The London School of Economics and Political Science

Deep Integration in the Preferential Trade Agreements of Latin American Countries and their Global and Regional Partners (1982-2010)

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A thesis submitted to the Department of Government of the London School of Economics for the degree of Doctor of Philosophy. London, September 2014.

Declaration

I certify that the thesis I have presented for examination for the PhD degree of the London School of Economics and Political Science is solely my own work other than where I have clearly indicated that it is the work of others (in which case the extent of any work carried out jointly by me and any other person is clearly identified in it).

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Extended abstract

Even though for more than 15 years, deep integration in trade agreements has been a recurring topic for politicians, scholars, international institutions, non-governmental organizations, industry leaders and journalists; there is no consensus yet on what deep integration is, and how it can be assessed. There are continuous news reports about the efforts of political leaders to pursue deep integration, and constant mentions about the design of new treaties and mechanisms to achieve deep integration between countries. In general, the proliferation of trade agreements after the Second World War is widely acknowledged in international trade literature and is a trend that will continue in the near future. Along this trend, Latin American governments have established numerous trade agreements with developing and developed partners in all regions of the world. In addition, since the 1950s and 1960s, these governments have acknowledged trade integration as a mean to promote economic development, which makes it increasingly important to understand the wide differences in the nature and levels of deep integration in their trade agreements. Nevertheless, as in other regions, little attention has been paid to explain differences in the content of trade agreements.

This research extends an endogenous trade theory framework, first to analyse limited liberalization; and second, to study a group of countries with particular characteristics of opacity and discretional decision-making. The framework adapts a categorization of deep integration, derives preferences of economic actors from economic trade theories, and extends aspects of veto player theory and access point theory to exploit further their potential as an integrated structure of analysis. Then, these three aspects are studied through a collective action framework. Finally, the insight of previous studies that have highlighted the importance of systemic and international variables in the formation and design of trade agreements is considered. The importance of systemic and international theories and variables is not contested; the domestic-level explanations are developed as a complement to the insight that theories of international relations have provided.

Two main arguments are put forward The first one is that the underlying depth structure of the trade agreements studied fits a categorization of vertical and horizontal margins, which are qualitatively different: vertical policy benefits are broader and more excludable than horizontal ones. To test this argument, first, the complete texts of all dyadic trade agreements signed by Latin American countries from 1982 to 2010 (256 dyadic agreements) were manually coded to form a database of depth of provisions (a total of 28, 160 data points). To minimize error measurement, entries were compared with those of partially overlapping databases (publicly available or accessed by request). In the following areas, a total of 110 provisions per agreement were coded and measured: antidumping measures and countervailing duties, bargaining position, competition, decision power, dispute settlement mechanisms, environment, global and bilateral safeguards, government procurement, institutional capacities, investment, labour,

legitimacy, permanency, number of members, rules of origin, services, technical barriers to trade, type of agreement, and support bodies and mechanisms. To the best of my knowledge, this is the most comprehensive and detailed database of the depth of provisions of trade agreements established by Latin American countries.

Next, provisions were analytically assigned to each margin. At the horizontal margin, agreements vary in the extent of the areas covered, the barriers removed in each area, the limits placed to governments when domestic industries face injury, and the coverage and strength of the support and enforcement mechanisms in each area. At the vertical margin, agreements vary in type, legitimacy required for entry into force and for amendments, permanency, and scope of institutional capabilities. Finally, principal components analysis confirmed that each variable aligns in the component to which was analytically assigned. As expected, the analysis highlighted the existence of two main components, which corresponded to the vertical and horizontal margins.

The second main argument in this research is that two main domestic aspects contribute to explain the wide variations in nature and levels of depth of the trade agreements established by Latin American countries after 1982. First, changes in the structure of concentration of the export sectors of Latin American countries. Second, the degree of political decisiveness and level of access of societal demands determined by the institutional settings of these countries. After most of the countries abandoned the economic model based in the substitution of imports, in the 1980s, the structure of the export sectors of the countries changed. Two forces pulled in different directions: unilateral liberalization towards concentration and diversification towards de-concentration. On the one hand, agreements vary in the extent of barriers removed in diverse trade related regulatory activities, and in the inclusion of support and enforcement institutions and mechanisms. This research argues that these aspects have implications over the economic benefits that different types of exporters are able to appropriate, and therefore over their preferences over aspects of deep integration and over the intensities of said preferences. Resourceful exporters with scale economies and/or fragmented production increased their static and dynamic gains from trade through vertical and horizontal integration.

In addition, this research argues that the different extents of the governments' political decisiveness and access to societal demands have important implications over the lobbying costs of levels and forms of deep integration, and therefore over the possibilities of different types of exporters to shape trade agreements according to their preferences and priorities. Combining the veto players theory and the access points theory (extending the former to consider competition from rents from lobbying, and extending latter to include settings of imperfect competition), suggests that decreases in the costs of lobbying veto players increased the possibilities of resourceful exporters with increasing returns to scale and/or fragmented production to achieve vertical integration. However, decreases in the costs of lobbying access points without veto power reduced

these types of exporters' advantages of capturing said points, which reflected negatively in horizontal depth. In these cases, predictions about deep integration based on of veto player theory and on access point theory, became conditional on the concentration of the export sector. Cross-sectional regression analysis was performed to test these arguments. The main results and those of robustness tests tended to show direct and indirect support for the arguments put forward in this research.

Keywords: Trade Agreements, deep integration, endogenous trade theory, economic preferences, veto players, access points, Latin America.

Abstract

The proliferation of trade agreements after the Second World War is widely acknowledged in international trade literature and is a trend that will continue in the near future. Since the 1950s and 1960s, Latin American governments have acknowledged trade integration as a mean to promote economic development, which makes it increasingly important to understand the wide differences in the nature and levels of deep integration in their trade agreements. Nevertheless, little attention has been paid to explain differences in the content of trade agreements. This research extends an endogenous trade theory framework, first to analyse limited liberalization; and second, to study a group of countries with particular characteristics of opacity and discretional decision making. The framework includes an extended categorization of deep integration, preferences of economic actors derived from economic trade theories, and influence of the political setting through an integrated structure of veto players and access points. Then, these three aspects are studied through a collective action framework. Two main arguments are put forward. First, that the underlying depth structure of the trade agreements studied fits a categorization of vertical and horizontal margins, which are qualitatively different: vertical policy benefits are broader and more excludable than horizontal ones. Second, after inward oriented economic models were abandoned, the structure of the export sectors of the countries changed. Two forces pulled in different directions: unilateral liberalization towards concentration and diversification towards de-concentration. Resourceful exporters with scale economies and/or fragmented production increased gains through vertical and horizontal integration. Decreases (through competition) in the costs of lobbying veto players increased the possibilities of these types of exporters to achieve vertical integration. However, decreases in the costs of lobbying access points without veto power reduced these types of exporters' advantages of capturing said points, which reflected negatively in horizontal depth. In these cases, predictions about deep integration based on theories of veto players and access points became conditional on the concentration of the export sector. This study used principal components, cross-sectional regression, and an original hand-coded database of 28, 160 data points (which covers 256 dyadic agreements). To the best of my knowledge, this is the most comprehensive and detailed database of the content of trade agreements established by Latin American countries. The main results and those of robustness tests tended to show direct and indirect support for the arguments put forward in this research.

Acknowledgements

Many people contributed in numerous ways to this work, and I want to begin to acknowledge those contributions here. While my intellectual debt to Professor Cheryl Schonhardt-Bailey is clear in the pages that follow, I also owe her thanks for her work as my research supervisor. Cheryl has offered plenty of constructive critique and support for my research project from beginning to end. Her example, encouragement, and thorough feedback excited my intellectual curiosity, and motivated me to aim for her rigorous academic standards in my own research. As a scholar and mentor, she will be an example for me for the rest of my life. I am also privileged to have benefitted from the research supervision of Professor Francisco Panizza. His vast knowledge and research experience were also crucial in completing this research. The guidance and direction that I received from both of them have been invaluable for my professional development, and it was also instrumental in being offered a research position. I am also extremely grateful for their unreserved support when my health unexpectedly deteriorated. Their encouragement was critical in maintaining my enthusiasm and in persevering through the hard times.

This has been a long and costly research project, which could have not been completed without the financial contributions and assistance of several institutions: the Department of Government at the LSE; Ana Hilda Gomez and the National Council of Research and Technology; Professors Alejandro Guevara, Alejandro Anaya, and the Universidad Iberoamericana; Professors Javier Urbano and Zark Vauhlosky, and the Ministry of Education; Professors Paul Carmichael, Terrell Carver, Jacqui Briggs, and the Political Studies Association of United Kingdom;, the Instituto Juan March de Estudios e Investigaciones; and the Department of Political Science at the University of Harvard.

My academic journey started during my undergraduate days. The UIA also deserves my gratitude for inciting my curiosity about international political economy, and for inspiring me to pursue an academic career to contribute my little grain of sand towards the social problems of Mexico. Later, when I coordinated the B.A. in International Relations, Alejandro Guevara and Alejandro Anaya were exceptionally supportive in my ambitions to pursue doctoral studies. I am very grateful for their trust in my capabilities and in my research project. I would also like to thank Professors Laura Zamudio, Gloria Soto, Rocio Casanueva, Dario Salinas, Luis Gonzalez, Cristina Barron, Javier Urbano, Raymundo Elgueta, and Imtiaz Hussain. Each of them was a valued professor and advisor, and I often tried to follow their examples when I was teaching myself.

I also consider the six years that I worked at the Centro de Investigacion y Docencia Economicas (CIDE) as a learning period that greatly contributed to this research. The support and encouragement of my mentor, Professor Jorge A. Schiavon, has been most important since I was a first year undergraduate student. Jorge first sparked my curiosity about how international economics and domestic politics interlink in producing trade reforms. In addition, he has patiently guided, supported and encouraged my interest to explore the different areas of an academic career. From Jorge, I first learned about veto players, economic reforms, and foreign policy; and about doing research, publishing,

teaching, writing grant applications, presenting in conferences, working in committees, writing policy reports, etc. The success that this project has had feels as much mine as Jorge's. Professor Antonio Ortiz Mena L.N. inspired my interest in the study of trade agreements and provided me with invaluable opportunities to develop further this interest. Jorge and Antonio generously shared their time and academic expertise to uncover to a 20 years old the enjoyment of academic research, and to take pleasure in the value of hard work. The importance of their influence, and my gratitude to them, have only increased throughout the years. At CIDE, and during my graduate studies, I have also had the encouragement and support of Yolanda Muñoz and Professors Lorena Ruano, Arturo Sotomayor, and Guadalupe Gonzalez. To them, I also want to express my deepest and most sincere gratitude.

I would also like to thank my dear friends. At LSE Enterprise, Professor Julius Sen, has been exceptionally generous, sharing with me his vast experience and insights about economic policy analysis and about teaching trade policy. Julius provided his valuable advice in the different stages of this project, and in the very important aspect of identifying avenues to make the most of the potential of my research. Professor Kenneth A. Dubin continuously challenged me to "think big" about my research, provided me with advice that was often maddeningly right, and shared his experiences and contacts to improve this project. Professor Soydan Soylu contributed with his vast knowledge of quantitative analysis. Ting Luo, May Chu, Jessica Tarlov, Anar Ahmadov, Martin Williams and Lynne Roberts have been exceptional friends, and also did heroic work in reading parts of this research, even though it does not fall within their primary fields of interest. Kathleen Henehan, Ursula Durand, Lila Caballero, Monica Falcon, and Eleni Lioliou, sustained me throughout this journey and, when in doubt, convinced me that there was light at the end of the tunnel. Ignazio De Ferrari patiently listened to my concerns and insecurities, and his wittiness and kindness always lifted my spirits. Fabrizio Scrollini and Juergen Braunstein, no matter what, always made me laugh. I also want to thank Justin Gest, Marta Wojciechowska, Katjanna Gattermann, Sonia Bussu, José Olivas-Osuna, Mollie Gerver, Mariana Dates, Ellie Knott, Juhyun Nam, Carolyn Armstrong, Mariana Escobar, Gisela Calderon, Eri Bertsou, Stefan Bauchowitz, Kinga Dorosz, Feline Freier, Nuno Barros De Oliveira, Johannes Wolff, Natali Pagliari, Elen Macit, and Mauricio Dussauge-Laguna for their friendship, which added so much to my years at the LSE. Finally, I would like to thank Juan Jose Bermejo, Carlos Echeverria, and Ana Gonzalez, each of whom has been a wonderful friend for many years now.

This work is dedicated to my family. I thank my grandmother Ernestina, and my aunt Tina and for their love throughout my life. I am proud of my siblings, Arturo and Karen, for their great talents. Regardless of the distance, I could always count on them to be there for me. My little nephew, Santiago, has brought much joy into my life. Above all, I thank my parents, Ninfa and Arturo for their boundless love and unfailing faith in me. I hope they know how much I value their determination to make available to me a good education.

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Acronyms and abbreviations

AD Anti-Dumping Measures

BIT Bilateral investment treaties

CACM Central American Common Market

CARICOM Caribbean Common Market

CACM Central American Common Market

CU Customs Union

DSB Dispute Settlement Body

ECCAS Economic Community of Central African States

EFTA European Free Trade Association

EU European Union

FDI Foreign Direct Investment

FTA Free Trade Agreement

GATS General Agreement on Trade in Services

GATT General Agreement on Tariffs and Trade

GDP Gross Domestic Product

GNI Gross National Income

GNP Gross National Product

IMF International Monetary Fund

IPRs Intellectual property rights

ISIC International Standard Industrial Classification

LDCs Least-developed countries

MERCOSUR Southern Common Market

MFN Most-Favored-Nation

MTN Multilateral Trade Negotiations

NAFTA North American Free Trade Agreement

NT National Treatment

NTMs Non-tariff measures

OECD Organization for Economic Co-operation and Development

PTA Preferential Trade Agreement

RCA Revealed comparative advantage

RTA Regional Trade Agreement

SICE Foreign Trade Information System

SITC Standard International Trade Classification

SPS Sanitary and Phytosanitary Measures (WTO)

TRAINS Trade Analysis and Information System

UNCTAD United Nations Conference on Trade and Development.

WB World Bank

WITS World Integrated Trade System

WTO World Trade Organization

1 Introduction

Background

Trade is crucial for the world economy and, thereby, for Latin American countries, which makes it increasingly important to understand the design and characteristics of trade agreements. The proliferation of trade agreements after the Second World War is widely acknowledged in international trade literature and is a trend that will continue in the near future. Trade agreements increasingly mediate larger proportions of international trade and influence the volume and direction of trade flows (Mansfield and Milner, 2012: Kindle location: 199-5825). Trade policy has been acknowledged as a tool for development of Latin American countries since the 1950s and 1960s. Over the last decade, there has been increased interest in Latin America about the origins of different trade policies implemented in countries of the region (Sáez, 2005: 7).[1] Thus, the proliferation of divergent trade agreements in Latin America during the last two decades has raised several analytical and policy issues in academic debate (Salazar-Xirinachs, 2004: 127).[2] Nevertheless, as in other regions, little attention has been paid to understanding and explaining differences in the content of trade agreements.[3]

Even before the trade integration attempts of the 1950s and 1960s, the region viewed trade agreements favourably. In Latin America, trade agreements emerged, at least in part, from a deeply ingrained idea of integration. Salazar-Xirinachs (2004: 123) explains that since colonial times, aspirations for integration have been constant in the region. In this way, 'ideas of political integration and common destiny continue to appeal to Latin Americans and to reappear intermittently in different contexts up to the present.' In response to the economic crises of 1930–1950, the notion of

[1] The interest to know and understand the way in which decisions on trade policy are made in Latin America has also increased (Sáez, 2005: 7).

[2] Salazar-Xirinachs (2004: 127) mentions diversion of trade, interaction with multilateral process, consequences of the overlapping of trade agreements, interaction with policy reform, and contributions to create a more open trading system.

[3] Scholars have pointed out that more detailed knowledge about the content of trade agreements is needed. For example, Teh, Prusa, and Budetta (2009: 166-167) mention that variations in trade remedy provisions have not been acknowledged in academic literature. Smith (2000: 137) states that neglect in the study of content of trade agreements is 'curious' given their wide variation, and the implications which such differences may have for 'academic debates regarding sovereignty, globalization, and interdependence.'

economic liberalism was challenged[4] by those of nationalism and communism as more viable paths to increase industrialization and, therefore, economic development.[5] As a result, Latin American countries implemented protectionist public policies with the objective of promoting industrialization through an economic model based on the substitution of imports and in which the state played a central role as the motor of the economy, while restrictions were placed on private initiatives and hefty regulations were applied to markets. However, during the 1950s and 1960s, Latin American governments created trade agreements that were incompatible with protectionist economic interests.

Latin American governments believed that their economic models required scale economies and, thus, larger markets to continue expansion. The industrialization model based on import substitution did not produce the economic growth expected; furthermore, the model underperformed in delivering employment and reducing inflation and economic instability. The objective of conforming trade agreements was to create regional scale economies through institutions that would in turn coordinate state intervention, reduce or eliminate trade barriers between members while increasing protectionist measures against other countries, and regulate flows of foreign direct investment (IADB, 2002: 31). Thus, many Latin American countries embarked on creating trade agreements to develop economic integration.[6] These attempts were not successful because they required the fulfilment of the logical prerequisite of changing the import substitution model in favour of a model based on promoting exports and market liberalization (Frankel, 1997: 7). In general, the incipient initiatives failed to achieve trade and investment liberalization due to

[4] The governments of the region were pessimistic concerning the external terms of trade for commodity exporters; sceptic about the entrepreneurial vocation of the private sector; hopeful about the effectiveness of public enterprise and state planning; fearful of dependence on foreign firms; and marginally interested in the multilateral trading system (IADB, 2002: 31).

[5] Free trade was not considered a viable alternative for developing countries. Because the unevenness in the exchange of terms of trade overrated technological goods (produced by industrialized countries) over agricultural goods (produced by developing countries), and technological transmission between developed and developing countries is limited, it was considered that free trade was biased towards favouring developed countries over peripheral ones (Cardoso and Faletto, 1979).

[6] According to the IADB (2002: 32), several agreements, such as the Latin American Free Trade Association (LAFTA, after 1960 the ALADI), the Central American Common Market (CACM), the Andean Group (after 1969 the Andean Community), and the Caribbean Free Trade Association (after 1973, the CARICOM) were partially created to achieve scale-economies within protectionist economic strategies.

several complications [7] derived from the inherent protectionism of the Latin American economic model and lack of complementarities among the productive sectors of the region's economies.

During the last half of the 1970s, the collapse and subsequent transformation of the protectionist economic model alongside global changes fostered liberalizing economic interests and with this the establishment of trade agreements. The economic and debt crises of Latin America that began in 1982 were perceived to result from the failure of the import substitution model. Countries of the region transferred large amounts of resources to developed countries in order to pay their previous obligations, while commercial banks and international financial institutions denied further credit to Latin American countries. Thus, the region's countries reoriented their economic models from those based on import substitution directed by the state to those based on outward export promotion schemes driven by the private sector.[8] Liberalization enabled the emergence of new forms of cooperation and boosted efforts to enact trade agreements as a main component of the new 'open regionalism' wave (Frankel, 1997; Ethier, 1998; Haggard, 1998; Smith, 1999; Rigozzi, 2013) giving trade agreements more opportunities for success.

Between 1990 and 1994, Latin American countries signed more than 30 bilateral trade agreements. The focus shifted from South–South trade agreements to more ambitious and institutionally more sophisticated North–South schemes. The main objectives of these trade agreements were to increase the costs of policy reversal by locking in economic structural reforms, signal credible liberalization commitments to the private sector, decrease protectionist barriers, promote institutional modernization, and enhance countries' competitiveness (Haggard, 1994; Salazar-

[7] The IADB (2002: 32) points out several complications in the process of achieving economic integration while pursuing an imports substitution strategy faced. First, liberalization was pursued through narrow positive lists. Second, it aggravated the tension between public intervention and protectionist uses of the private sector. Third, it exacerbated macroeconomic instabilities by requiring large amounts of capital and imports of intermediate goods without generating exports in a context of unstable commodity prices and financial flows. Fourth, the imbalanced allocation of benefits between members of economic agreements created tensions between them. Fifth, poor infrastructure limited the potential of trade. Sixth, the authoritarian governments of the region encouraged political and border conflicts, limited the creation of regional institutions and limited the exchange of productive factors. Finally, the U.S. was more interested on the development of the multilateral trading system than on regional initiatives and did not support them.

[8] The main objectives of the reform process were achieving macroeconomic stability and overcoming the foreign debt problem (Sáez, 2005: 9).

Xirinachs, 2004: 123).[9] In pursuit of these objectives, trade agreements proliferated in the region during the 1990s. After the first decade of the 2000s, when a large number of left-oriented parties and political leaders took power in several countries of the region (Panizza 2009; Panizza and Philip 2013), other agreements with political and economic mandates also emerged.[10]

The puzzle and research question

The main reason for selecting Latin America as the analysis case is the following puzzle: its trade agreements established under open regionalism vary widely in the level and nature of deep integration. As mentioned, these agreements have been plagued by continuous disagreement regarding their breadth, speed, and content (Haggard, 1998; Aggarwal and Espach, 2004). The reasons are not self-evident since Latin American countries have broadly similar political institutions, and face similar ideational context and external conditions. First, regarding political regime, most countries in Latin America have presidential systems, bicameral congresses, and proportional representation. Thus, in terms of institutional configuration, there seems to be no substantive variation which, from a purely institutionalist perspective, could explain the wide variation of depth of trade agreements established by each country.

Second, at the beginning of the 1980s, all countries experienced the same global changes and an international drive towards regional integration. Schiavon (2001) points out five changes in the international context which influenced the desirability of economic structural reforms, such as trade liberalization, in the region. First, the Chilean and East Asian experiences showed the economic growth potential from

[9] The IADB (2002) mentions that the economic transformation required an environment of certainty. Trade agreements would secure enlarged markets providing more information flows, and opportunities for exports and diversification. This would lead to greater specialization, product differentiation, and inter-industry trade. In addition, higher value-added manufactures and products in which the region has a comparative advantage such as textiles, dairy goods, meat, and food processing are more competitive through interregional trade than in extra-regional trade. In the end, this process would increase productivity, competitiveness, employment and growth. In a similar idea, Devlin and Estevadeordal (2001), and Salazar-Xirinachs (2004) mention that trade agreements also work towards distinguishing partner countries placing them in a better position to attract foreign direct investment; and strengthen their bargaining power in international negotiations. Finally, Devlin, Estevadeordal and Krivonos (2003) mention that trade agreements can also work as a point of departure for functional cooperation on economic, social and political areas.

[10] For example, the Union of South American Nations (UNASUR). The study of these new non-trade agreements falls beyond the scope of this thesis.

economic liberalization. Second, international financial institutions, such as the World Bank (WB), the International Monetary Fund (IMF), and the Inter-American Development Bank (IADB), put pressure on countries of the region to liberalize. Third, the socialist path to development was not an option after the collapse of the Soviet Union. Fourth, the successful expansion of the European Community, now the European Union, in terms of depth, scope, and geographical area encouraged imitation by other regional initiatives. Fifth, the United States changed its multilateral focus to a regional one[11] due to European resistance to a new round of multilateral negotiations at a General Agreement on Tariffs and Trade (GATT) conference in Geneva.

After the economic crises of the 1980s, Latin American countries reoriented their economies towards an outward export promotion model led by the private sector. At the beginning of the 1990s, a liberal regional consensus emerged within the West, sustained on three pillars: the spread of democracy, neo-liberal economic reforms, and increasing interdependence of countries in and outside the region. These elements fostered the idea of trade integration and free trade as factors of a reciprocally beneficial relationship among countries which would lead to an increase in economic growth (Peceney, 1994). In this way, the idea of trade policy as one of the pillars of economic development persisted in the region. Within this context, the following research question guides this work: What explains the wide differences in the nature and levels of deep integration between trade agreements signed by Latin American countries? In addressing this question, this work analyses the way in which different configurations of economic interests in export sectors and domestic institutional settings combine to explain differences in the extent and nature of deep integration achieved in trade agreements. In the case of vertical integration, which is relevant to the trade agreement as a whole, the focus is on the combination of veto players and export oriented producers in concentrated export sectors. In the case of horizontal integration, which is relevant to specific trade areas and disciplines included in the agreements, the focus is on the combination of access points without veto power in de-concentrated export sectors. A review of the theoretical framework follows before detailing the arguments that address the research question.

[11] Canada was able to reverse the negative attitude towards free trade with the United States that had prevailed during the previous 100 years. The Canadian business community was eager to establish a free trade area with the United States to exploit scale-economies. This situation, in addition to the United States interest in regional trade initiatives allowed the establishment of a bilateral agreement between both countries in 1988 (Frankel, 1997: 4-7).

