alumina, iron ore, zinc, copper, and stainless steel, and in absolute terms China was the third largest importer in the world in 2003, behind only Germany and the US.[26]

China's insatiable demand for imports has serious implications for LAC countries. For some LAC countries China's entry in the WTO presents opportunities for increased exports. And many countries have greatly expanded their primary-product exports to China. Brazilian soy, Argentinean cereals, and Chilean and Peruvian copper, to give just a few examples.

The concern, however, is that LAC countries may be stuck in the middle, suffering from partial but incomplete export diversification away from primary products. That is, it might be that most countries in the region have not diversified enough and moved into high enough product niches to respond to China's increased demand for industrial inputs and capital goods, yet they are unable to compete with low-cost Chinese goods in the sectors where they now export. What to do?

Herein lies the rub. Specializing in primary product exports is questionable as a development strategy. The boom in Chinese demand is probably not sustainable, and in any cases prices are likely to feature similar sort of volatility as in past (Ocampo and Martins 2003; UNCTAD 2004). Nor does primary product specialization have very many positive externalities. In the simplest terms, *increasing* specialization in primary products is a reversal of development. These are not new problems; indeed, most development thinking in the post-WW II period has responded precisely to the challenge of how to diversify away from specialization in primary products. But in responding to the threat posed by China's exports by entering into RIAs with the US, LAC countries may be relinquishing the very tools they would need to move into higher value-added positions in industrial value chains.

[26] *Financial Times*, 6 November 2003

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Table 1: Concentration of Export Structures

	Country	Top 3 SITC Categories (Sum)
Greater than 90%	Suriname	96.14%
	Venezuela	90.68%
80%-90%	Haiti	88.96%
	St Vinc & Gren	88.20%
	El Salvador	88.18%
	Honduras	86.37%
	St Kitts-Nevis	84.11%
	Ecuador	82.69%
	Guatemala	80.56%
70%-80%	Trinidad & Tobago	77.67%
	Belize	76.57%
	Nicaragua	76.27%
	Jamaica	74.99%
	Guyana	73.71%
60%-70%	Grenada	69.48%
	Dominican Republic	68.57%
	Antigua and Barbuda	68.13%
	Colombia	64.72%
	St Lucia	63.51%
	Bahamas	62.48%
50%-60%	Panama	59.35%
	Peru	57.45%
	Costa Rica	57.07%
	Chile	54.85%
	Bolivia	53.52%
	Barbados	53.44%
	Dominica	51.38%
40%-50%	Uruguay	49.60%
	Argentina	49.28%
	Paraguay	45.35%
	Mexico	43.16%
Less than 40%	Canada	37.18%
	Brazil	27.16%

Source: United States International Trade Commission (dataweb.usitc.gov)

Table 2: Hyper-Concentration of Exports

Countries where single export accounts for greater than forty percent of country's total exports to US

Country	SITC	Description	Percent
Venezuela	33	Petroleum, Petroleum Products, and Related Materials	86.71%
Haiti	84	Articles of Apparel and Clothing Accessories	85.14%
El Salvador	84	Articles of Apparel and Clothing Accessories	82.13%
Suriname	28	Metalliferous Ores and Metal Scrap	81.21%
Honduras	84	Articles of Apparel and Clothing Accessories	76.51%
Guatemala	84	Articles of Apparel and Clothing Accessories	56.87%
Nicaragua	84	Articles of Apparel and Clothing Accessories	56.35%
St Kitts-Nevis	77	Electrical Machinery, Apparatus and Appliances	55.90%
Dom. Republic	84	Articles of Apparel and Clothing Accessories	52.54%
Colombia	33	Petroleum, Petroleum Products, and Related Materials	48.93%
Jamaica	84	Articles of Apparel and Clothing Accessories	48.58%
Grenada	77	Electrical Machinery, Apparatus and Appliances	43.01%
Ecuador	33	Petroleum, Petroleum Products, and Related Materials	42.29%
St Vinc & Gren	3	Fish (not marine mammals), Crustaceans, Molluscs, and Aquatic Invertebrates, and Preparations Thereof	42.13%

Source: United States International Trade Commission (dataweb.usitc.gov)

Table 3: Light Manufactures

Countries for which basic light manufactures are one of the five most important exports to US

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

Key:

SITC	Description
75	Office Machines and Automatic Data Processing Machines
76	Telecommunications and Sound Recording and Reproducing App and Equip
77	Elec Machinery, Apparatus and Appliances
82	Furniture
84	Apparel and Clothing
85	Footwear
89	Miscellaneous Manufactured Articles