Endogenous trade theory as an analysis method

The international political economy is a 'substantive area of inquiry' about the 'politics of international economic exchange' (Lake, 2009: 221). This research fits within some of the broader questions at the centre of the study of international political economy: 'how, when, and why do countries decide to open themselves to trans-border flows of goods and services, capital, and people.'[12] In this research, openness[13] is limited, as it refers to variation of depth of preferential international trade agreements. Domestic politics is the independent or causal variable. An approach which takes into account the economic benefits of domestic actors, their ability to mobilize towards their preferred policy outcomes, and the influence of political institutions as mediators of societal demands seems the most appropriate for analysing deep integration.

The depth of trade agreements is the outcome of a complex process involving different combinations of economic interests and political institutions. Trade agreements are public policies, which in turn are the output of a process involving many different actors interacting in a variety of arenas, rather than being only instruments which policy-makers use to maximize the welfare of populations (Spiller, Stein and Tommasi, 2008: 2). In this way, trade agreements are a function of the trade preferences of domestic actors, their ability to organize collectively, and the intervening effects of political institutions in mediating group preferences (Chase, 2005: 16). An endogenous policy model covers these components and 'has both politics (the parties and the lobbies) and economics (goods markets and factor markets) based on maximization by the actors' (Magee, Brock, and Young, 1989: 31). The analytical framework of this research is developed through extending an endogenous political economy model to explain variation in the level of deep integration reached in trade agreements.

Endogenous trade theory is the most developed application of public choice theory to analyse trade policy outcomes. Lake (2009) points out that interest groups have been acknowledged relevant for trade policy in several studies before the decade of 1970s (e.g. Schattschneider, 1935; Gourevitch, 1977; Caves, 1976; McKeown, 1984;

[12] Lake (2009: 221) mentions that this is one of two integrated question at the centre of studies of international political economy (most studies focus in one of them). The other question is 'how does integration (or not) into the international economy affect the interests of individuals, sectors, factors of production, or countries and, in turn, national policies.'

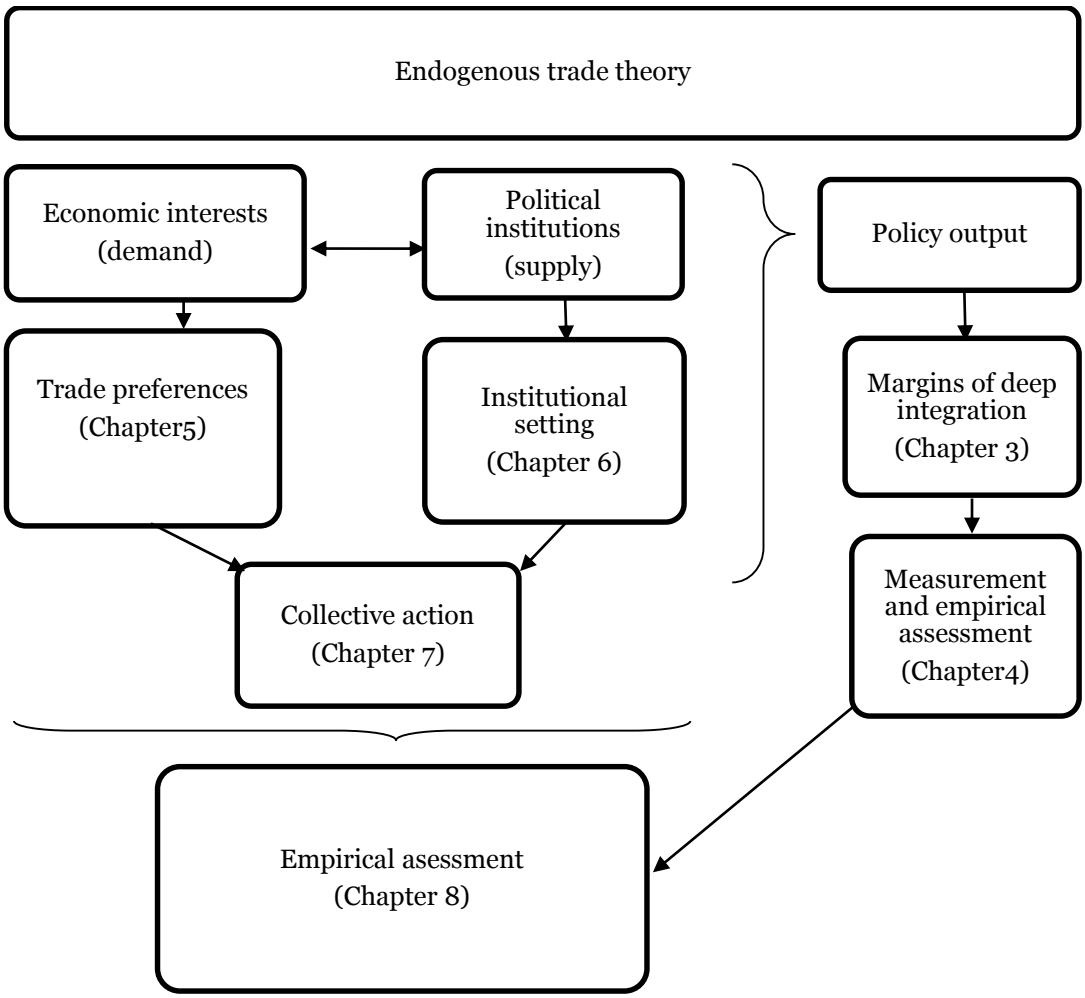
[13] From a perspective of international political economy, liberalization is 'historically rare, problematic, and a phenomenon that itself needs to be explained' (Lake, 2009: 221).

Frieden, 1988b; Milner, 1988). In the 1970s and 1980s, economists (e.g. Pincus, 1975; Lavergne, 1983; Baldwin, 1985; Magee, Brock, and Young, 1989) developed the 'endogenous tariff theory,' which emphasizes the mobilization of interest groups in explaining public policy outcomes. Although public choice theory does not provide a general theory of domestic politics, endogenous trade theory provides the most developed theoretical framework for understanding trade policy from a domestic politics perspective (McGillivray, McLean, Pahre, and Schonhardt-Bailey, 2001: 9). The foundation underlying the theory is that the behaviour and interactions of self-interested economic and political actors (interest groups voters, parties, and politicians, among others) are reflected in an endogenous political equilibrium in which trade policies are equated with prices (Magee, Brock, and Young, 1989: 31). In the leading model developed by Grossman and Helpman (1994, 2002), market actors which are expected to profit from a certain policy 'buy' protection through campaign contributions in order to obtain their preferred policy outcomes. Thus, politicians sell tariffs and quotas to the highest bidders. Market actors invest until the marginal benefits from the policy are equal to the marginal costs of the political investment.[14] The endogenous trade theory framework has provided useful insight to understand how demand for protection and liberalization from market actors is organized, mainly in developed countries.[15] In this research, the framework provided by endogenous trade theory is adapted to study limited liberalization through trade agreements and extended to analyse developing countries as represented in Figure 1.1, and discussed in the sub-sections below.

[14] In contrast, the process through which governments aggregate conflicting interests of market actors, and balance it with societal welfare is not made explicit.

[15] McGillivray, McLean, Pahre, and Schonhardt-Bailey (2001) thoroughly surveyed endogenous tariff theory. The authors analyse how tariffs vary along three main dimensions: goods, country and time. Industries or firms under the following circumstances are more likely to lobby for protection: declining or growing slowly, facing increasing import penetration, being less competitive internationally, having less intra industry trade, among others. On the other hand, the following industries are more likely to lobby for protection: textiles, apparel, footwear, chemicals, and highly processed goods, among others. Also, countries with the following features have higher levels of protection: are less wealthy or developed, have medium sized domestic markets, have smaller gross national product, have smaller manufacturing sectors, lack other sources for government revenue, face greater export instability, have less diversified exports or imports, among others. Countries with the following political characteristics tend to have higher levels of protection: smaller political jurisdictions, larger central governments, and greater relative power. Finally, concerning variation over time, the authors found that tariffs fluctuate over time with domestic or global business cycles, with economic growth, with levels of development, with terms of trade, with capital-labour ratios, and after creation of a free trade area.

Figure 1-1 Endogenous trade theory as an analysis method



Source: Elaborated by the author.

Deep integration as policy outcome

In order to separate variation of trade agreements from surrounding complexity, the concept of trade agreements is differentiated from other related terms. In the literature on trade integration, regional integration, regionalization, and inter-dependence often are used indistinctly. As an illustration of the different conceptualizations of a same term, the WTO's definition of regionalism comprises 'any trade agreement that involves two or more countries but fewer than all members [...] There can be several signatories [...] or just two. [...] The agreements may involve countries that are of close geographical proximity [...] or maybe in different parts of the globe' (Carpenter 2009: 13-14). Also Evans, Holmes, Iacovone, and Robinson (2004: 2) define regionalism as including 'preferential trade agreements (PTAs) between countries, including those between countries not geographically contiguous or even nearby.' These two studies consider geographic closeness as not necessary for

regionalism, and trade agreements as synonyms of regionalism. However, in this research, trade agreements, in contrast with regionalization or economic interdependence, are the outcome of a political process.[16] Since the general objective of this research is to understand variation in the design of trade agreements established by Latin American countries, the focus is on the outcome of the processes of integration, not on the processes themselves. The objective of such processes is to create a single market during a transitory period (Ortiz Mena L.N., 2001a, 2001b; Mansfield, Milner, and Pevehouse, 2007). Therefore, trade agreements in this study are an operational term.

Because trade agreements are not a unified concept, the specific use of the term should be clarified. First, trade agreements that have been signed by two or more countries are analysed; other trade policies that fall outside the definition of trade agreement,[17] such as unilateral liberalization, are not included. Second, agreements should aim to cover all trade substantially.[18] Third, since the research question is about the design of trade agreements, explicit arrangements, rather than tacit arrangements, are studied.[19] Fourth, for similar reasons, the study excludes agreements that are not 'concrete' and have 'vague' objectives, and omit specific provisions and timing for liberalization (Baccini, Dür, Elsig, and Milewicz, 2011: 12).

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[16] On one hand, regionalism and regionalization have a clear geographical connotation, but while the former refers to trade integration between neighbouring countries, the latter refers to an increase in trade between neighbouring countries at a faster pace than with more distant countries (Ortiz Mena L.N., 2001a). On the other hand, economic interdependence does not have any geographic connotation and refers only to the quantity and depth of financial and economic exchanges between countries (Haggard, 1998). Neither regionalization nor economic interdependence involves necessarily a political process. Finally, trade agreements may involve (or not) countries that are geographically distant.

[17] The focus of this research are trade agreements rather than regimes. Koremenos and Snidal (2003: 432-433) explain that the concept of regime includes 'implicit or explicit principles, norms, rules and decision-making procedures' and does not provide specific guidance for theoretical or empirical work.

[18] Although other studies (e.g. Mansfield, Milner, and Pevehouse, 2007) have included partial scope agreements along with trade agreements such as free trade areas or customs unions, in this research they are considered as qualitatively different trade instruments. The reasons are that first, partial scope agreements and trade agreements have different objectives. The former removes barriers in one or more productive sectors while the second aims to remove most trade barriers in the economy. Second, because both instruments pursue different objectives, analytical categories such as shallow or deep integration are not applicable to partial scope agreements. Because of these reasons, in this research partial scope agreements are not considered analytically comparable to trade agreements that aim wider trade liberalization. For example, it cannot be considered the same a dispute settlement mechanism in an agreement that covers only the automotive sector than the dispute settlement mechanism of a trade agreement such as NAFTA.

[19] Other studies also exclude non-formalized agreements (e.g. Koremenos and Snidal, 2003; Baccini, Dür, and Elsig, 2011).

Fifth, the agreements analysed may be entirely new or a product of less formal negotiations.[20] Sixth, for the sake of parsimony, trade agreements are considered in isolation of other trade institutions, as in other analyses which address variation of trade agreements (e.g. Koremenos, Lipson, and Snidal D., 2001a, 2001b). Seventh, the evolution of trade agreements falls outside the scope of this research, consistently with other studies which address cross sectional variation of trade agreements (e.g. Hicks and Kim, 2010; WTO, 2011; Baccini, Dür, and Elsig, 2012a). Finally, as in previous studies (e.g. WTO, 2011; Hicks and Kim, 2010; Baccini, Dür, Elsig, and Milewicz, 2011), the version of the agreement coded is that which was signed in the first instance.

Trade agreements are evaluated, first, to assess their depth (and build dependent variables of interest); and subsequently, to assess how different configurations of economic interests and political institutions influence the depth of such agreements. For these purposes, analysing policy outcomes directly is considered suitable to determine the aspects of variation in the depth of trade agreements. One of the advantages of this approach is that industry effects are well identified and may be targeted in specific trade legislation (Beaulieu, 2002: 101-102). This approach is consistent with the work of scholars who analyse policy outcomes directly (e.g. Frieden, 1991; Beaulieu, 2002; Mansfield, Milner, and Pevehouse, 2007).[21] This study analyses specific pieces of trade legislation: namely, all available trade agreements from 1982 to 2010 between Latin American countries and their regional and global partners.[22] Depth is defined conceptually in Chapter 3 and empirically in Chapter 4, by assessing the inclusion of specific areas and provisions which promote deep integration directly from the text of the trade agreements.

In this research, limited trade liberalization, rather than protection, is the object of analysis and is considered a quasi-public good. Trade agreements, as other

[20] For example, trade agreements signed after the establishment of framework agreements are not considered different in terms of depth at the moment of signature from those which did not establish a framework agreement previously.

[21] The way in which provisions are formulated 'reveals its intention and the extent to which it declares legal obligations and rights' (WTO, 2011: 129-130). Trade and investment agreements are carefully negotiated by signatories and they deliberately include or exclude components according to the problems they face (Allee and Peinhardt, 2010: 8). From these perspectives, the legal texts of trade agreements are meaningful to both, governments and economic actors (Hicks and Kim, 2010: 17). Focusing on the legal texts of such agreements is a sensible approach to study deep integration.

[22] The legal text of 256 agreements established by Latin American countries between 1982 and 2010 were analysed and 110 provisions manually coded and checked for reliability with partially overlapping databases. Details of the sample and data collection method are provided in Chapter 4.

instruments of trade policy, can be considered quasi-public goods because they provide general benefits which are not excludable and non-rivalrous. Free trade policy may be considered a public good because, once produced, nobody can be prevented from enjoying its benefits (Gowa, 1988; Chase, 2005: 40). For example, free trade makes available products and services with decreased prices, increased quality, and greater varieties of intermediate and final products (Nielson, 2003: 471). From this perspective, trade agreements are 'transnational public goods whose non-rivalry and non-exclusive properties extend beyond national borders, but are contained in a well-defined set of states or a geographical region' (Devlin and Estevadeordal, 2002: 7). However, depending on different conditions of excludability of policy benefits, limited liberalization through trade agreements simultaneously produces private benefits for economic groups. This situation gives market actors incentives to pressure governments to achieve limited liberalization through trade agreements and produce economic gains which they can appropriate. As analysed further in Chapter 7, different margins of deep integration have different levels of excludability. In this research, it is argued that such differences in excludability contribute to explaining the variation in the nature and levels of depth between the agreements established by Latin American countries after 1982.

Preferences for deep integration

As mentioned, the endogenous trade framework provides useful insight for understanding the preferences and organization capacities of market actors to demand protection and liberalization. Nevertheless, several authors (e.g. Chase, 2005; Mansfield and Milner, 2012) have pointed out that the need to better identify interest groups and the manner in which they influence trade policy outcomes remains to be addressed. In analysing economic interests, endogenous trade theories assume that firms choose between an economic or political investment. From this perspective, wealth can come from two sources: production and predation (Magee, Brock, and Young 1989: 1). Scholars refer mainly to two sets of models: those based on trade preferences and those based on collective action costs and government institutions (Alt, Frieden, Gilligan, Rodrik, and Rogowski, 1996: 690). Following Frieden's (1999) guidelines, this research first derive the trade preferences of the economic actors and, after analysing the institutional setting, refer to models based

on collective action costs and institutions.[23] The importance of maintaining preferences separate from their strategic setting lies in the fact that preferences may be affected by some of the features of the settings. This separation is relevant in order to theoretically distinguish between the role of actors' interests and that of their environment.

Starting with a derivation of actors' preferences from trade theories is advantageous for studying demand for deep integration. Identifying the interests of groups in society and their relative influence on trade policy outcomes remains a key issue in literature (Mansfield and Milner, 2012). In order to analyse a policy, one must first clearly understand the economic interests that are behind it (Frieden, 1991: 450). The starting point is that, even if preferences cannot be observed, it is possible to regard actors as having preferences for outcomes (Frieden, 1999: 40) based on how their income is influenced by a policy outcome. The economic link (Mayer, 1984: 983) places the economy's structure as the main determinant of the process through which a person's real income and her interests are affected.[24] Using a deductive theory of preferences 'we know features of the actor, and theory predicts that in a determined context these will lead to a particular set of preferences [...] Preferences then vary accordingly to a pre-existing theory' (Frieden, 1999: 61). According to Frieden, this is the most desirable approach to derive preferences and it has two main advantages. First, the preference is not assumed, but derived. Second, the conditions under which preferences vary are more *objectively* [sic] assessed than the preferences themselves.

Economic actors are affected in different ways depending on their 'production profile' (Gourevitch, 1986). Regarding trade preferences, a key division is whether trade preferences of domestic market actors follow sector lines or factor lines. In the first case, the Ricardo Viner or specific factors theory of international trade is used; in the second case, the Heckscher–Ohlin–Stolper–Samuelson theory of international trade is applied. There is empirical evidence to support each approach (e.g. Magee, 1980; Hiscox, 2002a, 2002b). Nevertheless, focusing on only economic investment choices overlooks the relationships connecting politics and economics.

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[23] As mentioned earlier, political economy scholars refer mainly to two sets of models: models based on trade preferences and models based on collective action costs and governmental institutions. Alt, Frieden, Gilligan, Rodrik, and Rogowski, (1996: 690) mention that these models are closely related to their environment. The authors analyse the organization of economic interests and how trade preferences are translated to political coalitions to demand economic policy outcomes.

[24] As is usual in public choice literature, in this research it is assumed that market actors prefer maximizing their economic benefits. Domestic actors prefer deep integration when it maximizes their income and wealth.

Although the derivation of trade preferences is a powerful predictor of trade policy outcomes in its own right (e.g. Rogowski, 1989; Milner, 1988; Frieden, 1991), preferences of individuals and groups cannot be translated automatically into political pressure for specific trade policies. Policy preferences derive from actors' interests but are not identical to them (Schonhardt-Bailey, 2006: 23). In general, moving from trade preferences to policy outcomes is complex. Chase (2005: 43) points out that few scholars systematically examine the economic interests and political institutions which intervene in trade policy because the process entails several analytical challenges.[25] To answer the question that motivates this research, after identifying which economic interests prefer deep integration, it is necessary to analyse at least two other aspects of the domestic system: first, constraints which institutions may impose in supplying the demanded depth of agreements and how they channel societal demands; and second, the feasibility of economic actors organizing politically to overcome such constraints.

Domestic political institutions

The role of domestic political institutions is usually neglected by endogenous trade theory: 'the literature can be searched almost in vain for issues of state structure, state capacity, state autonomy, or state interest to which many political scientists are attentive' (McGillivray, McLean, Pahre, and Schonhardt-Bailey, 2001: 14). Furthermore, the analysis of political institutions in Latin America was dismissed for some time because of the authoritarian nature of the region's governments (Geddes, 2002: 343). However, conditions in the region have changed[26] and more serious investigation of the influence of institutions in public policies is required (Spiller, Stein, and Tommasi, 2008: 2). Moreover, Nielson (2003: 407) points out that 'under common developing country conditions of economic crisis, high policy uncertainty, and significant international pressure, supply-side factors may matter more than the traditional demand-side variables usually studied in international economics.' For

[25] Chase (2005: 43) for example, mentions that Milner (1988); Rogowski (1989); and Frieden (1991) assess market actor's preferences directly or assume that preferences alone determine policy, as indirect approaches to identifying economic interests.

[26] This research acknowledges that, although political institutions have gained relevance in the region, liberalization in Latin America started in a context of free market economics that was not free of the 'old politics.' As Panizza (2000: 738) points out, 'old politics' of clientelism, patronage and corruption rather than being obstacles, adjusted to operate in the transformed and pro-liberalization setting, and were 'instrumental' (within certain limits and conditions) in achieving economic liberalization.

these reasons, an analysis of institutional factors of the region's countries and their influence on public policies is even more important.

Regarding the influence of political factors on trade policy, the effect of political institutions has been overlooked compared with the effect of political interests. Institutions influence the 'roles and incentives of each of the actors, the characteristics of the arenas in which they interact, and the nature of the transactions they engage in' (Spiller, Stein, and Tommasi, 2008: 2). In analysing the role of institutions in trade policy, two main approaches prevail in the literature: analyses which focus on particular institutions and analyses which focus on conceptual dimensions (integrating a range of institutions). These approaches are reviewed in Chapter 2. This research argues that because most Latin American countries share broadly similar institutional characteristics, an appropriate approach is to consider more encompassing characterizations of institutional variation. An integrated framework combining theories of access points and veto players[27] is considered an appropriate approach for analysing the role that political institutions play in deep integration of trade agreements.

Overcoming exporters' collective action costs

Few studies take into account political institutions and economic interests to explain policy outcomes. Often, when the influence of institutions is evaluated, the structure of interest groups in each country is not specified and it is assumed instead that the preferences of interest groups are already reflected in the position of the political institutions studied (e.g. Mansfield, Milner and Pevehouse, 2007: 403). Some reasons are that 'coalition building processes are notoriously difficult to predict, and policy making institutions tend to be unique to each country' (Chase, 2005: 43). This step of the analysis comprises first, presenting the framework to study the mechanisms that make it possible for increasing export oriented industries to mobilize (and overcome what theoretically has been acknowledged as acute free riding problems); and second, assessing how they combine with characteristics of the institutional setting to channel their demands for deep integration in differentiated ways.

[27] Access points and veto players are defined and discussed in more detail in Chapter 5. Briefly, access points are political actors which have power in a specific policy domain and are receptive to lobbying (Ehrlich, 2007, 211). Veto players are individual actors whose consent is required to enact legislation that modifies the *status quo* (Tsebelis 1995, 2002).

To assess the feasibility of interest groups organizing and exerting political pressure, it is common to use a cost-benefit model to frame the argument (e.g. Pincus, 1975; Caves, 1976; Pittman, 1977; Godek, 1985; Grier, Munger and Roberts, 1994). Following this approach, trade policy outcomes are the result of interest group pressure. Structural factors influence the benefits and costs that industries face to organize political pressure and achieve their desired policy outcomes (Caves, 1976: 286). Benefits from influencing the government depend on its role in influencing a particular industry (Pittman, 1976: 38). Industries that invest resources compare the costs of participation with the benefits derived from trade agreements. Therefore, whether an interest group chooses and is able to mobilize depends on the benefits potentially available and the costs for participants of the group. According to endogenous trade literature, in addition to characteristics of the group (industry), characteristics of the environment and the institutional setting are important to analyse collective action (e.g. Alt and Gilligan, 1994; McGuire and Olson, 1999; Acemoglu and Robinson, 2006). These characteristics influence how appropriable benefits are and how assignable the costs of collective action are. The characteristics of the industry (e.g. Olson, 1965; Pincus, 1975; Pittman, 1976; Lavergne, 1983; Frieden, 1991; Grier, Munger and Roberts, 1994; Chase 2005; Schonhardt-Bailey, 2006) and the environment can generate insight into the costs and benefits from mobilization and consequently, the predisposition to engage in collective action (Olson, 1965; Lavergne, 1983, Baldwin, 1985, 1989; Schonhardt-Bailey, 2006). For example, Alt and Gilligan (1994) state that a higher degree of factor specificity in the economy influences the costs of collective action by increasing the excludability of policy benefits.

On the other hand, the configuration of political institutions influences how societal demands are channelled and is therefore central in determining the costs of mobilization of interest groups. Political institutions aggregate divergent societal interests and channel the negotiation of their divergent economic interests. In this way, the configuration of political institutions influence which economic interests prevail over others in a particular domain:

> 'At any moment, institutions serve to define what political power means in a particular society, whether the competition over policy will be conducted via votes, normally expected to favor labor, via contributions and bribes, often in capital's comparative advantage, or via ideas and argument. In short, institutions determine the "currency" used in the political marketplace and how different political assets are valued' (Lake, 2009: 227).

From this perspective, no matter how well derived the economic interests which benefit from trade agreements, political institutions also influence the level of integration achieved in trade agreements. Therefore, to analyse the costs of the political institutional setting, this research uses the combined framework of access points and veto players described in the previous section.

Alternative and complementary explanations

Open economy politics is an approach within the international political economy which emerged at the end of the 1990s. Lake (2009: 225) summarizes the foundation, development, and areas of opportunity of the open economy politics approach as follows. Built on the assumptions of neo-classical economics and international trade theory, open economy politics gives substantial weight to domestic material interests in trade policy analysis. However, it also aims to account for variables of political nature, such as institutions, at the domestic and international levels. Within this approach, arguments progress from micro to macro levels of analysis in a linear way: first, by deriving preferences from domestic market actors then, by considering how political institutions aggregate said preferences, and finally, by considering bargaining at the international level. Most scholars focus on one of these three steps, treating the other two as exogenous in 'reduced form.'

International and systemic explanations are also considered. Early analyses about the formation and depth of trade agreements which considered the situation of countries in the international system as independent variables were written mainly during the 1990s. Several systemic and international variables are considered influential. First, decreasing economic power of the hegemonic country in the international system has been one of the most important explanations for the formation of trade agreements rather than fostering multilateral trade integration.[28] Second, countries which participate in the multilateral system may form regional integration agreements to increase their bargaining power or to respond to the stagnation of the multilateral system.[29] Third, geographical vicinity and previous

[28] Hegemonic stability theory was developed mainly taking into account the pre-eminence of Great Britain and the United States, during the second halves of the 19th and 20th centuries, respectively. The main proposition of the theory is that the existence of a hegemonic state has a strong influence on the promotion of economic liberalization (Gilpin, 1975, 1977; Krasner, 1976).

[29] Haggard (1997) mentions that his is a well-known argument for explaining the proliferation of trade agreements which happened in Latin America after the lack of progress in the negotiations of the multilateral Uruguay Round.

political relations may increase the possibilities for economic cooperation.[30] Fourth, countries may sign numerous agreements to locate themselves as hubs in a 'hub and spoke' agreement.[31] Fifth, countries may engage in trade agreements (particularly with developed countries) to signal their commitment to economic liberalization.[32] Although systemic and international variables have not been able to fully explain the variation in depth of trade agreements, they definitely influence the nature and level of depth that agreements are able to achieve. Therefore, in this research, as in other studies on the design of trade agreements (e.g. Mansfield and Milner, 2012: Kindle location 536-5825), international and systemic level explanations of trade policy are considered complementary to domestic level explanations.

Legalization studies acknowledge variation of design across international agreements. Literature on legalization addresses the differences in treaties by focusing on the effects of legalization variations on compliance and domestic policies. Scholars (e.g. Guzman 2008; Zangl 2008) focus on how specific aspects of legalization influence domestic policies or compliance. However, regarding deep integration specifically, there are no systematic studies on variation of the components of trade agreements, besides some work on dispute settlement provisions (e.g. Smith, 2000). Finally, the emphasis of this approach is rather on the effects of variation of legalization than on the causes of such variation.

While a *Rational Design* approach, like legalization studies, also acknowledges variation of design across international agreements, it emphasizes the causes of variation and aims to develop general explanations of institutional features. The starting point is the observation that 'major institutions are organized in radically different ways' (Koremenos, Lipson, and Snidal D., 2001a: 761-762). The reason for

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[30] Geographic vicinity has been mentioned as a characteristic which may reduce transaction costs, increasing the possibilities for economic cooperation. Also, previous political relationships, such as colonial relationships or membership in military alliances may facilitate also possibilities for economic cooperation. See Mansfield and Milner, 1997; Mansfield, Milner and Pevehouse, 2005, Mansfield and Milner, 2012.

[31] In the Americas, Mexico is a country that takes advantage of its geographic location signing agreements in which it acts as the 'hub.' Wonnacott (1991) explains that 'hubs' in 'hub-and-spoke' agreements benefit relatively more from trading with their partners.

[32] Haggard (1997) and Lawrence (1996) have mentioned that trade agreements are used also to attract investment. Medium and small countries may engage in these agreements to facilitate the operations of multinational firms and to increase the costs of policy reform reversal, sending positive signals to other countries and international financial institutions. Also, following this idea, Fuentes and Schiavon (2007) have studied how higher degrees of economic reform may increase the similarity in the preferences of the countries which implement them, facilitating economic convergence in the region.

these variations is that states shape institutions to advance their goals;[33] institutions are not designed randomly. From this perspective, institutions are the outcome of rational, purposeful exchanges among states (and, to a lesser extent, interest groups and corporations) to address particular issues (Koremenos, Lipson, and Snidal D., 2001a: 762). Within this approach, researchers develop conjectures nurtured by cooperation theory, game theory, and institutional analysis in which distributional and enforcement features and uncertainty and number of actors explain features of institutions, such as membership, scope, centralization, control, and flexibility. Lake's (2009: 240) critique of this approach,[34] which is relevant to this research, is that it lacks clear theories of economic interests, and instead, these 'are often treated in an arbitrary or inductive manner and produce, at best, propositions that are hard to falsify.'

Main arguments

The earlier subsections presented the extended endogenous trade theory framework. Although, as outlined in the previous sub-section, empirical support for each of the approaches reviewed clearly exists, researchers have not yet exploited the potential to provide insight about *the wide differences existing between the extent and nature of deep integration in the trade agreements signed by Latin American countries*. In this research, two main arguments are put forward to address this issue. First, it is argued that provisions usually classified as promoting deep integration in trade agreements vary in terms of their excludability at two main levels: the trade agreement as a whole, and specific trade areas and disciplines within it. The main implication of this distinction is that everything else being constant, the excludability of policy benefits is lower in the provisions about the trade agreement as a whole. Because there are no consensual guidelines in the academic literature to assess deep integration in trade agreements, different conceptualizations of deep integration are assessed against a definition of 'depth.' As a result, this research uses as a general

[33] Koremenos, Lipson and Snidal (2001a: 762) contend that institutions cannot be considered only exogenous actors; and that states are concerned about institutional design because institutions matter to advance their preferred outcomes. The rational design of institutions approach faces critiques from constructivists and realists. The main critique of constructivists is that international institutions contribute to propagate global norms. The main critique from realists is that institutions are 'little more than ciphers for state power.'

[34] Lake (2009: 240) recommends that instead of 'building ever more sophisticated models of institutions per se, scholars [...] may be better served by developing theories of and focusing attention on the interests of actors.'

baseline the characterization of deep integration from the WTO (2011) and expands it to incorporate other compatible categorizations in Chapters 3 and 4.

The second main argument is that the structure of export oriented interests, their capacity for mobilization, and the configuration of political institutions influence the ability of such export oriented interests to achieve the trade policies that they prefer. Three secondary arguments are required to build on this. First, in this research it is argued that exporters in concentrated export sectors prefer deep integration in intensive and extensive margins both, while exporters in de-concentrated export sectors prefer deep integration mainly at the extensive margin. These preferences are derived from standard, 'new,' and 'new new' trade theories. Concentrated export sectors are dominated by resourceful exporters with scale economies and exporters engaged in production sharing. For them, deep integration at both margins creates dynamic and productivity gains from trade which they are able to appropriate. In contrast, in de-concentrated export sectors, a larger proportion of small and medium exporters exist. These exporters benefit mainly from static gains from trade created by integration at the extensive margin. An additional argument is that because Latin American countries are in general closer to the extreme of specificity in the factor mobility continuum, and because deep integration as the object of analysis corresponds to a setting of high specificity, the Ricardo–Viner model is the most appropriate to derive preferences from the creation and appropriation of static gains from trade.

Second, in this research, it is argued that the configuration of political institutions,[35] sets constraints to the extent of deep integration that can be achieved in a trade agreement. The configuration of political institutions is determined by specific combinations of veto players and access points without veto power relevant to trade agreements According to theories of veto players and access points, the existence of more effective veto players in a country and more effective access points without veto power, everything else being constant, is expected to decrease the level of achievable deep integration. However, by separating the channelling of societal demands from the ability of interest groups to capture access points, all else being

[35] This research does not consider all factors which may influence trade policy. For example, in addition to trade preferences and domestic actors ability to organize, in Latin America there are national strategies, different principles, diverse conceptions about which mechanisms promote regional integration more effectively, among others (Haggard, 1998). As in other studies, with a similar approach (e.g. Chase, 2005), the decision-making policy process is not studied in detail, and instead it is examined the extent to which policy outcomes follow the variation of the variables analysed.

equal, more access points would lead to deeper integration because more interests would be represented. A secondary argument is that access point theory (Ehrlich, 2007, 2011) and veto player theory (Tsebelis, 1995, 2002) can be combined in an integrated framework in which veto players are a subset of access points (also subject to competition for rents from lobbying). From the perspective of veto players, this framework allows for study of the way in which the extent of deep integration is decided between the political actors which are able to block the policy. From the perspective of access points, the framework allows for study of the way in which demands for and against deep integration are channelled.

Finally, within a collective action analytical framework, it is argued that the way in which different configurations of economic interests and domestic institutional settings combine contributes[36] to explain differences in the extent and nature of deep integration achieved in the agreements under analysis. For vertical (or intensive) integration relevant to the trade agreement as a whole, the combination of veto players and the structure of export oriented interests in concentrated export sectors is fundamental. For horizontal (or extensive) integration relevant to specific trade areas and disciplines included in the agreement, the combination of access points without veto power and economic interests and concentrated export sectors is central.

Methodology and hypotheses

All else being equal, the conditional hypotheses (1–2), and their constitutive hypotheses (1-4), presented below address the question leading this research. These hypotheses are assessed through quantitative research methods. Two statistical models are constructed, one for the vertical margin of integration and another for the extensive margin of integration. The objective of the statistical analysis is to empirically examine the conditional hypotheses. The empirical results of the constitutive terms and hypotheses are also reported. All else being constant, cross-

[36] This research does not contend than an extended endogenous trade theory framework can account for n exhaustive political economy approach to deep integration in every trade agreement signed in Latin America. There is a wide array of reasons why states have deep integration in their trade agreements. However the main variables in this research are considered to be important in this process.

sectional multivariate statistical[37] analysis tests whether the independent variables are associated with the dependent variables, as hypothesized:

Conditional hypothesis 1. Latin American countries with the most access points without veto power display deeper integration at the extensive margin of their trade agreements when the export sector is more de-concentrated and diversified than when the export sector is more concentrated and specialized.

Conditional hypothesis 2. Latin American countries with the most effective veto players display deeper integration at the intensive margin of their trade agreements when the export sector is more concentrated and specialized than when the export sector is more de-concentrated.

Constitutive hypothesis 1. Latin American countries with more concentrated export sectors display deeper integration at the extensive margin of their trade agreements than countries with more de-concentrated export sectors.

Constitutive hypothesis 2. Latin American countries with more concentrated export sectors display deeper integration at the intensive margin of their trade agreements than countries with more de-concentrated export sectors.

Constitutive hypothesis 3. Latin American countries with fewer effective veto players display deeper integration in their trade agreements than countries with more effective veto players.

Constitutive hypothesis 4. Latin American countries with more access points without veto power display deeper integration in trade agreements than countries with fewer access points without veto power *(considering only the political representation of economic interests).*

Main findings

Deep integration in trade agreements

This research finds that the underlying depth structure of trade agreements established by Latin American countries after 1982 until 2010 fits a categorization of intensive and extensive margins. Recent studies and reports about deep integration

[37] A 'partial equilibrium' or 'comparative statics' approach to theory and knowledge, as defined by Lake (2009: 225), is followed. As in previous studies (e.g. Mansfield, Milner, and Pevehouse, 2007; Mansfield and Milner, 2012; Baccini, Dür, and Elsig, 2012a) which try to explain variations in aspects of design of trade agreements from a rationalist perspective economic interests and political institutions in each country are considered exogenous.

acknowledge there is no accepted international methodology to evaluate deep integration in trade agreements (WTO, 2011; Wignaraja, Ramizo, and Burmeister, 2013). To a certain extent, this issue seems to derive from neglecting to study the content of trade agreements. By extending and adapting the categorization developed by the World Trade Organization (WTO) in 2011, which differentiates the intensive (vertical) and extensive (horizontal) margins of deep integration, and using an original hand-coded database of provisions in trade agreements, this research measures the depth of the different provisions and classify them according to their corresponding margin: intensive or extensive. Then, this categorization is tested using principal components analysis and finds that the underlying depth structure of trade agreements established by Latin American countries after 1982 until 2010 fits the categorization of intensive and extensive margins.

This research contributes to the study of trade agreements by providing baseline information about areas included in the trade agreements, thus, filling gaps in knowledge about content. The most common approach in academic literature is to consider trade agreements as 'either/or' propositions (Koremenos and Snidal, 2003) that are 'homogenous in both their effects and their provisions' (Hicks and Kim, 2010: 2). Several scholars (e.g. Teh, Prusa, and Budetta, 2009; Baccini, Dür, Elsig, and Milewicz, 2011; Baccini, Dür, Elsig, 2012a; Kucik, 2012) have pointed out the need to analyse the content of trade agreements. Analysing the content of Latin American trade agreements requires overcoming issues already pointed out by Wignaraja, Ramizo, and Burmeister (2013: 2), including the availability of the original agreements, the different languages in which they were written, and the need for 'detailed and often painstaking examination of legal texts of agreements.' These issues are explained further in Chapters 3 and 4. To build the dependent variables in this research, intensive (vertical) and extensive (horizontal) margins of deep integration, the texts of all available reciprocal trade agreements established by Latin American countries and their global and regional partners from 1982 to 2010 were gathered, analysed, hand-coded, and checked for reliability with databases which partially overlap with the one developed for this research.

The decision of which trade areas and provisions to include in the analysis is based on a wide number of studies (e.g. Piermartini and Budetta 2009; Hicks and Kim, 2010; Baccini, Dür, Elsig, and Milewicz, 2011; WTO, 2011) which map the variation of provisions in specific areas of trade agreements. The resulting database includes 256 dyadic trade agreements with a total of 110 data points collected for each agreement (corresponding to the provisions of the different areas and disciplines

discussed in Chapters 3 and 4). In this research, the approach to coding uses directed dyads because trade agreements often have different provisions for each country member. When using undirected dyads, each area of the trade agreement is measured by an arbitrary decision which gives the same value to all members of a trade agreement or dyad, when this is often not the case. Because the coding is performed manually, all entries which overlap with other databases (public or made available on request) are compared and checked for errors. To the best of my knowledge, the dataset developed for this research is the most extensive and detailed dataset about the depth of provisions in trade agreements established by Latin American countries and their global and regional partners.

Decision-making and access as political institutions' mediation

This research provides empirical support for the argument that particular structures of export oriented interests combine with certain configurations of political institutions, influencing in different ways the margins of deep integration which differ in the exclusivity of their policy benefits. The research analyses how variations in the structure of export sectors create preferences with different intensities for deep integration of a certain nature, and how configurations of political institutions create settings which restrict or facilitate deep integration by placing limits through veto powers, or by channelling particular economic interests in distinctive ways. The configuration of veto players influences the way in which the extent of deep integration is decided between the political actors which can block the policy, while access points also influence the way in which demands for and against deep integration are channelled. In this way, the feasibility of export oriented interests to overcome obstacles and achieve deep integration depends on the context and settings of political institutions. In the case of vertical integration relevant to the trade agreement as a whole, the combination of veto players and export oriented producers in concentrated export sectors is central. In the case of horizontal integration, relevant to specific trade areas and disciplines included in the agreement, the combination of access points without veto power in de-concentrated export sectors is important.

Extensions to endogenous trade theory: limited liberalization and developing countries

The endogenous trade theory approach is analytically useful to study demand for limited liberalization, such as that existing in trade agreements. This research follows

Schonhardt-Bailey (2006: 52-53) in adapting endogenous trade theory to analyse trade liberalization. Traditionally, endogenous trade theory has analysed the causes of protectionism but more recently has also looked at the causes of liberalization (e.g. McGillivray, McLean, Pahre, and Schonhardt-Bailey, 2001; Schonhardt-Bailey, 2006). Focusing on deep integration in trade agreements as an object of analysis allows us to study specific provisions and areas of liberalization. In this research, deep integration in trade agreements is the policy outcome of interest. The dependent variable is depth of trade agreements established at the national level. Building on previous analyses within the endogenous trade theory approach, it is possible to study how different combinations of economic interests and political institutions may explain the extent and nature of deep integration in trade agreements signed by Latin American countries.

Finally, endogenous trade theory is an approach which can bring insight to the analysis of political outcomes of developing countries, in addition to its main application to cases of developed countries (e.g. McGillivray, McLean, Pahre, and Schonhardt-Bailey, 2001; Schonhardt-Bailey, 2006). In contrast, political institutions in the study of public policies Latin America have been neglected in favour of economic interests. This emphasis in the academic literature was justified during the 1960s and 1970s because of the region's undemocratic characteristics (Geddes, 2002: 343; Spiller, Stein, and Tommasi, 2008: 2). Although comparative political institutions, such as party systems, presidential power, and legislative politics, in Latin America were analysed after the second half of the 1990s (e.g. Shugart and Mainwaring, 1997), further investigation of the influence of institutions in the public policies of the region is still necessary (Spiller, Stein, and Tommasi 2008: 2). There is no study in Latin America that systematically analyses the influence of configurations of domestic political institutions over deep integration in trade agreements. Geddes (2011: 430) points out that 'Latin Americanists now use rational choice where they find that it helps to explain interesting outcomes, and they ignore it when they find it unhelpful.' In this research endogenous trade theory is extended to analyse this aspect of limited liberalization in the region, and the effort proves fruitful. Nevertheless, several aspects of the region, such as difficulties in tracing political contribution, corruption, and discretional decision making of governments, are taken into consideration in this research within more general endogenous trade theory and public choice frameworks.

Outline

Chapter 2 presents a literature review, which highlights the gaps in literature relevant for this research and correspond to the following four areas. First, the chapter reviews several existing concepts of deep integration. Second, theories from which preferences of market actors are derived, including standard, 'new' and 'new new' trade theories, are reviewed; the need for studies about Latin America which take into consideration the role of economic interests over deep integration is emphasized. Third, institutionalism literature, which focuses on either particular institutions or conceptual dimensions, is reviewed; the latter are considered to be more appropriate for the nature of this research. Finally, collective action explanations are reviewed, highlighting the prevalence of studies in Latin America which neglect the study of mobilization of economic interests in favour of explanations of trade policy outcomes imposed by government officials from top to bottom.

Chapter 3 explains how deep integration is often used to represent different concepts and comprises diverse measures and provisions. This chapter includes two main sections. The first conceptualizes deep integration and its vertical and horizontal margins. The second provides the rationale for classifying different provisions into each of these margins. *Chapter 4* presents the operationalization, measurement, and empirical analysis, which support the differentiation of both margins and the analytical allocation of provisions in each.

Chapter 5 studies which actors prefer deep integration on the basis of maximizing their economic interests. The component of production (Magee, Brock, and Young, 1989: 1) in the analysis of the interests which benefit from deep integration is discussed. It is argued that exporters, mainly those with scale economies and fragmented production, are the main beneficiaries of deep integration at both margins because they capture dynamic gains from trade. On the other hand, small and medium exporters benefit mostly from integration at the extensive margin because they capture static gains from trade.

Chapter 6 addresses how theories of veto players and access points can be combined to analyse the way in which configurations of domestic political institutions influence the extent of integration in trade agreements. The integrated framework allows this research to address how the demand for deep integration from beneficiaries is channelled through domestic political institutions, and how institutions control and allocate legislative power, facilitating or creating obstacles to limit or expand the extent of integration.

Building on the identification of intensive margins, extensive margins, and trade preferences, as well as the mapping of institutional settings described above, *Chapter 7* analyses how these elements combine within a collective action framework. The analysis considers, first, the production function of deep integration in trade agreements; second, the influence of sector (de)concentration in determining the capacity of mobilization of members; third, characteristics of the environment, such as specificity or mobility; and finally, the selective incentives attached to domestic political institutions. Then, these features and the preferences of exporters (derived in Chapter 5) are integrated with the combined framework of access points and veto players (developed in Chapter 6). In this way, it is possible to assess the ability of exporters with different resources to capture veto players and access points and achieve their desired nature and levels of deep integration. *Chapter 8* presents the statistical analyses which tend to provide moderate support for the arguments developed in the previous chapters.

Chapter 9 presents the conclusions of this research. The chapter summarizes how the incentives and constraints delineated by the structure of export sectors and political configurations in each country combine and contribute to varied levels of vertical and horizontal deep integration in trade agreements. The analytical framework and arguments are revisited, addressing the contributions and limitations of the research. The last section suggests three possible areas for further research.

2 Literature review

This chapter reviews literature which addresses aspects of the main question motivating this research: What explains the different nature and levels of deep integration in the trade agreements signed by Latin American countries? The following sections review endogenous trade theory as an extended general framework, of which at least four aspects have been neglected in studies on Latin America, or in general. The first section examines the concept of deep integration as it is the policy outcome of interest. The different and sometimes divergent concepts of what can be considered deep integration in trade agreements are reviewed. Since there are very few studies which conceptualize and examine deep integration, studies from an eclectic body of literature are included: inter-governmental reports, studies within the legalization approach, studies within the rational design approach, and studies identifying themselves as within the open economy politics approach, among others.

The second section reviews theories from which preferences of market actors are derived. In particular, it reviews the two main sets of complementary trade theories used in the political economy literature to explain preferences for trade liberalization from market actors: standard trade theories, and 'new' and 'new new' trade theories. As scholars have already pointed out (Mansfield and Milner, 1999: 604; Chase, 2005: 15), the question of why or under which circumstances some economic interests prefer liberalization through trade agreements is a puzzle that has not been explored sufficiently:

> 'There is a lack of empirical evidence indicating which domestic groups support regional trade agreements, whose interests these agreements serve, and why particular groups prefer regional to multilateral trade liberalization' (Mansfield and Milner, 1999: 604).

The third section reviews institutionalism literature, which studies the effect of domestic political institutions on trade policy. Formal political institutions in the study of public policies in Latin America have been neglected in favour of economic interests, and several scholars (e.g. Spiller, Stein, and Tommasi, 2008: 2; Geddes, 2002: 343) have pointed out the need to fill this gap in the literature. Two main approaches prevail regarding the effect of domestic political institutions on trade policy: analyses that focus on particular institutions and those that focus on conceptual dimensions (integrating a range of institutions).

Finally, the fourth section reviews explanations on collective action as to how economic interests may overcome problems to achieve their desired trade policy

outcomes. As a result of problems of free riding in large groups and collective action advantage of protectionist groups, the literature on provision of economic reforms in Latin America neglects interests. Instead, it explains economic liberalization as implemented from the top (e.g. Haggard and Kaufman, 1992, 1995) by insulated and cohesive government elites (Schamis, 1999). Haggard and Kaufman (1992: 157) point out that 'the costs of reform tend to be concentrated, while benefits are diffused, producing perverse organizational incentives; losers are well organized while prospective winners face daunting collective action problems.' At the end of the 1990s, Schamis (1999: 19) pointed out the need to study the way in which 'interests organize and capture decision making arenas to induce governments to withdraw from the economy' in Latin America because this issue was under-theorized. This gap in literature has not yet been filled for the study of deep integration.

Deep integration in trade agreements as policy outcome

Although Lawrence (1996) coined more than 15 years ago the term deep integration, there is still no consensus on or consistency in its use in academic studies. Several scholars (e.g. Lawrence, 1996; Evans, Holmes, Iacovone, and Robinson, 2004; Shadlen, 2005; Mansfield, Milner, and Pevehouse, 2007; Baccini, Dür, Elsig, and Milewicz, 2011; Baccini, Dür, and Elsig, 2012a) have explored the analytical distinction between deep and shallow integration in trade agreements, and aim mainly to understand the political and economic effects of such arrangements.[38] However, in these analyses, depth represents different concepts and comprises diverse measures and provisions, depending on the effects and policy outcomes evaluated in each study.

Few studies conceptually identify what constitutes depth in a trade agreement; of those that have, the conceptualization varies widely (e.g. Lawrence, 1996; Evans, Holmes, Iacovone, and Robinson, 2004; WTO, 2011; Baccini, Dür, Elsig, and Milewicz, 2011; Baccini, Dür, and Elsig, 2012a). Other studies equate depth with type of trade agreement (e.g. Mansfield, Milner and Pevehouse, 2007), or with legalization and obligation of some of its components, such as enforcement (e.g. Hicks and Kim,

[38] For example, Shadlen (2005: 751) explores the 'perverse' trade-off between shallow and deep integration for developing countries. The argument is that developing countries exchange market access for regulatory instruments (such as inward foreign investment and intellectual property) that otherwise could be used to promote development. Evans, Holmes, Iacovone, and Robinson (2004: 3) evaluate the externalities generated through deep integration, to assess trade agreements in terms of welfare creation (or destruction).