Source: United States International Trade Commission (dataweb.usitc.gov)

Table 4: China's Exports to the US (1996-2003)

SITC-2	Description	Percent
89	Miscellaneous Manufactured Articles	19.83%
75	Office Machines and Automatic Data Processing Machines	11.23%
76	Telecommunications and Sound Recording and Reproducing App and Equip	10.05%
85	Footwear	9.37%
84	Apparel and Clothing	8.91%
77	Elec Machinery, Apparatus and Appliances	8.30%
82	Furniture	4.46%
69	Manufactures of Metals	3.71%
83	Travel Goods, Handbags, and Similar Containers	2.41%
74	General Industrial Machinery and Equipment	2.32%
81	Prefabricated Buildings; Sanitary Plumbing, Heating and Lighting Fixtures and Fittings	2.25%
65	Textile Yarn, Fabrics, Made-Up Articles	2.01%
66	Nonmetallic Mineral Manufacturers	1.96%
88	Photographic Apparatus, Equipment and Supplies and Optical Goods	1.78%
78	Road Vehicles	1.34%
87	Professional, Scientific and Controlling Instruments and Apparatus	1.06%
Sub-total		90.99

Source: United States International Trade Commission (dataweb.usitc.gov)

Table 5: Similarity in Export Profiles Relative to China

Country	Score[#]	Percent Relative to mean
Haiti	0.258	369.81%
St Vinc & Gren	0.254	361.12%
St Lucia	0.173	214.82%
St Kitts-Nevis	0.159	188.81%
Bolivia	0.155	182.44%
Dominican Republic	0.125	127.80%
Costa Rica	0.117	112.13%
El Salvador	0.097	76.33%
Mexico	0.085	54.57%
Honduras	0.085	54.33%
Jamaica	0.082	48.61%
Belize	0.075	36.82%
Guatemala	0.075	36.08%
Nicaragua	0.073	33.21%
Grenada	0.065	17.56%
Colombia	0.061	10.42%
Peru	0.055	0.12%
Barbados	0.052	-5.29%
Brazil	0.027	-51.01%
Ecuador	0.011	-80.26%
Venezuela	0.010	-81.34%
Guyana	0.010	-81.84%
Suriname	0.010	-81.90%
Panama	0.008	-85.93%
Bahamas	0.007	-87.62%
Chile	0.007	-88.03%
Canada	0.006	-88.25%
Trinidad & Tobago	0.006	-88.75%
Antigua and Barbuda	0.005	-91.74%
Dominica	0.004	-91.83%
Argentina	0.004	-93.08%
Paraguay	0.004	-93.40%
Uruguay	0.002	-95.82%

Source: United States International Trade Commission (dataweb.usitc.gov)

[#] Sum of top three export lines, multiplied by sum of China's exports of the same types of goods

Table 6: Preferential Exports to US as Share of Total Exports (1996-2001)

COUNTRY	Prefexpus[φ]	Percent Relative to mean
Nicaragua	0.314	336.29%
Dominican Republic	0.267	270.12%
Honduras	0.212	194.22%
St. Kitts and Nevis	0.181	150.61%
Haiti	0.124	71.61%
Costa Rica	0.119	65.15%
Guatemala	0.108	50.56%
Bolivia	0.093	29.78%
Peru	0.087	20.48%
Belize	0.085	18.55%
Trinidad & Tobago	0.083	14.74%
Uruguay	0.083	14.74%
Ecuador	0.079	9.55%
El Salvador	0.077	7.24%
Colombia	0.049	-32.55%
Grenada	0.043	-40.64%
Brazil	0.038	-47.40%
Guyana	0.037	-48.92%
Jamaica	0.036	-50.36%
Canada	0.024	-66.73%
Venezuela	0.023	-68.05%
St Vinc & Gren	0.022	-69.42%
St. Lucia	0.021	-70.56%
Dominica	0.020	-72.47%
Barbados	0.019	-73.21%
Panama	0.019	-73.78%
Chile	0.018	-74.74%
Argentina	0.010	-85.67%
Paraguay	0.008	-88.77%
Suriname	0.005	-92.93%
Antigua and Barbuda	0.001	-98.66%
Mexico	0.001	-98.75%
Bahamas[κ]	--	--

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

[φ]Preferential Exports to US as Share of Total Exports

[κ]Total Export data on Bahamas not available in WDI.