2010). In other studies, there is no clear definition of what constitutes depth in a trade agreement (e.g. Gilligan, 2004). Evans, Holmes, Iacovone, and Robinson (2004: 22) provide a checklist of trade related and non-trade provisions which are usually associated with deep integration.[39]

In addition to analyses of overall depth of trade agreements, other studies include partial conceptualization of depth. These approaches can be classified as studies which focus on only one component and/or dimension of depth of trade agreements, and studies which aggregate several components and/or dimensions of depth. Mansfield, Milner, and Pevehouse (2007) and Mansfield and Milner (2012) consider types of trade agreements for classification according to depth. Other studies characterize depth in an indirect way. For example, Hicks and Kim (2010) analyse how the credibility of trade agreements influences trade flows. They categorize provisions as contributing to the 'depth of coverage' of the trade agreement or to the 'breadth of coverage.'[40] A final aspect of variation is whether measures outside the borders of countries are related to trade or not.

It is possible to summarize the different ways in which authors interpret depth of trade agreements as different subsets of the following dimensions identified by the WTO (2011): intensive (vertical) and extensive margin (horizontal). In the following

[39] Evans, Holmes, Iacovone, and Robinson (2004) order aspects about trade agreements accordingly to their depth as follows. First, investment protocols and protections that facilitate financial and foreign direct investment flows (real and financial capital mobility). Second, regulatory harmonization and the elimination of non-tariff barriers to trade. Third, movement of labour. Fourth, harmonization of domestic taxes and subsidies. Fifth, harmonization of macroeconomic policies. Sixth, creation of institutions to facilitate trade integration. Seventh, communications and infrastructure. Eight, harmonization of regulations of product and factor markets. Finally, establishment of a monetary union. This conceptualization does not distinguish within/outside borders measures, institutional characteristics, trade-related measures, or non-trade measures.

[40] Hicks and Kim (2010: 12) analyse how the credibility of trade agreements influences the amount of trade flows. As part of the study, the authors categorize provisions of trade agreements as contributing to its 'depth of coverage' (which would correspond to a vertical measure of the depth of some of the extensive disciplines), or to its 'breadth of coverage' (which corresponds to a combination of within border measures and extensive depth). 'Depth of coverage' captures 'the stringency of its enforcement mechanisms.' The items in this category indicate how much room for manoeuvre countries have, and how formalized the interactions between the members of the agreement are. This category comprises mechanism for solving disputes, escape clauses and dumping clauses. The authors code these provisions according to the 'stringency' with which they can be invoked, and to how easy it is for a government to not comply with the obligations imposed by the agreement. 'Breadth of coverage' includes 'the policy requirements [...] on the participant governments.' In this category, the authors include the extent of industrial and agricultural products covered (which would correspond to shallow integration as defined previously), and whether technical barriers and non-tariff barriers are covered (which would correspond to the extensive margin of depth as defined before).

sub-sections, each of these categories is discussed and their relevance to the intensive/extensive framework of this research is assessed.

Within/outside border measures

This research considers whether disciplines and provisions include issues that fall within the borders of the members of a trade agreement or outside their borders. Along these lines, Lawrence (1996) differentiates shallow from deep integration. Deep integration exists when provisions move beyond the removal of border barriers. Shallow integration exists when provisions fall within the scope of border measures and do not concern domestic policies besides trade liberalization, such as investment and international competition (Lawrence, 1996: 8). In some studies, there is no differentiation between shallow and deep integration, and instead depth is characterized as the aggregated obligations across the following provisions in trade agreements: tariffs, services, investments, sanitary and phytosanitary measures, public procurement, competition, and intellectual property rights (e.g. Baccini, Dür, and Elsig, 2012).

Regarding within border measures, this research does not analyse variations of final levels of tariff liberalization[41] for three main reasons. First, the specific policy outcome of interest in this research is deep integration. Second, according to the provisions of Article XXIV of the WTO, all trade agreements should in general significantly liberalize all trade. Finally, and specifically related to Latin America, it is widely acknowledged in the literature that Latin American countries have already achieved substantial tariff liberalization. Estevadeordal, Shearer, and Suominen (2009: 7) explain that trade agreements in the region have not only promoted free trade within the region but have also been favourable to the multilateral system. In

[41] Estevadoerodal, Shearer and Suominen (2009: 436-437) state that tariff liberalization may take place along one of three different regimes (or a combination of them): basket, sectoral and preferential tariff approaches. Exceptions and exclusions limit trade liberalization irrespective of the regime type of the trade agreement. First, a basket approach assigns all products to different categories. Each category has a particular tariff phasing and definitions on how to proceed towards their elimination. An appendix includes quantities of tariff rate quotas and defines exceptions when they exist. Second, the sectoral approach differentiates preferential treatment by using lists of exceptions and separate appendixes or protocols. These documents tend to be complex and can include several regimes (such as end-point preference margins, residual preferential tariffs, tariff rate quotas, reference quantities, and phased reductions of tariffs) simultaneously. Third, the preferential tariff approach uses schedules of market access. Products are allocated to the schedules through positive lists. Regarding coverage, basket approaches are the most extensive, while preferential approaches are the most narrow.

addition, regarding trade agreements established by Latin American countries, the IADB points out:

> 'The many free trade area and common market agreements have generally involved the comprehensive elimination of tariffs on the trade of goods among partners, with relatively few exceptions. In effect, regional arrangements have established a managed policy environment based on reciprocity, within which countries have signalled their commitment to trade liberalization by going beyond that which was feasible or desirable at the unilateral and multilateral levels. [...] Moreover, regional liberalization has generally been sustained, even in the face of economic and balance of payment problems' (IADB 2002: 4).

Distinguishing between within/outside the border measures is relevant for the purposes of this research because it refers to the removal of qualitatively distinct barriers which therefore may be the outcome of different domestic dynamics, as discussed in Chapters 5–8. An additional distinction considered is between trade-related measures and non-trade ones.

Trade-related and non-trade measures

The relevance of this distinction is that tendencies towards liberalization from trade and non-trade measures are not necessarily the same. Non-trade measures are often included to appease protectionist constituencies. For example, dispute settlement mechanisms usually protect the interests of exporters, while non-trade measures, such as labour or environmental provisions, usually respond to protectionist efforts (Hicks and Kim, 2010). Hicks and Kim identify non-trade issues as provisions regarding investment, labour, intellectual property rights, and environment.

Theoretically and empirically, when analysing depth of trade agreements, the literature does not always distinguish between trade and non-trade measures (e.g. WTO, 2011; Baccini, Dür, and Elsig, 2012a). Instead, both types of provisions are equated and aggregated in general measures of depth. However, since one aim of this research is to contribute to understanding how different configurations of interests and institutions influence the designed nature and level of depth of trade agreements, the qualitative distinction of trade-related and non-trade provisions is relevant and is considered in the characterization and operationalization of the intensive and extensive margins in Chapters 3 and 4.

Complementarity with the multilateral trade system

Depth of provisions of trade agreements are also characterized by their contribution to or compatibility with the multilateral system. The studies which follow this

approach define depth of provisions by comparing them to provisions existing within the multilateral system (e.g. Evans, Holmes, Iacovone, and Robinson, 2004; WTO, 2011). The objective of these studies is to determine if trade agreements facilitate or hamper the further development of the multilateral system. The relationship between provisions of trade agreements and the multilateral system is a controversial academic debate on its own and falls beyond the scope of this research.

Exporters' preferences for deep integration

Standard trade theories

Standard trade theories explain that trade occurs as a result of comparative advantage in production. Within these theories, two main models prevail. On the one hand, in the Stolper–Samuelson version of the Heckscher–Ohlin model, the sources of comparative advantage are differences in the intensity of factors and in the abundance of factors between countries. Productive factors are very mobile in this long-term model. On the other hand, in the Ricardo–Viner model, the sources of comparative advantage are productivity differences. This is a short-term model in which productive factors are fairly specific. Because these models have distinct assumptions about factor mobility changes, they are exclusive as ideal types, but not as empirical cases (Ladewig, 2006: 71; Alt, Frieden, Gilligan, Rodrik, and Rogowski, 1996: 692; Midford, 1993: 562). Is it not surprising then that no consensus exists regarding which is the superior model.[42]

Factor mobility

On the extreme characterized by high mobility of factors, the Stolper–Samuelson[43] version of the Heckscher–Ohlin[44] model represents a flexible structure of production

[42] The Heckscher-Ohlin model has been used to broadly analyse trade policy (e.g. Rogowski, 1989). The Ricardo-Viner model has been widely used in endogenous tariff literature; and the assumptions of this model are also often implicit on literature on tariff setting (Alt, Frieden, Gilligan, Rodrik, and Rogowski, 1996: 693). Examples of literature on tariff setting are Pincus (1975), Lavergne (1983), Magee, Brock, and Young (1989), Frieden (1991a, 1991b), and Grossman and Helpman (1994), among many others.

[43] According to Stolper and Samuelson (1941), assuming constant returns, perfect competition and equality of the number of factors to the number of products, an increase in the price of a good increases the return of the intensive factor of production, and a decrease in the income of the other factor. The implication is that free trade hurts the scarce factor owners and free trade benefits them.

[44] The Heckscher-Ohlin or factor proportion theory of trade states that comparative advantage arises from differences in factor endowments between countries. Countries'

in which distribution of income and trade preferences for liberalization follow factor lines. The model assumes individual factor ownership; in addition, specificity is so low that factors of production can move across sectors without cost (Alt, Frieden, Gilligan, Rodrik, and Rogowski, 1996: 690). The effects of trade in the distribution of real factor rewards are derived from a country's relative factor intensities (Beaulieu, 2002: 103). The implication of such high mobility is that factor returns are equalized throughout the economy. Trade raises the income of the country's abundant factor and decreases that of its scarce factor. The proprietors of abundant economic factors and firms which use such factors intensively in production processes obtain direct and indirect benefits from liberalization. With liberalization, income of the abundant factor increases directly from the gains from trade and indirectly from the redistribution of income away from owners of the scarce economic factor and firms that use such factors intensively (Ladewig, 2006: 71). Then, income is distributed along factor lines.

Because income redistribution with individual factor ownership follows factor lines, trade preferences follow the same path and trade coalitions form along factor or class lines. The standard assumption of factor ownership is that each individual owns only one factor of production[45] and, therefore, belongs to a defined interest group. Membership is dependent on factor ownership and independent of the policy outcome (Mayer, 1984: 970). Because trade causes income of the scarce factor to fall and that of the abundant factor to rise, the former group prefers to reduce trade, while

abundant factors are cheaper to use in the production of goods, compared to scarce factors. Then, capital abundant countries have a comparative advantage in capital intensive goods, and countries abundant in labour have an advantage in producing labour intensive goods. Therefore, countries export products that are manufactured intensively using their abundant factors and import the ones requiring intensively scarce factors. Cohen, Blecker, and Whitney (2003: 55-56) claim that the theory requires two very strong assumptions to be logically consistent. First, the theory assumes that differences in factor endowments between countries are the only economic differences relevant to international trade. Second, the theory assumes constant returns to scale. As a result, the Heckscher-Ohlin trade theory predictions are often inconsistent with empirical observations.

[45]Mayer (1984) demonstrated that, when individuals are allowed to own more than one factor of production, trade cleavages form along specific policy outcomes; not along factor lines. Mayer relaxes the standard assumption of individual factor ownership by allowing a person to own more than one factor of production. Also, factor shares may differ among people. As a result, people will not be affected uniformly by a change in tariff. Thus, the number of factor owners benefited or disadvantaged by a change of the trade policy instruments is not fixed. Each factor owner, depending on her own distribution of factors, will have an optimal combination of protection and liberalization. In this way, the structure of factor ownership defines the form of competition that each group of factor owners or industries faces. The final equilibrium represents the combination of protectionism and liberalization of the median factor owner (assuming that the outcome is decided by majority voting). The equilibrium is reached when no majority can challenge the final policy outcome.

the latter prefers to increase it. As a result, scarce factors demand protection while abundant factors demand an increasingly liberal trade environment. In this setting, there is empirical evidence that trade policy coalitions form. Rogowski builds upon the Heckscher–Ohlin and Stolper–Samuelson theorems and derives a framework of trade cleavages based on preferences of market actors along three factors of production.[46] This model, however, has been criticized for its excessive parsimony, as scholars (e.g. Midford, 1993; Ladewig, 2006, Beaulieu, 2002) attribute to it empirical anomalies in the analysis of developed countries.[47] In response, multi-factor models have been developed to improve Rogowski's model (e.g. Leamer, 1984). When detailed mostly extremely, these multi-factor models resemble the specific factors model (Midford, 1993). For this reason, this research discusses them with models of partial factor mobility.

Factor specificity

On the opposite extreme, the Ricardo–Viner model, which is characterized by high factor specificity, represents a rigid structure of production in which distribution of income and trade preferences towards liberalization follow sector lines.[48] This model is considered applicable in the short term because factors of production are fixed to their particular industry or sector (Beaulieu, 2002: 103) and therefore, cannot move towards an economy's most efficient industries or sectors (Ladewig, 2006: 71; Alt, Frieden, Gilligan, Rodrik, and Rogowski, 1996: 690-692). Specific factors act as if they are different factors in the Heckscher–Ohlin model (Alt, Frieden, Gilligan, Rodrik, and Rogowski, 1996: 692). As a result, trade affects the income of all factors

[46] For example, Rogowski (1987, 1989) argues that the expansion of trade and the preferences of actors lead to urban-rural conflict in two kinds of economies, and in class conflicts in two others. In capital rich economies (abundant in labour and poor in land), the urban sector (capitalist and workers) benefit from an expansion in trade, while agriculture remains protectionist. In backward economies (land rich, with scarce capital and labour), an expansion of trade benefits agriculture, while capital and labour seek protection. In countries with low land and labour endowments and abundant capital, class conflict can be expected, with labour favouring free trade and landowners and capitalists favouring protection. In countries with abundant capital and land, but scarce labour, class conflict can be expected. Beneficiaries of liberalization support further free trade policies, while those harmed by free trade pursue protectionist measures.

[47] Midford (1993: 536) claims that the 'simple three-factor model of international trade, although offering valuable insight into the political economy of less advanced societies, is often confounded by the complex division of labour found in more advanced countries.' Midford also states that the usual methods for measuring factor abundance are not appropriate.

[48] Chapter 5 explains in more detail the specific factors model, and argues that this model is more appropriate than the mobile factors model for the analysis of Latin American countries and the depth of their trade agreements in perfect competition.

of an industry (capital and labour) in the same way. Then, conflict arises not between factors but between industries: export oriented industries versus industries which compete with imports. Because export oriented industries obtain benefits from free trade, they favour liberalization; and because import competing industries are harmed by free trade, they oppose liberalization. Thus, in a setting of high specificity, trade policy preferences follow the lines of export oriented versus import competing industries or sectors.

Partial mobility

Because countries are located at points between the extremes of high/low factor mobility, it is possible that trade preferences are compatible with both models and follow both factor and sector lines. Scholars have analysed the implications of different variants of partial factor mobility on trade preferences and policy outcomes (e.g. Mussa, 1974; Mayer, 1974; Mussa, 1982; Hill and Mendez, 1983; Leamer, 1984).[49] Specific capital follows sector lines towards trade liberalization.[50] Regarding labour, there is consensus in the literature (e.g. Jacoby, 1992; Alt, Frieden, Gilligan, Rodrik, and Rogowski, 1996: 705; Beaulieu, 2001; Beaulieu, 2002: 104; Broz, 2005: 79; Magaloni and Romero, 2008) that highly skilled workers have greater incentives than unqualified workers to support free trade because they have higher degrees of specificity to their industries. Regarding mobile factors, some scholars suggest that their position is ambiguous and may likely remain inactive, and that their preferences depend on consumption patterns or institutional settings. [51] These models

[49] A variant of these models (Mussa, 1982; Leamer, 1984) assumes that one of the factors is partially mobile between industries and the other factor is completely immobile or completely mobile. A second variant (Hill and Mendez, 1983) considers that both factors are partially mobile. A third variant (Mayer, 1974; Mussa, 1974) assumes that each industry employs a factor that is perfectly mobile and another factor that is immobile. The theoretical existence of intermediate specific factors models implies that, empirically, trade policy preferences are not necessarily sharply drawn along industries or factors.

[50] Frieden (1991: 430) also noted that high levels of mobility of financial capital tend to decrease specific capital by reducing barriers to entry: financial capital can extend funds to new firms, decreasing the benefits of pre-existing firms. He also mentions that the role of specific capital will never decrease to the point of eliminating completely industry specificity. Latin American countries are characterized by recurrent and massive external crises in the form of either sudden stops of capital inflows, or large reversals of current account deficits (Calvo and Talvi, 2005; Edwards, 2006). Therefore, it seems unlikely that in these countries mobile capital can significantly reduce capital specificity.

[51] Concerning mobile factors, scholars suggest that their position is ambiguous and will more likely remain inactive. Other authors (Mayer, 1974; Mussa, 1974) argue that preferences depend upon consumption patterns. Finally, other scholars (Alt and Gilligan, 1994: 338) argue that preferences are also heavily influenced by the institutional setting.

undoubtedly suggest that trade preferences of specific factors follow sectors, while predictions are less clear for mobile factors.

Thus, to determine trade preferences towards liberalization and, thereby, demand for trade agreements, it is necessary to approximate the location point of the analysed countries along the continuum of factor mobility. The empirical implication of having a continuum of factor mobility is that different degrees of specificity can be compatible with both the Ricardo–Viner and Heckscher–Ohlin models (Alt, Frieden, Gilligan, Rodrik, and Rogowski, 1996: 697; Beaulieu, 2002: 104). Then, at different gradations of factor specificity, it is possible that trade preferences are compatible with both models and follow both factor and sector lines. Unfortunately, specific measurements of factor mobility are not available and direct measurement of factor mobility can be extremely difficult (Ladewig, 2006). Chapter 5 aims to approximate the extreme at which Latin American countries lie within the continuum of factor mobility. For this assessment, it is helpful to look first at the characteristics of the countries under analysis and to the nature of the trade policy outcome under study.

Demand for trade agreements

Even after approximating the position of a country along the continuum of factor mobility, standard trade theories do not provide an endogenous rationale for the demand for trade agreements over multilateral liberalization. These theories provide an endogenous mechanism to derive economic preferences for inter-industry liberalization along factor or industry lines to capture static gains from trade. However, they provide no explanation as to why market actors would prefer limited liberalization (bilateral or mini-lateral) instead of multilateral liberalization. According to standard economic theory, in order to maximize economic interests of export oriented industries, trade agreements with larger numbers of members are better. Because a larger union always produces larger benefits, there is always an incentive for export oriented industries to pursue trade liberalization until reaching a global scale (Haggard, 1997: 22). Within the theoretical framework, actors maximize their economic interests through trade agreements instead of wider liberalization under the following situations: first, when producers have a comparative advantage regionally but not globally (Chase, 2005); and second, when all members of a trade bloc have high comparative costs in an industry (Grossman and Helpman, 2002: 208; Chase, 2005). However, in general, from the standard trade theories' perspective, trade agreements can be understood only as a secondary alternative to multilateral liberalization.

The argument for trade agreements as a secondary alternative to multilateral liberalization has been explored widely in the political economy literature (e.g. Keohane, 1984; Aggarwal 1985; Oye, 1986; Yarbrough and Yarbrough, 1992; Alt and Gilligan, 1994; Haggard, 1997). Two explanations for trade agreements not reaching global scale are difficulties in achieving global cooperation and the existence of transaction costs. First, trade liberalization at the international level is represented in game theory as a prisoner's dilemma game in which the players have strong incentives to defect. In order to provide a theoretical explanation as to why multilateral liberalization flourished following the Second World War, despite such strong incentives to defect, scholars often point to the existence of a hegemonic power, which solves the prisoner's dilemma game (Yarbrough and Yarbrough, 1992: 89). Second, it is suggested that high transaction costs hold back wider agreements. The theoretical solution to the existence of high transaction costs in global trade is the creation of international institutions to solve such costs. However, as the number of participants in multilateral negotiations has increased, liberalization has stagnated, negotiations have become too complex, and enforcement is poor (Haggard, 1997: 22-23). As such, bilateral or mini-lateral trade liberalization is easier to achieve because it entails lower transaction costs than the multilateral alternative (Schott, 1989: 19-22). Another reason is an irrational preference for regional over extra-regional production and rent seeking (Haggard, 1997: 22). For these reasons, limited liberalization through trade agreements is sensible as an alternative for export oriented industries in several circumstances when multilateral liberalization cannot be accomplished.

'New' and 'new new' trade theories

New trade models complement the analysis of standard trade theories, which focus on trade between industries of countries abundantly endowed with different factors, by focusing on trade within industries of countries abundantly endowed with similar factors. The 'new' models explain intra-industry trade as an outcome of the existence of industries which are able to produce with scale economies, and from the existence of a taste for variety in either intermediate products or final goods. In contrast with standard trade theories, 'new' trade theories cannot predict the direction of trade because scale economies are not intrinsic to certain countries (Cohen, Blecker, Whitney, 2003: 66). Any country can acquire cost advantages in an industry by producing enough output to decrease marginal costs to a competitive level. As a

consequence, advantages derived from the exploitation of scale economies can change over time.

During the first half of the 1980s, Helpman and Krugman developed a framework which included production with scale returns, taste for variety, and comparative advantage based on factor endowments. This enabled a Heckscher–Ohlin view of inter-industry specialization alongside a scale economy view of intra-industry trade (Helpman and Krugman, 1985: 132). Although this integrated paradigm does not yet have the rigour to replace the standard theories, it is useful as an analytical framework for actors' trade preferences when scale economies exist (Chase, 2005: 20), and has already become a typical framework for the study of aggregate international trade patterns (Bernard, Jensen, Redding, and Schott, 2007: 108). The 'new' trade models are complementary to standard trade theory in the sense that comparative advantage explains specialization between sectors at the international level, while scale economies explain specialization between products.[52]

As mentioned, product differentiation is one of the assumptions in 'new' trade theory and can take place in final products or intermediate inputs. The model developed by Helpman and Krugman (1985: 132) assumes a demand structure where there is taste for variety. Two countries produce different varieties of the product, which become imperfect substitutes. Since every variety is demanded in both countries, for every pair of countries that produce varieties of the good, we can expect intra-industry trade. Differentiated products are not necessarily final products. According to Ethier (1979), intermediate products are the inputs in which product differentiation is most important. Helpman and Krugman (1985: 212) acknowledge the importance of these inputs in the demand for variety: 'the taste for variety implicit in the demand for ever more specialized machine tools, motors, control mechanisms and so forth, is a more powerful source of trade and gains from trade than the desire of variety by ultimate consumers.' A relevant difference between the production dynamics of intermediate inputs and those of differentiated products is that the first give rise to integrated firms (Williamson, 1975). However, because 'new' trade models

[52] Several conditions in the environment can influence the potential to exploit scale-economies by industries. Country size has been identified in several studies (e.g. Helpman and Krugman, 1985; Milner, 1997; Chase, 2003, 2005), as a variable which influences the potential to exploit scale-economies. In smaller countries it is more likely that scale-economies have not been exploited to their limit. Then, small countries have high incentives to realize scale-economies by liberalizing their trade. This explanation seems plausible for many Latin American countries, which do not have strong domestic markets (a notable exception is Brazil). Therefore, country size is one of the characteristics that are included as control variables in Chapter 8.

assume identical firms in a monopolistic competitive setting, the models are limited in explaining differences in productivity at firm level.

More recently, 'new new' trade theory has introduced heterogeneity in firms' efficiency of integrating differences in productivity between firms. Melitz (2003) develops the first and leading model in which trade increases productivity in the most efficient firms and improves economic welfare in the two participating countries. From an empirical perspective, there is evidence to support significant industry gains through inter-firm reallocation and concentration (Falvey, Greenaway, and Yu, 2011). According to this approach, in a setting of imperfect competition between heterogeneous countries and firms, trade liberalization increases the concentration of economic benefits in the most productive countries and firms.

These improvements to 'new' trade models do not challenge the analytical framework of economic interests because their direction only serves to reinforce the argument that larger scale economies obtain more economic benefits from trade liberalization. Therefore, from the perspectives of 'new' and 'new new' trade theories, industries with scale economies benefit from trade liberalization as they obtain not only the static gains from trade that are acknowledged in standard trade theories, but also dynamic gains from trade. Helpman and Krugman mention additional sources of gains that benefit industries with scale economies over and above the standard gains from trade.[53] Own production effects exist when trade leads to an expansion of a country's industries with increasing returns. Increases in scale can be considered technological advances that add to the efficiency of the economy. These gains are concentrated in industries and, more specifically, in firms that are able to realize their scale economies after trade integration expands the market. Recent scholarly work on heterogeneous firms suggests that in imperfectly competitive settings, the most

[53] Helpman and Krugman (1985) mention three other effects that mainly benefit consumers. The first effect takes place at the global level, when country and industry specific external economies concentrate production, achieving a larger scale of production worldwide than the one that could have been achieved when countries were in autarky. The consequent fall in prices is beneficial even for countries that cease their production as a result of trade. The second effect is that, assuming free entry and exit, the number of firms decreases and the output per firm increases, enhancing competition. These processes lead to consumption efficiency (Corden, 1972). The third effect mentioned by Helpman and Krugman consists in the benefits that a greater variety of final products provides to consumers. However, mainly because of acute collective action problems, consumers' economic incentives are not a strong force for trade liberalization in contrast to producers' economic incentives. In addition, Helpman and Krugman (1985: 263-265) claim that when international competition encourages imperfectly competitive firms to reduce their prices and produce more, gains of trade also apply at a country level.

efficient industries with scale economies accrue further gains from trade liberalization.

Reallocation of steps in productive processes is another dynamic source of gains which benefits integrated firms. These firms benefit from even deeper trade integration (Bernard, Jensen, Redding, and Schott, 2007). In addition to the profits derived from the expansion of the market and from the realization of scale economies, such reallocation may increase a firm's productivity (Falvey, Greenaway, and Yu, 2011). Integrated firms locate their productive facilities in different parts of the world, based on convenience of access to foreign markets, sources of cheap inputs, and other competitive reasons (Cohen, Blecker, Whitney, 2003: 69).

Demand for trade agreements

The export promotion mechanism explains the apparent contradiction between, on one hand, the benefits that industries with scale economies obtain from liberalization and, on the other, their demand for limited liberalization through trade agreements in a setting of imperfect competition with import protection. Krugman (1984) assembled a model in which he demonstrates how import protection can work as an export promotion mechanism. In general, the logic of the model is that protection provides a domestic industry with greater scale economies while reducing those of its foreign competitors. As a result, the domestic industry is more competitive in foreign markets because it is able to decrease costs and increase production. Chapter 5 explains this argument in more detail.

Political institutions as constraints and channels for deep integration

Models based on particular institutions

Proportional representation

Electoral rule is a variable used in several studies to explain trade policy outcomes. Rogowski's (1987) influential argument is that trade dependent countries choose proportional representation in order to avoid institutions that can create obstacles to trade.[54] The reason is that these institutions maximize the state's

[54] Rogowski (1987: 206) states that 'the more an economically advanced state relies on external trade the more it is drawn to the use of proportional representation, a parliamentary

insulation, autonomy, and stability. The logic of the argument is first, that in large electoral districts, policy-makers are insulated from interests specific to an industry; and second, that high levels of party discipline warrants policy to be controlled by party leaders, who are more concerned about national interest that maximize their possibilities for re-election or political triumph (Ehrlich, 2007: 573). As a result, systems with proportional representation are characterized by higher levels of liberalization. McGillivray (2004) analyses how the electoral rule in majoritarian and non-majoritarian settings interacts with party discipline, endogenously influencing which industries receive tariff protection. Together, 'the electoral rule and the strength of parties affect which industries legislators are able to protect,' while the former only 'affects which industries legislators want to protect' (McGillivray, 2004: 68).[55] Several empirical studies (e.g. Mansfield and Busch, 1995; Grossman and Helpman, 2004) support Rogowski's arguments;[56] however, as mentioned in the analytical framework, they have been criticized because the causal mechanisms that link proportional representation to policy outcomes remains underspecified.

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system and large districts, with (presumably) all that that combination entails.' Ehrlich (2007: 573) notes that this argument may raise endogeneity concerns since a causal effect may exist from trade policy and particular interest groups to domestic political institutions, and from the latter to the former. He also points out that Katzenstein (1985) claims that since small countries tend to be trade dependent they choose proportional representation systems to guarantee trade openness. However, empirical evidence by Boix (1999), demonstrates that there is no causal effect between trade openness and the electoral system in a country.

[55] McGillivray (2004) explains that political parties with high discipline levels in majoritarian systems offer trade policies that benefit electorally consolidated industries in marginal districts. In contrast, political parties with low levels of discipline in non-majoritarian systems offer the least favourably trade policies to industries concentrated in marginal districts. Trade policies benefit large and electorally dispersed industries. The author finds strong empirical support for her arguments by analysing the industry of cutlery, and by studying the cases of the United States and Canada.

[56] Mansfield and Busch (1995) analyse the influence of societal and statist variables in cross-national patterns of nontariff barriers Their findings provide empirical support for Rogowski's arguments that large constituencies and proportional representation systems increase the isolation and autonomy of policymakers in democratic countries. First, they find that frequency of non-tariff barriers is higher 'when the imposition of protection is in both the national interest and the interest of many pressure groups, and when public officials possess the institutional means necessary to advance those interests' (740). Second, the inclusion of the influence of whether the domestic electoral system is a proportional representation system or not, has only a substantial effect on tariffs changes. Grossman and Helpman (2004) develop a model in which institutional features such as campaigns, elections, and policy-making are taken into account to determine trade policy. They argue that a protectionist bias exists in majoritarian electoral rule. In majoritarian systems where legislators represent geographic regions, parties make known policies (either positive tariffs or export subsidies) targeting specific factors. Legislators then give disproportionate weight to their constituents when setting policy. The role of party discipline is crucial as positions and expected outcomes are closer to free trade as party discipline increases.

Presidentialism and party discipline

Another stream of academic work that addresses the influence of specific institutions over trade policy outcomes focuses on presidentialism and party discipline. For Hankla (2006), the strength of the party (determined by party discipline, centralization, and stability) is a central variable which affects the possibilities of enactment of free trade policies.[57] In a related line of thought, Nielson (2003) explains how strong party leaders and presidents with strong legislative powers are able to mediate pressure for protection from domestic interest groups, helping to overcome protectionist biases and smoothing the progress of liberalization.

Nielson argues, first, that both political figures usually pursue public goods, such as free trade. Second, delegation to party leaders and executives solves collective action problems between political institutions. Third, the executive increases its bargaining power at the expense of the legislature, which usually ratifies and implements trade policy (Nielson, 2003: 479). The expectations are that presidents with more power are able to establish policy outcomes that are closer to their bliss points. The less the executive's power is restricted by the legislature and the more substantial authority the executive has, the easier it is to implement the executive's desired policy change without the constraints of societal demands. Nielson presents empirical findings in which delegation of legislative power to presidents and party leaders is associated with liberalization of trade policy.[58] In addition, he presents evidence for the effective number of parties and size of electoral districts influencing levels of protectionism.

Political party ideology

In contrast to developed countries with relatively high mobility of factors, the role of political party ideology in long-term trade policy outcomes is not considered as relevant in countries with relatively high specificity of factors (such as Latin American countries), and short-term policies (such as trade agreements). Milner and Judkins

[57] To conceptualize the strength of political parties, besides party discipline, Hankla (2006) considers parties degree of organizational centralization and whether it has stable links to the electorate. The author explains that centralized parties decrease the likeliness of legislative logrolls. As a result, increases in the levels of protection are inhibited. Also, parties with stable linkages with the electorate are able to consider long time horizons, and to enact policies with long-term benefits, such as trade liberalization. The author finds empirical evidence for his arguments in democratic countries from 1995 to 2000.

[58] Nielson (2003) studies 18 developing countries (Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, South Korea, Mexico, Paraguay, Peru, Philippines, Uruguay, Venezuela) from 1971 to 1997.

(2004) point out that few studies investigate the role of partisanship in liberalization of trade. The authors provide two main reasons: first, according to interest-based theories, partisanship should have no effect on trade policy outcomes; and second, according to international system theories, the country's trade position is determined by the national interest, to which political parties should respond. They find that parties positioned on the right of the ideological spectrum pursue more trade liberalization positions compared to those positioned on the left. As they explain, class cleavages 'match up with the Stolper–Samuelson division of trade policy positions between labour and capital' (Milner and Judkins, 2004: 98). Nevertheless, their findings are based on an analysis of 25 developed countries with high levels of factor mobility from 1945 to 1998. This is not applicable to the situation prevalent in Latin American countries from 1982 to 2010, in which factor specificity tends to be relatively higher because of countries' level of development.[59] Furthermore, the relatively high specificity of the setting is reinforced by the short term nature of the effects of trade agreements.[60] In the case of relatively high specificity of the setting and the policy outcome, parties will not be able to present unified and coherent positions towards trade policy (Hiscox, 2002a). Therefore, party ideology seems analytically limited to contribute to the analysis of variation in the nature and levels of deep integration in the trade agreements of Latin American countries.

Models based on conceptual dimensions

Because most Latin American countries share broadly similar institutional characteristics (presidential systems and proportional representation) such distinctions cannot explain the wide variation of nature and levels of deep integration of trade agreements established by each country. In addition, several researchers claim that is better to focus on conceptual dimensions than particular institutions because the former can characterize a wide range of institutional differences (e.g. Lijphart, 1999; Tsebelis, 2002; Mukherjee, Moore, Bejar and Charron, 2006; Ehrlich,

[59] For example, following the Stolper-Samuelson theorem, in non-industrialized countries parties located towards the left of the political spectrum (representing labour) should be relatively more receptive towards demands of liberalization (Ehrlich, 2007: 586-587). These expectations contrast with the ones in Chapter 5, which follow the discussion about factor mobility in Latin American countries.

[60] The short-term nature of the economic effects of trade agreements, contrasts with the long-term nature of party ideology. As discussed in further detail in Chapter 5, 'lobbying on particular trade bills should more closely follow the specific factor theorem' (Ehrlich, 2007: 586-587).

2007: 572).[61] In addition, researchers point out that it is very difficult to compare interactions in systems with different regimes, legislatures, parties, and party systems (Tsebelis, 2002: 1). For the purposes of this research, it seems reasonable to look at more encompassing characterization of institutional variation. Two main approaches are relevant to analyse the influence of institutions on trade policy through conceptual dimensions: access point theory and veto player theory. Both approaches are schematically described below, and in more detail in Chapter 6.

Access points

As in the analytical framework, access points are defined as actors with power in a specific policy sphere; they are susceptible to interest group lobbying. Ehrlich (2007, 2011) develops a theory about the way in which institutions influence public policy-making and applies it to explain protectionism. Ehrlich claims that, compared to explanations based on the effects of proportional representation and presidentialism, access point theory better explains differences in levels of protectionism across countries and time. The core argument is that when the number of effective access points increases in a political system, competition between them for rents from lobbying also increases. This situation leads to a decrease in the costs of mobilization for protectionist interest groups, which, because of their assumed collective action advantage over liberalizing groups, are able to capture the access points. As a result, the level of protectionism increases as well. Ehrlich's findings support the argument that access point theory surpasses theories in which proportional representation and presidentialism are the explanatory variables (e.g. Rogowski, 1987; Nielson, 2003), because their effects come from their influence over the number of access points in the political system.[62]

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[61] There are few studies which analyse trade policy using conceptual dimensions, although this approach has been fruitful in the analysis of different areas and aspects of public policy. For example, Mukherjee, Moore, Bejar and Charron (2006) analyse the influence of time horizons of coalition incumbent governments and single party governments over government spending, and argue that because the first ones have shorter time horizons they have more incentives to increase government spending than the second ones. In turn, Lijphart (1999) analyses the dimension of how consensual or majoritarian rules affect policy effectiveness. The author finds that there are no significant differences in terms of the performance of both systems concerning effective economic policymaking. Nevertheless, he finds that consensual systems score significantly higher in terms of democratic quality. The author also places 36 democracies on a two-dimensional conceptual map of democracy, showing that most of the countries occupy stable positions on the map.

[62] Ehrlich's sample includes post-war developed democracies. The author's findings are that higher tariffs are positively associated with the following aspects: number of effective parties, electoral districts; and low levels discipline in the party system. After these variables are

Veto players

Tsebelis' (1995, 2002) theory of veto player approaches institutional configuration in a unified way that allows comparison between different countries and political systems. The assumptions of the theory include single peaked preferences, perfect information, and no transaction costs. As in the analytical framework, veto players are actors whose consent is required to enact legislation that modifies the *status quo*. Therefore, policy stability in general increases as the number, congruence, and cohesion of the veto players increase. Empirically, few studies analyse the influence of veto players in trade policy. Henisz and Mansfield use veto player theory to explain variation in trade policy after deterioration of macroeconomic conditions increase protectionist demands from interests groups.[63] More specifically, only Mansfield, Milner, and Pevehouse (2005, 2007) and Mansfield and Milner (2012), have tested the influence of veto players and regime type on the number and scope of trade agreements in several studies from 2005.[64] In addition, Mansfield, Milner, and

controlled, proportional representation, does not present an effect over the level of tariffs. Lower tariffs are positively associated with presidential systems and right governments.

[63] Henisz and Mansfield (2006) argue that deterioration of macroeconomic conditions leads to lower levels of commercial openness depending on the level of institutional fragmentation. Also, that macroeconomic factors have a larger effect on trade policy when the analysed country is a democracy. The authors test their arguments on 60 countries over the period from 1980 to 2000 finding strong support for their arguments. More recently, Pelc (2009) analyses the distribution of power within the state (measured by the number of veto players in the system) to study variation in overhang among states. The author argues that a large number of veto players increases uncertainty over how trade policy will evolve after the establishment of the agreement. For this reason, executives are willing to sacrifice flexibility and decrease the level of bound tariffs. The large number of powerful actors also means that there will be more points for lobbying, and this will increase the applied tariff. As a result, the net influence of veto players is to decrease binding overhang.

[64] Mansfield, Milner and Pevehouse (2005), and Mansfield and Milner (2012) analyse through statistical regressions from 1950 to 2000 all pairs of countries to demonstrate that regime type and veto players influence the likelihood of countries to sign trade agreements, and the type of agreement in which they engage. The authors argue that veto players tend to oppose trade agreements because they may reduce their influence over trade policy. Therefore, governments with small numbers of veto players are more likely to sign trade agreements. The authors code the type of agreements nominally. This may not be adequate for the Latin American reality. This research considers that veto players may agree on the denomination of a trade agreement, as long as they are unaffected by its specific provision, leading to agreements with lower levels of integration irrespective of their type. The authors use the political constraints index developed by Henisz (2002) that 'measures the presence of effective branches of government outside of the executive's control, the extent to which these branches are controlled by the same political party as the executive and the homogeneity of preferences within these branches' as a proxy for veto players (17). However, this is a general measure relevant for all policy areas. For example, a large number of veto gates and heterogeneous veto players at the judicial or sub-federal branches of government are not relevant to the formation of deeper trade agreements, and may obscure the empirical analyses. In Chapter 8 an approach inspired in Henisz measure, but which focuses in the veto players relevant for deep integration in trade agreements is preferred.

Pevehouse (2007) have integrated veto player theory in a two-level game model.[65] In these studies, the main argument regarding the influence of veto players over trade agreements is that a higher number of such players increases the possibility that some of their constituents can be damaged by a trade agreement and, therefore, less and narrower agreements are formed.

Overcoming the costs of collective action

Characteristics of the group

The first problem that a large group of exporters faces when demanding deep integration is that they find it extremely difficult to organize. This explanation is provided by Olson (1965), who argues that concentrated industries find it easier to engage in collective action because they have small numbers of heterogeneous firms. Empirical evidence for the effect of industry concentration on business political activities is mixed. For example, regarding the effect of industry concentration on business activities in general, Pittman (1977) finds that concentration affects levels of industrial contribution; Schuler, Rehbein and Kramer (2002) find that industry concentration promotes the diversification of firms' political approaches and methods; Zardkoohi (1985) finds minimal influence of industry concentration on the level of campaign contributions. In addition, there is lack of consensus regarding industry and geographic concentration. Pincus (1975) finds that industry concentration and geographic de-concentration positively influence establishment of protectionist measures, while Saunders (1980) also finds that industry concentration positively influences protection. In contrast, Caves (1976) finds a negative relationship between industry concentration and tariff protection; and Lavergne (1983) and Baldwin (1985) find that the influence of market concentration on tariff protection is insignificant.

[65] Mansfield, Milner and Pevehouse (2007) integrate veto player theory in a two-level-game model. The argue that domestic divisions increase the difficulties to form trade agreements at international bargaining processes because said agreements require policy changes. Their model compares the outcomes that are possible in a given structure of preferences to the outcomes that are possible when a veto player is added to that first structure. The probability of reaching an agreement decreases with the addition of at least one veto player, in comparison to the same scenario with no additional veto players. The authors perform several regression analyses over simulated data of random 'countries' in which the number of veto players varies. Further analyses are developed in data of 194 countries over almost 50 years from 1950. The authors' results support the argument that as the probability of reaching an agreement decreases, the number of veto players increases.

The second problem that inhibits mobilization of interest groups to exert pressure towards liberalization is that protectionist groups are considered to have a collective action advantage over pro-liberalization groups. Traditionally, in public choice theory, protectionist groups are portrayed to find it easier to organize for collective action than trade liberalization supporters because costs from liberalization tend to concentrate on import competing industries, while benefits are diffused.[66] However, the main argument, that protectionist groups have a collective action advantage over pro-liberalization groups, considers only the setting of perfect competition. When taking scale economies into account, the argument 'is turned on its head' (Schonhardt-Bailey, 2006: 50) because industries with scale economies benefit from static and dynamic gains from trade. In addition to the expansion of the market, industries with larger returns to scale benefit more from their ability to realize scale economies through the exploitation of a larger market share (Schonhardt-Bailey, 2006: 53). Scholars (e.g. Milner, 1988; Gilligan, 1997; Schonhardt-Bailey, 2006) have presented evidence that industry concentration contributes to explaining that free traders are able to overcome collective action problems and organize to lobby for their desired trade policies.

Characteristics of the setting

In addition to industry concentration, geographic concentration has been analysed; and its role in solving collective action problems is controversial. On the one hand, geographic concentration facilitates solving collective action problems because it reduces costs that hamper organization, such as transportation and information costs. Therefore, the more geographically concentrated the industry, the greater the probability that its firms organize (Olson, 1965). From this perspective, the combination of industry concentration and geographic concentration facilitates the organization of groups and increases their political effectiveness. On the other hand, Pincus (1975) acknowledges that industry concentration facilitates lobbying, but

[66] Other arguments not directly related to industries' characteristics are the following. First, Ehrlich (2007: 581) mentions that the incentive for exporters to lobby is weakened by the association between domestic and foreign reduced tariffs. Second, Goldstein and Martin (2000) explain that exporters do not lobby against protection because they are not aware whether they will be targets of retaliation after the country imposes protectionist measures. Finally, Pincus (1975) argues that there is no support for liberalization in final goods besides consumers, for which is difficult to engage in collective action. Users of a product (particularly a finished product) have a negligible influence on trade policy outcomes and generally require a higher threshold for action than producers.

claims that in a setting with geographical representation, geographic de-concentration has a political effectiveness effect on legislation that may overshadow the difficulties that this characteristic poses for organization. [67] However, Schonhardt-Bailey (2006: 52) argues for an alternative[68] that allows us to accept Pincus' argument without contradicting Olson. Organization to demand liberalization is achieved by the fusion of a core export industry exhibiting both geographic and capital concentration, and a broader export sector which is relatively geographically de-concentrated.

In addition to geographic (de)concentration, characteristics of the environment, such as factor specificity of the economy and the institutional setting of the country, play an important role in influencing the costs of collective action. A setting of high specificity of factors increases excludability and decreases free-riding (Alt and Gilligan, 1994: 334-336). In an environment with high factor mobility, the gains from trade are distributed between all factor owners, regardless of the industry in which they are employed. Non-participants cannot be excluded from benefits, which creates many opportunities for free-riding. In contrast, when factors are highly specific, the gains from a specific trade policy benefit only the specific factors employed in the targeted industry.

Regarding the institutional setting, political institutions and the characteristics of the actor that takes decisive actions on trade policy have been studied as factors that influence the feasibility of groups to engage in collective action. For example, research shows that in countries in which trade policy decisions depend on majoritarian institutions, benefits have to be more broadly dispersed than in non-majoritarian systems to make the policy politically viable (Alt and Gilligan, 1994: 338). In addition, because democracies have a more encompassing interest in society than non-democracies, it has been found that the former generate public policies that benefit the interests of the majority and reflect the primacy of citizens in the allotment of institutional political power (McGuire and Olson, 1999; Acemoglu and Robinson,

[67] According to Pincus' (1975) perspective, the combination of industry concentration and geographic de-concentration facilitate successful lobbying. In a system with geographic representation, industries that are geographically more evenly distributed have constituents in a larger number of electoral districts. This characteristic reduces the bargaining costs among legislators and makes easier the enactment of protection.

[68] Schonhardt-Bailey (2006) explains that the fusion of industry and sector is critical to overcoming the problem of organization created by Pincus' model of geographic de-concentration. In a setting with geographical representation, the combination of industry concentration and geographic de-concentration creates the ideal lobby group towards liberalization.

2006). The influence of the institutional setting over deep integration in trade agreements has not been studied yet. This gap is addressed in Chapters 7 and 8.

Conclusion

The literature review offers different paths and lessons for research in the field of trade agreements. Here, we recall the main aspects of each area. First, further research with a relatively more consensual approach to deep integration is necessary to accumulate knowledge and better understand the content of trade agreements. In the studies reviewed, it is possible to identify two dimensions of a different concept (institutional depth and extensive depth), and two other dimensions which include opposing outcomes for the same concept (within/outside border measures, trade/non-trade measures). As a first attempt to aggregate this rich knowledge, Chapter 3 integrates the relevant overlapping features into a classification of intensive and extensive margins to build the dependent variables of this research.

Second, there is a gap in the literature in analysing which interests and under which circumstances deep integration is demanded in trade agreements in Latin America. Research on the role of economic interests in trade liberalization has focused on different instruments, such as tariffs, quotas, non-tariff barriers, and trade agreements, mainly in developed countries. To clarify the preferences of market actors of the region towards static gains from trade, it is necessary to approximate the approximate location of Latin American countries in the factor mobility continuum, and then derive such preferences from the appropriate standard trade theory. To understand preferences of market actors towards dynamic and productivity gains from trade, preferences should be derived from the 'new' and 'new new' trade theories reviewed. The location of Latin American countries in the factor mobility continuum is presented in Chapter 4. In addition, the preferences of small and medium exporters towards static gains from trade and the preferences of resourceful and 'large' exporters towards dynamic and productivity gains from trade are derived also in Chapter 4.

Third, there is no study yet that systematically analyses the influence of configurations of domestic political institutions over deep integration in trade agreements in Latin America. The main study (Nielson, 2003) about liberalization in the region focuses in presidentialism. Nevertheless, for the purposes of this research, an approach based on conceptual dimensions seems more appropriate because Latin American countries share very broadly similar institutional characteristics. The two

main approaches which seem most relevant to analyse the influence of institutions on trade policy through conceptual dimensions are access point theory and veto player theory. These approaches are discussed and combined into an integrated framework in Chapters 6 and 7.

Finally, the fourth section reviews explanations about collective action, specifically how economic interests may overcome their problems to achieve their desired trade policy outcomes. Explanations about free-riding in large groups, and assumptions about collective action advantage of protectionist over liberalizing groups, have prevailed until the development of new explanations, which consider imperfect competition and collective action advantage of resourceful key exporters. Several characteristics of the environment have been taken into consideration when evaluating the conditions that may influence costs of mobilization towards free trade for interest groups. As in the analytical framework, the influence of the institutional setting to channel societal demands is an area which is usually highlighted as a weakness of endogenous trade theory. Accordingly, the way in which the institutional setting mediates the demands of deep integration in trade agreements in Latin America has not been studied yet. This gap is addressed in Chapters 7 and 8.

3 Intensive and extensive margins of deep integration

For more than 15 years, deep integration in trade agreements has been a recurring topic for politicians and scholars. There are continuous news reports about the efforts of political leaders to pursue deep integration. There are also continuous mentions about the creation of treaties and adoption of new mechanisms to achieve deep integration. However, there is no clarity on what deep integration is and how it can be assessed. In general, despite extensive literature about regional trade integration, there is a lack of knowledge about the actual content of trade agreements (Smith, 2000: 137; Teh, Prusa, and Budetta, 2009: 166-167). Recently, researchers have started to study the texts of trade agreements to analyse variations in their provisions. Considering the text and not just the existence of a trade agreement provides a relatively more comprehensive picture (Hicks and Kim, 2010: 17). Since variation across treaties is purposeful, not random (Allee and Peinhardt, 2010: 8),[69] focusing on the legal texts of such agreements is a sensible approach in this research.

Lack of understanding about deep integration seems to be a consequence of the neglect in the literature of the content of trade agreements. For example, the WTO states in a recent report that:

> 'There is no agreed definition of the scope of such deep agreements, and indeed the concept is widely used to refer to any arrangement that goes beyond simply extending preferential tariff concessions' (WTO, 2011: 110).

Conceptualizing deep integration is the first step towards explaining the wide variation in the levels of depth of the trade agreements that have been established by Latin American countries since the region moved towards 'open regionalism.' Although depth of trade agreements has been a variable of great interest in academic analyses, their conceptual use of depth is inconsistent (as outlined in Chapter 2), making aggregation of knowledge problematic. Deep integration is often used to represent different concepts and comprises diverse measures and provisions.

This chapter provides the rationale for dividing deep integration into its vertical and horizontal margins, and for classifying different provisions into each of these

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[69] Allee and Peinhardt (2010) also mention that trade and investment agreements are carefully negotiated by signatories and they deliberately include or exclude components (8). In the same order of ideas, according to the WTO (2011: 129-130), the way in which provisions are formulated 'reveals its intention and the extent to which it declares legal obligations and rights.' Finally, Hicks and Kim (2010: 17) mention that the legal texts of trade agreements are meaningful to both, governments and economic actors.

margins. The concept of depth that is used in this research to assess deep integration is explained, since there is no consensual guidance which would allow comparisons between the levels of depth achieved in the agreements established by Latin American countries. Based on academic literature, in the first section of this chapter, the variable and its primary dimensions are conceptually identified. Deep integration is decomposed into its intensive (vertical) and extensive (horizontal) margins. In the second section, the features and provisions relevant to each margin are identified. Aspects covered at the intensive margin are trade agreement type, decision power, institutional capacities, legitimacy, and permanency. Areas covered at the extensive margin are coverage of rules of origin, services, technical barriers to trade, competition policy, government procurement, trade defence instruments, and discipline-level support and enforcement mechanisms.

Margins of deep integration in trade agreements

Deep integration is not a unified concept. To assess variation of depth, an adequate approach would be to expand the characterization of depth suggested by the WTO (2011), which distinguishes between intensive (vertical) and extensive (horizontal) margins. The most important reason for using this classification as a general basis for the categorization of depth is that its analytical division reflects the dimensions considered in the definition of depth. In general, depth is defined as 'the distance from the top or surface to the bottom of something; or the quality of being intense or extreme' (Oxford Dictionaries, 2014). The quality of being intense or extreme is assessed for both margins; and, while the extensive margin corresponds to the horizontal distance, the intensive margin corresponds to the vertical distance.

It is possible to find other characterizations of depth in academic literature, as reviewed in Chapter 2, but they seem to consider features which qualify provisions at the extensive margin and/or which are not applicable to the intensive one. The intensive aspect refers to the institutional depth of trade agreements; the extensive aspect refers to the inclusion of additional components beyond the lowering of tariffs in a trade agreement (WTO, 2011). In the studies reviewed in Chapter 2, it is possible to identify two dimensions which represent a continuum of a different concept (institutional depth and extensive depth), and two other dimensions that include two opposite outcomes for the same concept (within/outside border measures, trade/non-trade measures). For the purposes of this research, as discussed in the analytical framework, in addition to the intensive and extensive margins, only outside

border measures and trade-related provisions[70] are considered in the margins; however, other aspects identified in previous studies are included as control variables in Chapter 8.

The main criterion to classify trade provisions and areas identified in other studies as corresponding to either the intensive or extensive margins is whether they regulate aspects of the whole agreement or add specific areas and disciplines. As detailed in Chapter 4, the emphasis is on substantial provisions, rather than principles or best-endeavour initiatives. To assess the depth of each margin, this research expands the classification suggested by the WTO (2011) by incorporating trade provisions and features identified as promoting trade integration in other studies.[71] Figure 3.1 illustrates the aspects which this research considers most relevant for each margin.

At the extensive margin, it is possible to find provisions which expand the scope of coverage of the agreement. Assessing the extensive margin is more complex than evaluating the intensive one because there are more analytical distinctions to consider in specific areas and disciplines than in those applicable to a trade agreement as a whole. To evaluate the extensive margin, two main aspects are considered. The first is the inclusion and, where applicable, the scope of coverage of disciplines and trade-related areas in the agreement. At this point, a distinction is made between two types of provisions: provisions designed to reduce obstacles to trade flows between members, such as regulations to competition, and provisions which limit governments' capacities to use reactive protectionist instruments, such as anti-dumping measures.[72] The second aspect is the inclusion of mechanisms

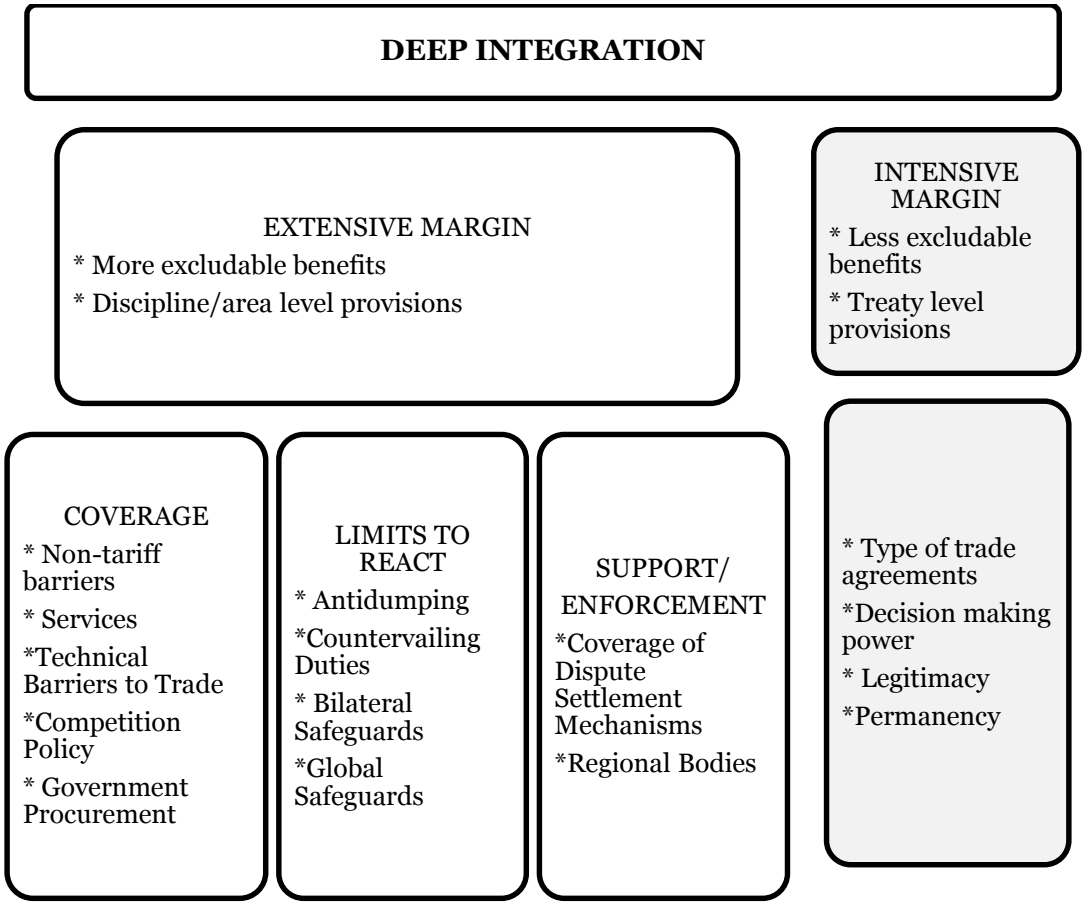
[70] As mentioned in the literature review, disciplines and areas which have been categorized in academic literature as not directly related to trade are not included as part of extensive depth. Hicks and Kim (2010) classify as non-trade areas investment, intellectual property, labour and environment. In this research, these areas were coded and measured to be included as control variables in the empirical analysis in Chapter 8.

[71] This research selects areas and provisions which have already been identified in other studies. The objective is to avoid bias in the dependent variable, as suggested by King, Keohane, and Verba (1994).

[72] In this research, the aspect being measured is the extent to which governments place limits to their own capacity for reacting when they face unexpected conditions which harm domestic producers. Then, limits to flexibility are also being measured. Therefore, provisions which reduce obstacles to trade flows between members, and tighten limits to use reactive mechanisms have both the objective of reducing barriers to trade flows. From this perspective, both mechanisms follow the same direction. Therefore, if trade agreements score higher in one area and less in the other, this does not present problems for the analysis. Nevertheless, it does constitute an additional aspect of variation which is an interesting area for further research. Teh, Prusa, and Budetta (2009: 167-168) mention that the argument that there is a trade-off between flexibility and obligation is based on the idea that including trade remedy provisions creates a escape-valve for domestic interests' pressure over government officials.

designed to support, review, and/or enforce the correct implementation of the provisions included in the agreement. At the intensive margin, it is possible to find mainly provisions related to the institutional framework of the agreement. The contribution of these provisions to the intensive margin of an agreement is assessed regarding the degree to which they set rules about the institutional scope and capacities of the agreement, and the nature of such institutions. Both areas influence expectations about the effectiveness of the agreement in achieving substantial trade liberalization between the members of the agreement. An implication of this characterization is that the benefits of the provisions at the intensive margin are less excludable than those at the extensive margin.

Figure 3-1 General composition of intensive and extensive margins of depth



Source: Elaborated by the author.

The release of pressure may prevent a potential setback of the reductions in trade barriers which have been achieved. Nevertheless, empirical evidence to support this argument has not been conclusive.

Composition of the intensive margin

The classification of provisions into intensive and the extensive margins is based on the applicability of a provision to either the trade agreement as a whole or to specific sectors and trade areas, respectively. The contribution of the provisions included at the intensive margin is assessed regarding the general capabilities and nature of institutions. Therefore, the next sub-sections discuss provisions in these two areas: first, type of agreement, decision power, and institutional capacities, which refer to the capabilities of the institutions of the trade agreement; second, legitimacy and permanency, which refer to the nature of such institutions.

Type of agreement, decision power, and institutional capacities

Type of trade agreement is a useful simplification for assessing the general depth of trade agreements in previous studies (e.g. Mansfield, Milner, and Pevehouse, 2007; WTO, 2011). The type of trade agreement is central in defining the basic framework of the scope and level of commitments between its members. The different levels of such commitments and scope can be clustered in three categories, depending on the institutional requirements placed on country members: free trade agreements; custom unions and common markets; and monetary unions and economic unions.[73] As a starting point, type of trade agreement is still a useful categorization because agreements with broader mandates contribute more to the intensive margin than agreements with narrower mandates. However, trade agreements of the same type may differ in the depth at their intensive margin depending on how binding are their decision-making prerogatives. Including only type of agreement to evaluate the depth of the general institutional framework would be equivalent to considering all agreements corresponding to a same type as having the same level of depth. Following this line of thought, it is considered that when decisions are binding, they add the most to the intensive margin of trade agreements of the same type.

In addition, the intensive margin is considered to be more profound when institutions have a broader scope of institutional capacities, which may range from cooperation activities to substantive trade-related decisions. Effectiveness of trade institutions and their contribution to the intensive margin increase when the costs of trade are reduced and less discretion in decision making exists. These two conditions are possible when institutions with strong decision powers are in place (Hicks and

[73] A description of each of these different types and their operationalization is presented in Chapter 4.

Kim, 2010: 14). In addition, the integration process may likely advance more swiftly when institutions endowed with more decision powers are in place, compared to a situation in which weak institutions exist (IADB, 2002: 88). Therefore, to assess the intensive margin, the evaluation of the general institutional framework of the agreement should not only include the institutions associated with the type of the agreement. Other aspects that should be also considered are legitimacy and permanency.

Legitimacy and permanency

The legitimacy of an agreement[74] is an attribute which influences the potential effectiveness of institutions, and therefore, influences the potential level of the intensive margin. Legitimacy of a trade agreement can be understood as 'the belief that an organization rightfully has the authority to make and carry out decisions' (Lynch, 2010: Kindle Locations 622-628). Institutions established with more legitimacy are more capable of resisting the pressure of interest groups towards deviating from their trade liberalization commitments; therefore, they are more effective than other institutions established with less legitimacy (IADB, 2002: 90). In addition, when legitimacy enhances institutions' capabilities to isolate from domestic group pressure, this provides credibility and allows trade agreements to function better as commitment devices (Hicks and Kim, 2010). Then, trade agreements that require ratification by all parties are considered to be deeper than other trade schemes that go into effect just after signature. Similarly, clearly specified procedures for future amendments which require more legitimacy are interpreted as agreements with deeper intensive margins than those which only require, for example, the agreement of the executive of each member country.

Finally, permanency of the agreements influences their degree of depth at the intensive margin. Permanency increases the credibility of agreements' institutions by limiting space for discretion; if renewal of agreements was required, political leaders could succumb to domestic political pressure or changes in long-term preferences (Hicks and Kim, 2010: 16). As discussed, credibility increases the effectiveness of a

[74] Hicks and Kim (2010: 40) include decision powers, legitimacy and permanency as part of the category of depth of coverage, along with other components of extensive liberalization. However, for the purposes of this research, they are considered features which allow qualifying intensive depth. The main reasons are that decision powers, legitimacy and permanency are characteristics of the institutions of trade agreements, not additional areas that extend the coverage of trade agreements (as the areas of extensive liberalization do).

trade agreement. Therefore, agreements which clearly state their continuation in force until a party withdraws are considered to have the highest level of depth.

Composition of the extensive margin

Evaluating the extensive margin is more analytically complex than assessing the intensive margin. The next sub-sections discuss, first, the scope of coverage of disciplines and trade-related areas in the agreement, and the limits to protectionist instruments used by governments when circumstances are not favourable; and second, the mechanisms and/or regional bodies created with the objectives of providing support or enforcement to the discipline-level provisions included in the agreement. The provisions included correspond to areas relevant to all trade agreements, such as rules of origin, and to other 'outside the border' areas which are not always included in such agreements.

Coverage of trade-related areas

Three aspects are considered to evaluate coverage of trade liberalization and facilitation measures: inclusion of the analysed trade-related area or discipline in the text of the agreement; removal of trade barriers between members; and the extent to which the relevant area or discipline decreases transaction costs of trade between members. In general, in several of the areas discussed below (rules of origin, services, technical barriers to trade, competition, and government procurement), transaction costs are reduced when the objectives of the provisions included are to reduce the specificity requirements and regulations, or to increase flexibility in their application.

Rules of Origin

Provisions that regulate the application of rules of origin are included in most trade agreements established by Latin American countries. Rules of origin are 'laws, regulations, and administrative procedures which determine a product's country of origin' (WTO, 2013). Rules of origin are necessary in free trade agreements in order to prevent abuse of trade preferences by countries which are not members of the agreement (e.g. making a non-substantive change to a product in a country member of an agreement and then exporting it to another country member) (Evans, Holmes, Iacovone, and Robinson, 2004: 12; Lynch, 2010: Kindle Locations 712-731). Official origin is relevant for the application of tariffs and also for the implementation of provisions in other trade areas included in trade agreements, such as anti-dumping and countervailing duties, safeguard measures, discriminatory quantitative

restrictions, tariff quotas, and government procurement (Estevadeordal, Harris and Suominen, 2009: 4). Because there are no international regulations on rules of origin, these are established at the discretion of the members of a trade agreement (Heydon and Woolcock, 2009: 34). Governments' discretion to establish detailed and specific rules of origin is often used for protectionist and discriminatory purposes.[75] As a result, systems of rules of origin in trade agreements are characterized by extreme complexity which increases the transaction costs of trade for businesses and governments.

The complex processes to determine origin also place limitations for measuring the influence of product/industry specific rules on the extensive margin. Provisions on rules of origin can be designed at the framework/regime level or at the product/industry level. Rules of origin can be non-preferential or preferential.[76] Preferential product/industry level rules are often defined in extreme detail. In some cases, rules of origin are established at even higher than six-digit tariff headings and with variations in the method to assess that a substantial transformation[77] has been performed (Heydon and Woolcock, 2009: 36).[78] Ideally, to measure the contribution

[75] The complexity of rules of origin is more acute when preferential rules are also used as instruments of protectionism besides their purpose of guaranteeing that preferences are only used by members of the agreement. Lynch (2010, Kindle Locations 712-731) explains that having complex regimes of preferential rules of origin allows countries 'to more effectively discriminate against non-members.' In addition, Evans, Holmes, Iacovone, and Robinson (2004) argue that these rules can also be used to shield production linkages between members, acting as *de facto* non-tariff barriers on imported intermediate products.

[76] Preferential rules of origin determine the criteria for considering a product as originating in the region and determine its eligibility for preferential treatment. Non-preferential rules establish the official origin of the product (Estevadeordal, Harris and Suominen 2009: 4).

[77] 'Wholly obtained' and 'substantial transformation' are the two standards, recognized by the World Customs Organization and its Revised Kyoto Convention, commonly used to assess origin. Substantial transformation can require changes in the product's tariff classification, or minimum percentages of inputs, transformations which must originate or take place within the members of the preferential agreement (Estevadeordal, Harris and Suominen, 2009: 4; Lynch, 2010: Kindle Locations 712-731).

[78] Lynch (2010: Kindle Locations 731-756) exemplifies with auto and textiles provisions in NAFTA the complexity of systems of rules of origin in a single agreement. 'NAFTA's auto provisions use tracing and the net cost of production [...] This is dizzying, and this is only one portion of one economic sector. Other rules of origin require that certain steps in the production process be within the RTA [regional trade agreement] for preferential tariff treatment. In NAFTA's textile and apparel sector, for instance, the general RoO [rule of origin] is 'yarn forward'—requiring textile products to be cut and sewn in North America from fabric woven or knit in North America with North American–spun yarn from either North American or non-North American fibers. But even this level of specificity is a vast simplification. There are significant deviations from this RoO within the textile and apparel sectors, including both more stringent requirements to use only North American fibers for some products and more lenient requirements for others. And there are numerous other caveats to add to NAFTA's RoO requirements: tariff preference levels (TPLs), which allow a quota of a product to receive preferential NAFTA tariff rates while imports beyond this quota face higher MFN [most favoured nation] tariff rates. Yet another RoO provision for textiles and apparel production in

of rules of origin to the extensive margin, product/industry specific rules and regime/framework rules would be analysed. However, the extreme detail of product/industry rules makes the collection and systematization of data unfeasible[79] for the number of agreements studied in this research within the existing resources and time constraints. Although the material restrictions described place clear limits on the analysis of the rules of origin, the analysis of variations of framework/regime wide rules can provide valuable insight because of their cross-cutting and wide influence on the productive sectors of the countries studied.

Framework/regime wide variation of rules of origin takes place along three main lines: *de minimis*, cumulation, and certification. This analysis focuses on the extent to which complexity of rules of origin is counterbalanced in a trade agreement by allowing more flexibility in their application, by encompassing a wider geographic scope in the incorporation of inputs, and by requiring a reduced number of instances in the process of certification of origin. First, it is considered that the extensive margin increases with flexibility of the system of rules of origin in place. *De minimis* and cumulation regulations provide flexibility in the application of product/industry-specific rules. The de *minimis* rule gives flexibility in content requirement measures by considering the proportion of inputs and processes not originating within the preferential agreement in a product (Estevadeordal, Harris and Suominen, 2009: 5). Therefore, agreements with higher thresholds of non-member inputs contribute more to the extensive margin than agreements with lower thresholds or than agreements which do not contain *de minimis* rules.

In addition, agreements are considered deeper when they allow extended cumulation than when they only allow bilateral cumulation. Through cumulation rules producers of countries which are members of the agreement incorporate in their products or processes inputs from other members of the agreement (bilateral cumulation) or certain inputs from countries which are not members of the agreement (extended cumulation) (Estevadeordal, Harris, and Suominen, 2009: 6).[80]

NAFTA is the de minimis standard. If textiles and apparel products do not otherwise meet NAFTA's RoO, they will still receive NAFTA's preferential tariff rates if less than 7 percent of the weight of a given product is non-North American. Thus, an import could be subject to more than one RoO ruling.'

[79] Scholars (e.g. Estevadeordal, Harris and Suominen, 2009) have developed indices of stringency of rules of origin at product/sector level. However, these studies cover only few of the agreements studied in this research. Also, Lynch (2010: Kindle Locations 731-756) mentions that the wide variation in the requirements and flexibility applicable in different products and sectors limits the plausibility of generalizations from the restrictiveness indices to the whole trade agreements.

[80] Extended cumulation is a mechanism that may contribute to solve the problems produced by the spaghetti bowl of rules of origin (Estevadeordal, Harris and Suominen, 2009: 6).

Extended cumulation, therefore, provides more flexibility to regimes of rules of origin than bilateral cumulation. All else constant, the extensive margin is considered to be higher when rules of origin allow more diversified sources of inputs than when they only allow inputs from other members of the agreement.

Finally, the process of certification is also taken into account when analysing the contribution of provisions on rules of origin on the extensive margin of an agreement. Through fulfilling verification requirements in systems of certification, producers of a country document that they comply with the origin requirements to export with preferential treatment to other members of the agreement (Estevadeordal, Harris and Suominen, 2009: 6). The requirements for verification vary in complexity, increasing from self-certification by exporters, sponsored agencies, and government authorities. Exporters require more time and resources to cover high administrative costs in order to comply with larger numbers of requirements or instances of certification than when they can themselves certify the origin of their products (Estevadeordal, Harris and Suominen, 2009: 6; Heydon and Woolcock, 2009: 37). Therefore, more complicated processes for certification of origin increase the costs of trade and are considered to contribute less to the extensive margin than easier and simpler methods of certification.

Services

The first aspects to verify are the inclusion of services and the principle of national treatment in services in the agreement; the next aspect to evaluate is the number of sectors substantially covered in the agreement. Trade agreements increasingly include trade in services, mainly because the multilateral trade system has only achieved limited liberalization in this area (Lynch, 2010: Kindle Locations 866-877). The core principles which determine openness of provisions in services are market access and national treatment (Roy, 2011: 3-4). National treatment is 'the principle of giving others the same treatment as one's own nationals. GATT Article 3 requires that imports be treated no less favourably than the same or similar domestically-produced goods once they have passed customs' (WTO, 2013). The analysis in this area focuses on the cross-cutting provision of national treatment and in the number of wide sectors with substantial provisions included in the agreement. Although negative and positive lists of liberalization[81] could be considered a 'cross-cutting

[81] Two main non-exclusive approaches to liberalization of services exist in trade agreements. First, positive lists which liberalize only sectors precisely specified. Second, negative lists which liberalize all sectors except those clearly excluded. Roy, Marchetti, and Lim (2006: 10)

across sectors' aspect to include in the measurement, most trade agreements combine both approaches on a sector by sector basis. Therefore, the measurement of extensive margin regarding provisions of services in this research is based on the explicit inclusion of the principle of national treatment and in the number of sectors of services where substantial provisions exist.

Despite the limitations of a horizontal approach to measuring depth of the extensive margin in provisions about services, this approach can also capture in a general manner the restrictiveness/openness of provisions in services. This research faces similar material constraints to those of other studies who have analysed trade in services (e.g. Roy, Marchetti, and Lim, 2006; Baccini, Dür, Elsig, and Milewicz, 2011), and is limited regarding developing a detailed sub-sector-by-sub-sector approach to measuring services.[82] As in the analysis of product/industry specific rules of origin, the main problems recognized are the amount of time and resources that would be required to identify, measure, and code the wide range of possible obligations and restrictions sub-sector by sub-sector (with variations in the modes of supply and liberalization, and in the types of barriers). A second issue, which is not as limiting as the one stated above, but which also requires consideration, is the lack of clear definitions of the terms services and market access in trade literature.[83]

Technical Barriers to Trade

In general, to assess how provisions about technical barriers[84] contribute to the extensive margin, the focus is on the difficulties removed for accepting other

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mention that these two approaches are often combined when countries try to reduce incompatibility between different areas of an agreement (e.g. services and investment), or within provisions in a specific area (e.g. treatment within services). The first approach is based on the GATS framework; while the latter is based on NAFTA.

[82] About the construction of their database of provisions in trade agreements, Baccini, Dür, Elsig, and Milewicz (2011) mention that coding each sub-sector in every mode of supply was not materially feasible. Roy, Marchetti, and Lim (2006: 5) point out that, in general, academic studies about services in trade agreements tend to limit the detail of their analyses to general characteristics, such as types of rules and type of lists they contain.

[83] In some studies (e.g. Marconini, 2006), when scholars incorporate a definition of services, it has to be constructed from categories of services included and omitted in the articles of the GATS. Marconini (2006: 9-10) points out that in Article I, services are defined by their mode of supply (cross border, consumption abroad, commercial presence, and presence of natural persons) including all services and sectors except those provided by the governments. In addition, the author states that a clear definition of the principle of market access in services does not exist.

[84] In this research, sanitary and phytosanitary measures are not included because according to Heydon and Woolcock (2009: 63), they are 'broadly similar to that adopted in the TBT [technical barriers to trade] provisions in a trade agreement.' Piermartini and Budetta (2009: 253) define sanitary and phytosanitary measures as those 'applied to protect human or animal or plant or life or health.' According to the WTO (2013), trade agreements include such

members' products as the countries' own products (to different extents). Technical barriers to trade may take place regarding standards, technical regulations, and conformity assessment processes, which could obstruct trade. Both standards and technical regulations 'specify the technical characteristics of a product or the conditions under which it is made' but only the first ones are not mandatory (Piermartini and Budetta, 2009: 250). Conformity assessment rules stipulate the testing requirements to evaluate that a product, a process, or a service conforms to specified requirements (and fulfils the requirements of standards and/or technical regulations) (Piermartini and Budetta, 2009: 250-252). In principle, these mechanisms are designed to care for the wellbeing and safety of the population;[85] they are not commonly designed as protectionist mechanisms for trade.[86] According to Piermartini and Budetta (2009: 257), compared to the costs of domestic producers, exporters may require additional steps, such as interpreting regulations and guaranteeing compliance (increasing their fixed costs); in addition, compliance may reduce their scale economies in production (increasing their marginal costs). To reduce this protectionist edge, a wide range of different standard and technical-related mechanisms are often included in trade agreements.

First, the contribution of provisions about technical barriers to the extensive margin increases when they possess characteristics designed to facilitate compliance of exporters at their minimum cost. The principle of transparency is included in the provisions to remove trade barriers in trade agreements with the objective of facilitating compliance of exporters. Transparency in trade is the 'degree to which trade policies and practices, and the process by which they are established, are open and predictable' (WTO, 2013). Notification is central in giving transparency to the different types of technical barriers (Heydon and Woolcock, 2009: 56). From the exporter's perspective, transparency decreases the costs of monitoring the importer's requirements; and from the governments perspective, it is more difficult to impose

measures to reduce barriers by accepting other countries' measures as equivalent as long as they provide the same level of protection (even if they are not the same).

[85]) The main objectives of these measures are 'remedying market failures arising from an asymmetry of information between consumers and producers about the quality of a product, negative environmental externalities or failure of producers to co-operate and produce compatible products because of network externalities' (Piermartini and Budetta, 2009: 251).

[86] Nevertheless, there have been instances of protectionist abuse. Two examples pointed out by Piermartini and Budetta (2009: 251) are the following: 'The US requirement of a larger minimum size on vine-ripened tomatoes (mainly imported from Mexico) than on green tomatoes (mainly grown in Florida).' And 'the Chilean system for grading meat quality which is incompatible with that used in Argentina and the US (big meat exporters). The costs of setting up a special system just to export to Chile effectively limits the market access of small Argentinean and American beef producers. '

protectionist requirements (Piermartini and Budetta, 2009: 254). Although preferential trade agreements 'typically cover all sectors regarding principles such as non-discrimination and transparency' in the area of technical barriers, there are divergent approaches in the specific mechanisms included to reduce such barriers (Heydon and Woolcock, 2009: 54-56). These mechanisms include recognition or harmonization of standards and recognition of conformity assessments.

Second, the contribution of provisions for technical barriers to the extensive margin also increases when they include mechanisms designed to reduce the most the costs of exporters' compliance with the standards and technical regulations of the importing country. The central methods are harmonization and mutual recognition. Achieving harmonization of products is more complex and costly than achieving mutual recognition of regulations or conformity assessment procedures because with harmonization of products, common standards are selected (achieving product equivalence); while for mutual recognition of regulations or conformity assessment procedures, only reciprocal recognition of these regulations and procedures is necessary (Piermartini and Budetta, 2009: 252; WTO, 2011: 140). Both mechanisms are favourable for exporters because they decrease the need to monitor importers' regulations and provide further information about consumer preferences in the importing country; in the case of conformity procedures, the mechanisms eliminate the need for double tests (Piermartini and Budetta, 2009: 261; WTO, 2011: 140). Therefore, regarding technical barriers, agreements which include harmonization and mutual recognition are considered as deeper than agreements which do not include such provisions.

Competition

To analyse how competition provisions contribute to the extensive margin, the analysis focuses on the scope of anti-competitive areas regulated. Although competition-related provisions can be found scattered in different areas of the agreement, the analysis focuses on specific chapters about competition (when they are included).[87] The need to include provisions which guarantee fair competition

[87] There are two main reasons underlying the decision of focusing in chapters about competition. First, Baccini, Dür, Elsig, and Milewicz (2011: 27). mention that the inclusion of a chapter about competition reflects the importance that the members of a trade agreement give to the issue of competition Second, Teh (2009: 419) found that when related provisions in the rest of the agreement (besides the chapter) are included, the relationship between trade and competition becomes 'more nuanced' than when studies limit their scope to the competition chapter. The reason is that competition-related provisions outside the chapter are 'not necessarily subordinated to trade tests or concerns.' To limit the area of interest

arises mainly from the under-development of domestic and multilateral regulations in this area (Brusick, Alvarez, Cernat, 2005). The main purpose of including competition in trade agreements is to complement trade liberalization in goods and services by shielding trade gains from being counterbalanced by anti-competitive behaviour and practices (Brusick, Alvarez, Cernat, 2005; WTO, 2011: 142). In adopting or applying laws and measures which regulate anti-competitive behaviour, trade competition chapters focus on practices primarily from private agents;[88] and secondly from governments and the implications of their support or subsidies (Teh, 2009: 472). There is wide variation between the main forms of anti-competitive behaviour included and the commitments adopted in preferential trade agreements.

In this research, it is considered that the contribution to the extensive margin in trade agreements is larger when competition chapters regulate a wider number of anti-competitive practices than when only few anti-competitive practices are regulated, or when a competition chapter is not included in the agreement. Following Solano and Sannekamp (2006), and Teh (2009), the main forms of anti-competitive behaviour[89] identified prohibited, or regulated in the competition chapters of preferential trade agreements are as follows: unfair business practices, abuse of a dominant position and monopolization,[90] undertakings with special or exclusive rights and state enterprises, state subsidies, and mergers and acquisitions. Therefore,

(extensive margin) from its non-trade related surrounding complexity, this research concentrates the analysis in the chapter about competition.

[88] There is widespread concern about the rising power of multinational corporations and the limitations of domestic regulations to restrict their anti-competitive practices (Brusick, Alvarez, Cernat, 2005: 4).

[89] The inclusion of concerted practices or unfair business practices aims to proscribe business activities which may 'prevent, restrict or distort competition,' such as 'anti-competitive horizontal arrangements (collusion), vertical restraints and predatory pricing' (Teh, 2009: 474).

[90] The authors mention the following aspects. First, about unfair business practices, provisions explicitly prohibit the abuse of dominance, or require that members of the agreement adopt laws that prohibit such abuse. Government monopolies are not prohibited, but the provisions require that they do not expand their activities to areas outside their mandate. Examples of the proscribed activities which abuse market dominance are: 'the improper manipulation of prices, limiting production or distribution, applying dissimilar conditions to equivalent transactions with other trading parties and making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which have no connection with the contracts' (Teh, 2009: 475). Second, provisions about the abuse of a dominant position and monopolization, either extend the application of competition provisions to state enterprises and undertakings; or limit the application of competition rules. Third, regulations about state enterprises limit state support to avoid the distortion of competition. Fourth, provisions about state subsidies, encourage members of a trade agreement to monitor anti-competitive mergers. Finally, few agreements have included provisions on mergers and acquisitions.

all else being constant, the extensive margin is likely to increase the larger the number of anti-competitive practices regulated in the competition chapter of the agreement.

Government Procurement

When taking into consideration how provisions about government procurement contribute to the extensive margin, first, the inclusion of this area in the agreement should be identified and second, the provisions included to eliminate procurement discrimination from one country member of a trade agreement against producers from other member countries. Procurement discrimination takes place when governments 'favour domestic over foreign suppliers when purchasing otherwise similar goods or services' (Rickard and Kono, 2010: 5). Although there is increasing social pressure for states to make efficient use of their financial resources, there are also incentives to discriminate against foreign producers, such as development or industrialization objectives (protection of infant industries, underdeveloped domestic markets, inefficient firms, or protection to state-owned firms) or other political or social reasons (Araya, 2006: 35).[91] Provisions in the public procurement chapters of trade agreements mainly include regulations about the steps and processes leading to the award of government contracts (Araya, 2006: 36) and for this reason, the analysis focuses on discrimination in this area.

In this research, it is considered that the extensive margin of trade agreements increases when provisions regulate government contracts to increase fair competition by being more transparent and minimizing opportunities for corruption. When considering competition in government procurement, the following aspects, based on the stages of the tendering process identified by Teh (2009: 470-471), are assessed. First, in general, information provided about intended procurement should be provided without favouring any supplier. This research also considers that technical specifications at this stage should be included to avoid spaces for opacity and corruption that could lead to discrimination of suppliers. Second, the use of limited tendering[92] should be regulated and conditioned to specific circumstances[93] because of the spaces it provides for discrimination of suppliers (Teh, 2009: 470-471). Finally, the treatment of requests for information from unsuccessful tenders in the award of contracts should be clearly stated, including guarantees that confidential information

[91] Original in Spanish (translated by the author).
[92] Limited tendering 'involves the procuring entity contacting suppliers individually' (Teh, 2009: 470).
[93] Teh (2009: 471) mentions circumstances (e.g. lack of appropriate tenders, extreme urgency, among others) in which limited tendering is allowed in trade agreements.

will not be disclosed without the authorization of the tender (Teh, 2009: 470-471). In general, in the case of government procurement, this area contributes more to the extensive margin when the process of awarding of contracts is less opaque and more neutral.

Limits to reactive use of protectionist measures

This section addresses contingent provisions that limit governments' discretion to react to pressure from domestic groups after changes in the domestic or international environment. Trade measures are fundamentally skewed towards protecting import competing producers. Teh, Prusa and Budetta (2009: 167) mention that after tariffs have been almost dismantled or reduced to very low levels, trade remedies are included in trade agreements because 'import competing sectors would continue to have an incentive to secure protection through whatever means they can find.' Trade remedies[94] allow the temporary relief of trade commitments for domestic industries which are being harmed by liberalization because of surges in imports or because of unfair trade practices (Prusa and Teh, 2009: 2). Depending on the circumstances in which the injury to the domestic industry occurs, different types of measures are applied. Trade remedies include anti-dumping provisions, countervailing duties, and bilateral and global safeguards. To prevent abuse, regulation of their application has been included often in trade agreements.[95] However, as in other areas, there has been wide variation in the approaches followed and regulations included[96] in trade agreements:

> 'Contingent protection provisions vary greatly from one RTA [regional trade agreement] to the next. In fact, contingent protection provisions differ for the same country across different RTAs. Some RTAs have additional rules; some have no rules, and other prohibit the use of these actions. Even if we focus just on the RTAs that incorporate additional rules it is hard to characterize what happens; there is no consensus set of provisions that are found in all (or even most) RTAs' (Prusa and Teh, 2009: 1).

In general, trade integration is considered deeper when agreements include provisions which tighten and prohibit the application of anti-dumping provisions,

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[94] The term 'contingent measures' is also common in literature. Refers to the requirement of a relation between trade volume and trade protection (Prusa and Teh, 2009: 2).

[95] Although there are rules for trade remedies in the multilateral system, countries seek guarantees about how these rules will be applied to their exports (Lynch, 2010: Kindle Locations 891-908).

[96] In fact, very few agreements explicitly disallow their members to use trade remedies. The European Union is the only agreement which explicitly disallows the use of all types of trade remedies between its members (Lynch, 2010: Kindle Locations 891-908).

countervailing duties, global safeguards, and bilateral safeguards than when no rules about the use of trade remedies are included (Lynch, 2010: Kindle Locations 891-908). In that sense, trade remedies 'could be seen in a similar light as long transition periods, complicated rules of origin, and sensitive sectors [...] all of which result in a slower process of liberalization for sensitive import competing sectors' (Teh, Prusa and Budetta, 2009: 174). In this research, such logic is followed when assessing the contribution of provisions which regulate trade remedies to the extensive margin. Each of these measures is discussed below.

Provisions which regulate the use of anti-dumping and countervailing duties are considered to contribute more to the extensive margin when they impose more rigid limits to governments' reactions to exporters' unfair practices than when they have more flexible limits or no limits. Anti-dumping duties are 'imposed on goods that are deemed to be dumped and causing injury to producers of competing products in the importing country. These duties are equal to the difference between the goods' export price and their normal value, if dumping causes injury' (WTO, 2013). Countervailing duties refer to the 'action taken by the importing country, usually in the form of increased duties to offset subsidies given to producers or exporters in the exporting country' (WTO, 2013). In both cases, these measures are applied to exporters which harm domestic produces through unfair practices.[97] The stringency of the regulation of these measures in trade agreements vary from agreements which do not include additional regulations, agreements which include specific measures which make their application more restrictive, and in the strictest cases, agreements which completely disallow their use between its members. In this research, it is considered that, all else being constant, depth of the extensive margin increases with the stringency on the regulation of anti-dumping and countervailing duties.

Similarly, in the cases of bilateral and global safeguards, provisions are deeper when regulations are less flexible in the actions and timeframes allowed for governments' reactions to external circumstances which harm domestic producers, than when they are able to impose more flexible actions or transitory periods. These measures apply in different circumstances to anti-dumping and countervailing duties since no evidence of unfair practices from exporters is required. Safeguard measures

[97] Lynch (2010, Kindle Locations 909-938), and Prusa and Teh (2009: 1) mention that the use of antidumping measures is usually more regulated than the use of countervailing duties. First, considering the global economic impact of subsidies, governments may prefer to maintain their capacity of reaction against them. Second, subsidies and state-aid are usually not regulated in trade agreements.

are actions 'taken to protect a specific industry from an unexpected build-up of imports' (WTO, 2013). To impose global safeguards, they should be non-discriminatory and the injury should be serious (Prusa and Teh, 2009: 3).[98] Nevertheless, several trade agreements include conditions to exempt the members of the agreement from global safeguards.[99] In contrast, bilateral safeguards apply only to delay liberalization between members of the agreement (to allow adjustment of import competing producers). Therefore, these measures do not result in more favourable treatment for members than for non-members of the agreement (Prusa and Teh, 2009: 4). In both cases, restrictiveness in the application of safeguards (and their contribution to the extensive margin) is assessed in a broadly similar way to anti-dumping measures and countervailing duties. In general, rules are the most restrictive (and contribute the most to the extensive margin) when they do not allow the application of bilateral safeguards to members of the agreement and exempt them from global safeguards.

Support and enforcement of discipline-level commitments

The depth at the extensive margin increases when regional bodies and dispute settlement mechanisms exist at trade discipline-level because they support and enforce the liberalization commitments undertaken in their specific areas. This sub-section first discusses the responsibilities of regional bodies and other institutional mechanisms to support liberalization of the different areas covered in the agreement. Second, it discusses the strength and coverage of the dispute settlement mechanism of the agreement (when one is included).

In the case of regional bodies and support mechanisms, it is considered that they contribute more towards depth at the extensive margin the more attributes they have to guide, support and enforce the correct implementation of the provisions included in the agreement. These discipline-level institutions, as other complex international economic institutions, 'have the main purpose and effect of economizing transaction costs' and serve different objectives (Williamson, 1985: 17). In addition to reducing transaction costs, these institutions also increase the transparency and credibility of trade agreements (Hicks and Kim, 2010: 14). The role of these institutions and mechanisms is important, particularly in cases in which least developed members of

[98] 'Global injury' is a procedure to determine the degree and source of injury to domestic producers (Lynch, 2010: Kindle Locations 909-938).
[99] For example, in 2002 US exempted NAFTA partners and 80 developing countries from a 30% increase on steel imports tariffs (Lynch, 2010: Kindle Locations 183-188).

an agreement may not have the technical and/or financial resources to interpret and fulfil their commitments.

For example, in the area of technical barriers to trade, which requires high levels of expertise, agreements 'typically include provisions on cooperation, such as committees [...] Agreements may also provide for exchanges or twinning of regulators, standards bodies or conformance assessment agencies, to promote common norms or mutual recognition' (Heydon and Woolcock, 2009: 57-58). Regional institutions and support-level mechanisms at discipline-level may include a wide variety of responsibilities and with different degrees of delegation, from cooperation, to review and supervision, and finally, enforcement of the commitments in their corresponding area. The contribution of these institutions and mechanisms to the extensive margin increases with the level of responsibility that members of the agreement have delegated to them.

Dispute settlement mechanisms are considered to contribute relatively more to the extensive margin of an agreement the more autonomy from governments they possess and the larger the number of areas and disciplines they cover. Dispute settlement provisions in trade agreements are mechanisms 'through which a dispute between two or more parties to a trade agreement is settled in a proceeding conducted by an impartial outside entity on the basis of substantive standards and principles previously agreed to by those parties and stated in the treaty,' promoting transparency and credibility (IADB 2002: 91).[100] Although most trade agreements contain dispute settlement mechanisms, there is no consistency in their design (Chase, Yanovich, Crawford, Ugaz, 20013: 5). Dispute settlement mechanisms vary from vague instruments to more sophisticated and highly legalized instruments: 'some pacts are diplomatic, requiring only consultations between disputing states, but others invest standing judicial tribunals with the authority to issue prompt, impartial, and enforceable third-party rulings on any and all alleged treaty violations' (Smith, 2000: 138). Within these instruments, a wide range of variations exists in the binding status of the rulings, the ways in which compensation is determined, and the mechanisms to guarantee compliance with decisions made.

In addition, there is variation in the coverage between areas and disciplines within a single trade agreement (Lynch, 2010: Kindle Locations 646-659). Strong and

[100] For Latin American countries, dispute settlement mechanisms had also the function of locking in trade liberalization (IADB, 2002: 91). Lynch (2010: Kindle Locations659-700) argues that, in the interaction between developed and developing countries, these mechanisms compensate for weak and corrupt legal systems in the developing nations.

autonomous dispute settlement mechanisms, which cover commitments in all areas of a trade agreement, facilitate solutions to a dispute between members which are less influenced by the asymmetry of power between them or by the pressure from their respective import competing sectors. Therefore, trade agreements with strong dispute settlement mechanisms and which cover a larger number of areas and disciplines are considered as having more profound extensive margins than trade agreements with weaker mechanisms and/or which cover only few areas of the agreement.

Conclusions

This chapter presented the first step to build the dependent variables in this research: deep integration at the intensive and extensive margins. Because no consensual guidelines to conceptualize depth of trade integration exist in previous academic literature, the objective of this chapter was to develop a general categorization that captures the main general areas of variation of depth of trade integration. The definition of depth was used as a baseline to understand the areas of variation of deep integration. It was decided that extending the categorization of deep integration at the intensive and extensive margins suggested by the WTO was the most appropriate avenue to develop measures which would allow comparisons about levels of depth achieved in the agreements signed by countries, in this case, in the region of Latin America. Then, provisions relevant to the intensive margin were identified: type of trade agreement, decision power, institutional capacities, legitimacy, and permanency. These features are applicable to the trade agreement as a whole. In general, provisions at the intensive margin provide benefits which are less excludable than the ones generated by provisions included at the extensive margin.

Next, the provisions relevant to the extensive margin were identified. It is necessary to distinguish between provisions designed to promote regulations that are not an obstacle to trade flows, measures which limit governments' capacities to use reactive protectionist instruments when their domestic industries are being harmed, and mechanisms to support the implementation of these measures. In the first group, rules of origin, services, technical barriers to trade, competition policy, and government procurement were included. In the second group, anti-dumping measures, countervailing duties, global safeguards, and bilateral safeguards were included. In the final group, regional support bodies and coverage of dispute settlement mechanisms were included.

In Chapter 4, the categorization of the intensive and extensive margins analytically selected and extended in this chapter is tested by using principal component analysis. Over the analytical map developed in this chapter, the relevant provisions of trade agreements are characterized, operationalized, and measured, developing an original hand-coded database of 256 dyadic trade agreements and with a total of 110 data points (corresponding to the provisions of the different areas and disciplines discussed in this chapter).

4 Margins of deep integration: measurement and assessment

Assessing the depth of existing trade agreements is not a straightforward task. For example, the North American Free Trade Agreement (NAFTA) and the Mercado Comun del Sur (MERCOSUR) are considered the active drivers of trade integration in the region. MERCOSUR is the most important agreement between Latin American countries because of the size of the Brazilian and Argentinean economies. Although the NAFTA is usually considered the deepest agreement because of its high standards, the MERCOSUR is more profound in type, although it remains, in fact, an imperfect customs union.[101] Nevertheless, trade agreements have been traditionally analysed as undifferentiated units and only recently have studies begun to incorporate aspects of variation in their designs.

Chapter 3 extended the categories of the intensive and extensive margins of depth in trade agreements. However, besides distinguishing between these margins analytically, a method to measure their depth is required. The objective of this chapter is to present the operationalization, measurement, and empirical analysis which support the differentiation between margins and the analytical allocation of trade areas and mechanisms in each of them. In the first section, the methodological aspects that guided the collection of data, selection of analytical unit (directed dyads, rather than undirected dyads), and measurement of depth of the various provisions and features of trade agreements are discussed. In the second and third sections, the rationale underlying the construction of the templates to code and measure deep integration is outlined. The fourth section presents the results of the principal components analysis, which provides support for the analytical distinction between the intensive and the extensive margins in deep integration and for the allocation of the identified trade areas into their corresponding margins. The fifth section presents a broad overview of variations in deep integration in trade agreements established by Latin American countries. The last section presents the conclusions of this chapter.

[101] MERCOSUR includes also more specific objectives, such as the aims of creating a common market and coordinating macroeconomic policies, the construction of infrastructure, and the harmonization of industrial policy (Haggard, 1999).

Methodological approach to measuring deep integration

Data collection and measurements

The object of analysis in this research is trade agreements signed between Latin American countries and their regional and global partners from 1982 to 2010. There are other selection aspects: the schemes analysed are concrete and may be established by countries that are geographically related or not. Regarding scope, this research focuses on agreements which liberalize, or at least aim to liberalize, most of the trade between their members. Finally, trade agreements are analysed in isolation of other trade institutions.[102] The dependent variables in this research comprise the texts of all reciprocal trade agreements established by all Latin American countries from 1982 to 2010 towards the liberalization of goods and services for which data is available.

To measure deep integration in Latin American trade agreements, several issues must first be addressed. These issues are not exclusive to this research, as they have already been acknowledged by Wignaraja, Ramizo, and Burmeister (2013).[103] They mention the following four problems. First, a significant number of agreements have not yet attracted substantive academic attention because they have been signed only recently. Second, gathering the texts of the trade agreements can be problematic, as parts of the agreements are often unavailable in the public domain. Third, when available, the agreements may not be in English. Fourth, 'detailed and often painstaking examination of legal texts of agreements' is unavoidable (Wignaraja, Ramizo, and Burmeister, 2013: 2). Finally, an accepted international methodology to evaluate deep integration in trade agreements does not exist. An additional issue identified in this research is that often, the signed agreements are replaced by their amended or updated versions, making it more complicated to gather the original versions of the agreements.

Although, in practical terms, coding provisions in directed rather than undirected dyads increases the effort and time required for this phase of the research considerably, it was considered crucial for the purposes of this research. A common

[102] In the sake of parsimony, following other studies about design of trade agreements (e.g. Koremenos, Lipson, and Snidal, 2001a, 2001b), preferential agreements are considered in isolation of other trade institutions.

[103] These issues are shared by Wignaraja, Ramizo, and Burmeister (2013), whom have provided a measure of deep integration in Latin American agreements established with Asian partners. To the best of my knowledge, this is the only study which has attempted to measure deep integration in specific Latin American trade agreements.

approach to the study of trade agreements is to consider the dyad as the unit of observation (e.g. Baccini, Dür, and Elsig, 2012a). Dyads are formed by two countries that establish a trade agreement with each other or with other partners.[104] In this research, directed dyads are chosen because trade agreements often have separate provisions for each member country. Therefore, the use of undirected dyads may misrepresent depth as unified when in reality it is not. For example, Article 106 of the Free Trade Area established between Chile and the European Free Trade Association (EFTA) allows provisional implementation of the agreement before its ratification for the countries of the EFTA but not for Chile. Failure to acknowledge variations in trade agreements in a study that intends to explore such variations can create serious problems for the validity of the analysis. Furthermore, the arbitrariness in deciding which partner's provisions to generalize and apply to the other members of an agreement without any theoretical guidance is problematic and may jeopardize the validity of the measurements.

As explained previously, each of the intensive and extensive margins includes measurements of relevant provisions and features that contribute to the removal of trade barriers to different degrees between the members of an agreement. To guide the collection of data related to provisions which promote deep integration in trade agreements, previous studies (e.g. Piermartini and Budetta, 2009; Hicks and Kim, 2010; Baccini, Dür, Elsig, and Milewicz, 2011; WTO, 2011) that mapped variations in specific areas of trade agreements were used as references. Because of the amount of resources and time required, the approach here, as in other studies,[105] is general rather than product/industry specific. Indicators of depth in the different aspects relevant to each margin were built and re-scaled.[106] To maintain as much

[104] A second clarification refers to groups of countries that sign a trade agreement with other country or countries. In this research they are considered as a single actor only when the countries that belong to the group do not have the possibility (on their own) to veto the signature of the agreement or do not require ratification by their respective domestic legislatures. There were no cases with these conditions in the sample of dyadic agreements studied in this research.

[105] For example, Roy (2011) mentions that this approach does not distinguish between partially or fully binding commitments. Nevertheless, in the study of services, it allows a straightforward assessment of the number of sectors where commitments exist.

[106] Re-scaling the scores within the range [0,1] facilitates comparing different agreements and areas; and it is also a requirement for performing a valid principal components analysis in this chapter. The lowest and highest scores correspond to the lowest and highest levels of deep integration achieved in each of the measured aspects.

variation as possible as in the original data, the scores for each of the margins were constructed as factor sum-based scores.[107]

Finally, principal components analysis was considered as an appropriate method for testing whether the indicators load accordingly to the categorization of the intensive and extensive margins developed in Chapter 3. Principal components analysis is particularly useful for matching a group of correlated variables with a reduced group of variables. The method is also useful for interpreting 'the underlying structure of the data in terms of the most important principal components' (Bartholomew, Steele, Galbraith, and Moustaki, 2011: 117). This second aspect is the most relevant for understanding the structure of the data and testing whether such a structure is compatible with the characterization of intensive and extensive margins.

Measurement of depth at the intensive margin

As discussed in Chapter 3, the main criterion for classifying trade provisions and areas that have been identified in other studies as corresponding to either the intensive or the extensive margin is to consider whether these provisions and areas regulate aspects of the whole agreement or add specific areas and disciplines to it. The capabilities and nature of the institutions of a trade agreement influence the intensive margin in a trade agreement. Institutions constitute the main structure of rules and expectations within which provisions are designed, selected, and implemented (IADB 2002: 87). The following features are included: legitimacy requirements for entry into force and further amendment; permanency of the agreement; type of agreement and decision power, and institutional capacities.[108] In

[107] To compute factor sum-based scores, all items loading in a factor are added. The drawback of this approach is that all scores are added in a factor score giving them equal weight, regardless of the weight with which they load in each factor (DiStefano, Zhu, and Mindrila, 2009: 3). Nevertheless, this drawback was considered outweighed by the following two considerations. The first and most important reason refers to the appropriateness of the analysis. According to Fidell and Tabachnick (2006) this method is the most desirable to maintain the variation in the original data. Since the main motivation of this research is to study the reasons of variation of deep integration between trade agreements, preserving said variation is important. The second reason is that Hair, Black, Babin, Anderson, and Tatham (2006: 140) mention that the use of factor sum-based scores is considered to be the most adequate when the scales for coding the original data have been newly developed. Also, this method is considered appropriate when a simple structure of components exists (DiStefano, Zhu, and Mindrila, 2009: 3).

[108] Hicks and Kim (2010: 40) include these administrative and institutional features as part of the category of depth of coverage. However, in this research these administrative and institutional features are considered to qualify intensive depth. The reason is that said features are characteristics of the institutional structure of trade agreements, not additional policies that extend the coverage of trade agreements.

the rest of this section, building on the categories and features identified in Chapter 3, the relevant provisions are coded, operationalized, and measured. The score of the intensive margin is a factor-based sum score within the range [0,1] in which the highest values correspond to the highest values achieved in the trade agreements in the sample.

Agreement types, decision power, and institutional capacities

As discussed in the previous chapter, considering only type of agreement is a useful simplification to evaluate the depth of trade agreements. The measurements in Table 4.1 show the intensive margin to be deeper in trade agreements with broader mandates. This characterization and measurement of depth is based on the standard method of measuring the depth of trade agreements according to their type,[109] with a few modifications to theoretically fit the conceptualization of trade agreements used in this research.[110] In addition, the existence and nature of follow-up mechanisms to the decisions taken by these institutions also influence their level of depth. For

[109] Type of trade agreement and its decision power is a composite variable which incorporates type of agreement, and how binding its decisions are. To operationalize the depth of different types of trade agreements this research uses an arbitrary scale as is usual in academic literature about trade agreements (e.g. Tamames, 1995; Rugman and Hodgetts, 2001; Mansfield, Milner, and Pevehouse, 2007; Mansfield and Milner, 2012). The minimum value is one for the agreements with the least institutional depth, which are free trade agreements. The maximum value is four for the agreements with the most profound institutional depth, which are economic unions. The value assigned to the rest of types of trade agreements can be found in Table 4.1. In the first group, preferential trade agreements and free trade agreements have minimal institutional requirements for liberalization. Preferential trade agreements are the less ambitious agreements. Members grant mutual preferential market access without establishing a program for further integration and the most favoured nation clause is not applied. In a free trade area the members eliminate tariffs and border measures to each other in all or almost all products remaining autonomous concerning the formulation of trade policy and definition of tariffs to third countries. Free trade agreements give members access to each other in all or almost all products but retain their independent external tariffs, and require the establishment of rules of origin. In the second group, customs unions and common markets require the creation of institutions for trade policy coordination. In customs unions, partners eliminate all tariffs and rules of origin, define a common external tariff for non-members and the qualitative norms applied to them, and define a common mechanism for tariff collection and distribution. In common markets, factor mobility (including labour) is allowed, trade barriers are eliminated between members, and a common trade policy is defined losing individual ability to use it in response to crises. The creation of a common market requires the creation of a custom union in first instance. Finally, the third group requires the creation of institutions for unification certain economic policies. In a monetary union a common currency and a central bank are incorporated while, in an economic union members share also economic and fiscal policy.

[110] As discussed in Chapter 3, preferential trade agreements with partial scope are not considered qualitatively in the same category as the rest of the agreements in Table 4.1. Also, in this research agreements with follow-up mechanisms and agreements which resolutions are explicitly binding are considered as having deeper intensive margins than agreements which lack such mechanisms.

example, it is worth considering whether a customs union with non-binding resolutions, such as MERCOSUR, can be considered to have the potential to achieve a deeper intensive margin than a free trade area that has more developed (although not perfect) mechanisms in place to ensure that the resolutions of its administrative bodies are enforced, such as NAFTA. Furthermore, considering only the type of trade agreements is too generic[111] for assessing variations in the depth of the agreements established by Latin American countries and their global and regional partners since most of them are free trade agreements (see Appendix A).

The template used to assess institutional capacities expands their corresponding categories in studies of and reports on trade agreements (IADB, 2002: 88; Hicks and Kim, 2010: 14). [112] Minimum depth corresponds to agreements in which an institution's mandate includes only the promotion of cooperation, and maximum depth corresponds to agreements in which an institution's powers include that of modifying trade-related provisions.[113] The values assigned to the rest of the identified capacities in academic literature on trade agreements can also be found in Table 4.1, below.

[111] For example, the IADB (2002: 88-89) places several Latin American trade agreements' institutional structures between the intergovernmental and supranational extremes of institutionalization, irrespective of their type. NAFTA and MERCOSUR are closer to the intergovernmental model; while the AC and the CACM are closer to the supranational model.

[112] Institutional capacities are loosely based on the categorization of 'formal institutions' developed by Hicks and Kim (2010). The authors divide formality of institutions into four categories: no formal institutions, formal institutions, formal institutions with suggestion and recommendation powers, and formal institutions with decision powers. Provisions are ordered as in Table 4.2. This research adds the following categories. First, whether the areas over which decision powers are applied are defined or not. This aspect is important because, even when decision power is mentioned, it is not a clear improvement over suggestion or recommendation powers when there is no clarity about the areas covered, or about the form that decisions can take. Second, institutional capacities may range from general cooperation, supervision, and decisions about administrative aspects of the agreement, to decisions over trade related aspects (e.g. tariff phasing, rules of origin, etc.). Institutional capacities are assessed as relatively deeper when they include administrative and operational aspects, and deepest when they also include trade areas.

[113] The measure of institutional capacities is calculated using an additive increasing score. The reasons are that when trade related decisions are included, administrative decisions, supervision and cooperation are also included. Also, when institutions can take administrative decisions, supervision and cooperation are also included. Finally, when institutions include supervision, cooperation activities are also included.

Table 4-1 Trade agreements' type, decision power, and capacities

Which *type of trade agreement* is in place?
FTA = 1
Customs Union=2
Common Market =3
Monetary Union =4
Economic Union =5
How *binding are decisions* taken at the highest institutional level of the agreement?
Not binding (or not mentioned) = 1
Follow up mechanism/process in place = 2
Binding decisions explicitly stated = 3
Institutional capacities
Do the institutions state the promotion of *cooperation*?
Cooperation (Yes = 1; No = 0)
Can the institutions *supervise* the agreement?
Supervision (Yes = 2; No = 0)
Can the institutions make *administrative* decisions about the operation of the agreement?
Administrative decisions (Yes = 3; No = 0)
Can the institutions make *trade-related decisions*?
Trade-related decisions (Yes = 4; No = 0)

Source: Elaborated by the author.

Legitimacy and permanency

Agreements with procedures which require a higher level of legitimacy prior to entering into force and being amended are considered as having higher depth in their intensive margins.[114] As in the previous chapter, institutions which require a higher level of legitimacy have more credibility and are better able to execute their functions as they face pressure from interest groups (IADB: 2002: 89-90). For example, the

[114] Two levels of strength, concerning ratification, are usually considered in literature (e.g. Hicks and Kim, 2010): agreements which go into force when signed, and those which require previous ratification. This research also considers other procedures which agreements may follow before entering into force (distinguishing between levels of legitimacy). Three aspects are considered to measure this category: legitimacy for entry into force; legitimacy of future amendments; and whether provisional application is allowed. Trade agreements that require ratification by all parties are considered deeper than the ones that go into effect just after their signature. Also, agreements which require ratification of amendments are deeper than the ones that only require the agreement of their members. Finally, compared to agreements which do not allow their provisional application (before it is approved or ratified), agreements which allow it are consider as having less depth in their intensive margin. The reason is that agreements which allow its provisional application also give more discretion in its implementation to the executive.

IADB defined one of the problems which have prevented the correct operation of several of the Central American Common Market's (CACM) institutional structures[115] as the lack of 'sufficient legitimacy to override the interests of the countries and private players' (IADB, 2002: 90). The templates used to measure legitimacy have been expanded and adapted from measures developed in academic studies to analyse credibility in trade agreements and their isolation from interest groups (IADB 2002; Hicks and Kim, 2010). A detailed description of the categories and scores is included in Table 4.2. In general, the highest scores are given to agreements which require the highest level of legitimacy to enter into force and to make amendments;[116] they are also given to agreements which do not allow provisional application prior to having satisfied specific legal requirements.

The permanency of an agreement also increases its intensive margin. An agreement that has to be renewed periodically may call into question the achieved depth of the trade agreement, as mentioned in the previous chapter. The template used to assess the permanency of a trade agreement was also adapted from Hicks and Kim (2010).[117] The categories and scores can be found in Table 4.2, below.

Table 4-2 Legitimacy and permanency

After signing the agreement, are there *additional requirements* in place before the agreement can *enter into force*? Are *reservations* allowed after signing the agreement?
Agreement goes into force when signed (0)
After signature, satisfaction of domestic legal procedures is required (1)
After signature, satisfaction of domestic legal procedures is required and no reservations are allowed (2)
After signature, ratification by the legislature is explicitly required (3)
After signature, ratification by the legislature is explicitly required and no reservations are allowed (4)
Is *provisional application* allowed before concluding when legal domestic processes are required?

[115] The report mentions the CACM's following institutional structures: Meeting of Presidents and Councils of Ministers, the Central American Court of Justice, and the Secretariat of Economic Integration.

[116] In this research, the amendment category is also extended. Amendments may require domestic ratification (more legitimacy), or they may only need the approval of an administrative commission (less legitimacy). Table 4.2 reports the categories and their assigned scores. It follows that amendment processes which require relatively more legitimacy, may also contribute relatively more to the credibility of the agreement.

[117] Provisions about withdrawal have been considered to influence the strength of a trade agreement and its credibility. Hicks and Kim (2010) mention that renewal 'gives an easy way out to politicians' when fulfilling the agreed commitments is not politically convenient any more. In contrast to the measures developed by the authors, in this research, ratification, renewal and amendment are considered to be qualitatively distinct aspects and are separated into distinct categories.

Provisional application allowed (Yes =0; No = 1)
Are there legitimacy requirements in place to *amend* the agreement?
No amendment process mentioned (0) Amendments have to be agreed by all parties (1) Amendment approved by an administrative commission (2) Amendments have to go through domestic ratification process (3)
Permanency
Does the agreement requires to be *renewed*?
After a given number of years, parties should agree to renew the agreement (1) After a given number of years, renewal is automatic unless one party opts out (2) Agreement continues in force until one party withdraws (3)

Source: Elaborated by the author.

Measurement of depth at the extensive margin

To analyse the extensive margin of trade agreements, the coverage of different trade-related measures is considered. The first aspect includes the trade disciplines covered, differentiating between provisions which remove obstacles or facilitate trade and those which limit the reactive use of protectionist measures by governments in response to negative external incentives. The second aspect includes the strength of the mechanisms designed to support and/or enforce the implementation of the disciplines covered. In this research, the inclusion of these mechanisms is considered to likely increase the effectiveness of the measures.

Coverage of trade areas

This indicator covers the main provisions of each trade area and/or discipline in which members remove obstacles to trade between them. The measurements of coverage of trade-related areas and disciplines and the criteria used to assess their depth are based on indicators developed in academic literature specific to each area.[118] In most cases, these indicators were expanded or adapted to capture deep integration in that specific area. The measurements and criteria for measuring each area can be found in Table 4.3. First, as explained in the previous chapter, regime-wide variations of rules of origin take place along three main lines: *de minimis*,

[118] In contrast with other studies, number of meetings is not included in this research. Hicks and Kim (2010: 14) argue that because regularized meetings decrease transaction costs among the members of an agreement, and facilitate transparency, the number of meetings contributes to an agreement's credibility. However, in this research it is considered that with no information about the content discussed, or the agreements reached in said meetings (if any), their influence over deep integration is unclear.

cumulation, and certification. Provisions in this area are deeper as they facilitate trade between members.[119] Second, the area of services attains the highest level of deep integration when most favoured nation and national treatment requirements are included, and when all sectors (telecommunications, financial services, cross border services, and maritime services) are substantially covered (Baccini, Dür, Elsig, and Milewicz, 2011).[120] Third, the deeper technical barriers to trade are, the better they fulfil the objective of decreasing opportunities for discrimination (Heydon and Woolcock 2009; Piermartini and Budetta 2009; Hicks and Kim, 2010; Baccini, Dür, Elsig, and Milewicz, 2011).[121] Fourth, provisions in the area of government procurement are considered relatively deeper the less space they allow for governmental discrimination (Heydon and Woolcock, 2009; Teh, 2009; Rickard and Kono 2011).[122] Fifth, provisions in the area of competition are considered relatively deeper the larger the number of anti-competitive practices they regulate (Solano and Sannekamp, 2006; Teh, 2009).[123]

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[119] In this research, although restrictiveness indices are not directly used, the logic underlying the construction of the index developed by Estevadeordal, Harris and Suominen (2009) is maintained. Agreements are considered relatively deeper when they include de miniminis rules, extended cumulation, and interested party certification. Existing indexes which calculate the stringency of rules of origin (e.g. Estevadeordal, Harris and Suominen, 2009) cover a small number of the agreements in this research. Also, Lynch (2010: Kindle Locations 731-756) points out that the wide variation in the requirements and flexibility applicable in different products and sectors limits the plausibility of generalization from a restrictiveness index to a trade agreement as a whole.

[120] Provisions about services are not identified at each sector's level in this research. Baccini, Dür, Elsig, and Milewicz (2011: 17) mention that identifying with great detail provisions at services' sector's level is usually not feasible. The reasons are the existence of a large number of sub-sectors (more than 150, according to the WTO) across different modalities (cross-border supply, consumption abroad, commercial presence, and movement of natural persons). The authors also mention that, for said reasons, studies which analyse services in trade agreements (e.g. Roy, Marchetti, and Lim, 2006; Heydon and Woolcock, 2009) usually restrict their scope to few agreements or few sectors, and specific modes of supply.

[121] Standards, harmonization and conformity assessments are included in this research. It is differentiated whether mutual recognition exists, and whether it is in force or it is scheduled. Piermartini and Budetta (2009) provide the most comprehensive study about technical barriers. The authors study technical barriers in 70 agreements. The provisions mapped refer to the integration approach, administration, resolution of disputes, and cooperation.

[122] Agreements are relatively deeper when they include tendering principles (including non-disclosure of confidential information), information on intended procurements (including technical specifications), treatment of tenders, and awarding of contracts.

[123] Competition provisions have different levels of depth (Brusick, Alvarez, Cernat, 2005). This research follows Solano and Sannekamp (2006) in emphasizing the (general or explicit) inclusion of areas of non-discrimination. Solano and Sannekamp (2006: 8) mention that: 'some RTAs checked in this column [anti-competitive practices] may go as far as declaring that such anticompetitive arrangements are incompatible with the RTA in question [...] Some may only have a general mandate that the parties shall adopt measures to proscribe anticompetitive arrangements, while others may include specific examples of anticompetitive practices that are to be proscribed.' Few trade agreements have provisions on mergers and acquisitions. Teh (2009: 476) mentions the Canada-Costa Rica trade agreement as one of these agreements.

Table 4-3 Coverage of trade areas

Does the agreement include substantive provisions regarding *non-tariff barriers*?
Bilateral cumulation (+1)
Extended cumulation (+1)
Third party certification (+1)
Interested party certification (+2)
Does the agreement include substantive provisions in *services*?
Financial services (+1)
Telecommunication services (+1)
Maritime transport services (+1)
Cross border services (+1)
National treatment (+1)
Are harmonization/mutual recognition scheduled or in force in the following *technical barriers to trade*?
Conformity assessment (+1)
Technical regulations (+1)
Standards (+1)
Does the agreement include substantive provisions in *government procurement*?
Information on intended procurements includes technical specifications (+1)
Limited tendering is regulated (+1)
Treatment of tenders and awarding of contracts is clearly stated (+1)
Does the agreement include substantive provisions in *competition*?
Regulation of concerted practices, unfair business practices (+1)
Regulation of abuse of market dominance (+1)
Regulation of undertakings with special or exclusive rights/state enterprises (+1)
Regulation of state aid/subsidies (+1)
Regulation of mergers and acquisitions (+1)
Regulation of monopolies (+1)

Source: Elaborated by the author.

Limits to reactive protectionist instruments

In the case of bilateral and global safeguards and antidumping and countervailing duties, provisions are considered deeper the more they limit the use of these measures by governments, which face external shocks or damage from unfair trade practices. Details can be found in Table 4.4, but in general, in the case of global and bilateral safeguards, relatively deeper agreements are those which place more restrictions on the use of global and bilateral actions, respectively. In the case of antidumping and countervailing duties, relatively deeper agreements are those which place more restrictions on their use and require the mutual agreement of their

members (Teh, Prusa, and Budetta, 2009; Hicks and Kim, 2010; Prusa and Teh, 2010; Baccini, Dür, Elsig, and Milewicz, 2011).[124]

Table 4-4 Limits to the use of reactive protectionist mechanisms

Does the agreement include substantive provisions in regulating *antidumping measures*?
Allowed with no specific provisions (0)
Allowed with specific provisions (1)
Allowed with specific provisions and mutual acceptable solution (2)
Disallowed (3)
Does the agreement include substantive provisions in regulating *countervailing duties*?
Allowed with no specific provisions (0)
Allowed with specific provisions (1)
Allowed with specific provisions and mutual acceptable solution (2)
Disallowed (3)
Does the agreement include substantive provisions in regulating the application of *bilateral safeguards*?
Allowed with no specific provisions (0)
Allowed with specific provisions (1)
Duration of no more than four years is clearly stated (+1)
Conditions for compensation clearly stated (+1)
Conditions for retaliation clearly stated (+1)
Regulation of allowed measures (suspend concessions, tariff reduction or revert to MFN) (+1)
Duration and amount just to the extent to facilitate adjustment stated (+1)
Mutually acceptable solution stated (+1)
Allowed only during transition period (+1)
Allowed whenever there is injury to domestic industry (+2)
Disallowed (+2)
No provisional measures allowed (+1)

[124] As with other areas in this chapter, to the best of my knowledge, no study has classified provisions about trade defence instruments according to their contribution to deep integration. To build this indicator, mappings in the studies mentioned above were consulted, and the relevant provisions to assess each area were coded and measured.

Does the agreement include substantive provisions in regulating the application of *global safeguards?*
Members are excluded from global action under WTO (+1)
Members are excluded from global action when the share of imports is not substantial
-Clear definition of substantial share: Joint exports or top five exporters (+1)
-Clear definition of substantial share: Joint exports definition 80% (+1)
Members are excluded from global action when the share of imports does not represent a serious injury or threat (+1)
-Clear definition of serious injury (+1)

Source: Elaborated by the author.

Discipline-level support and enforcement mechanisms

Discipline-level support and enforcement mechanisms are considered to increase the depth at the extensive margin of trade agreement. Because they support/enforce specific disciplines rather than the whole agreement, they are coded separately. Trade agreements are deeper when they establish regional bodies or other institutions to support the various trade commitments included in a trade agreement. The depth of such mechanisms is measured according to their attributions and capacities identified in several studies (Ortiz Mena L.N., 2001b; Hicks and Kim, 2010; Baccini, Dür, Elsig, and Milewicz, 2011).[125] Along similar lines, stronger dispute settlement mechanisms are considered deeper than weaker mechanisms.[126] In general, these mechanisms are considered relatively deeper the more areas they cover and the more autonomous they are regarding the governments of the countries participating in the agreement. Table 4.5 presents the operationalization of these provisions and the values assigned to them.

[125] In order of depth the attributions and capacities measured are the following: no institutions exist; institutions facilitate cooperation; institutions review the implementation of the agreement; and finally, institutions have also enforcement capabilities.

[126] In this research, agreements are considered as relatively deeper when there is a clear dispute settlement process and when commitments are not restricted to a 'best endeavour' basis. First, it is considered whether the dispute settlement mechanism is allowed for each of the trade areas included in the agreement. Full coverage is assigned with a higher score than partial coverage. Second, the selection of sanctions, whether sanctions are binding, and the process for determining compensation are coded and measured.

Table 4-5 Discipline-level enforcement and support mechanisms

Are there regional bodies, committees or other *mechanisms to support* the liberalization of the following areas (each area measured separately): services, technical barriers to trade, bilateral safeguards, competition, government procurement?
No existence or not mentioned (0) Facilitation of cooperation (1) Review of implementation (2) Enforcement (3)
Are there *dispute settlement mechanisms* to enforce the provisions of *each trade area* and facilitate the solution of controversies among members?
No coverage (0) Partial coverage (0.5) Complete coverage (1)
Are resolutions of the dispute settlement mechanism *binding*?
No existence or not mentioned (0) Not binding (1) Binding with possibility of appeal (2) Binding with no possibility of appeal, but no possibility to make comments on the draft of the decision (3) Binding with no possibility of appeal, but possibility to make comments on the draft of the decision (4)
How is the amount of *compensation* determined?
Not mentioned (0) Determined by contracting party with no guidelines (1) Determined by contracting party with guidelines (2) Determined by formal arbiters (3)
Are there mechanisms to follow up *compliance* of resolutions?
Not mentioned (0) Follow up of compliance with no guidelines (1) Follow up of compliance with guidelines (2)

Source: Elaborated by the author.

Margins of deep integration: empirical assessment

In the previous section, several categories of provisions thought to contribute to deep integration were measured. Building on the measurements presented in the previous subsection, this section contains two main objectives. First, to extract what is common to the different measurements of depth to disaggregate the concept of deep integration. Second, to provide support to the analytical allocation of provisions and areas in each margin. The aim of this analysis is to test whether the underlying structure of the data fits the categorization of deep integration at the intensive and extensive margins. As expected, the principal components analysis highlighted the

existence of two main components which correspond to the intensive and extensive margins of deep integration.

Principal components analysis was selected as an adequate method for exploring the structure of deep integration in the trade agreements signed by Latin American countries. The main reasons are based in the work of Pallant (2010: 181) and Bartholomew, Steele, Galbraith, and Moustaki (2011: 117). First, it is an appropriate method for correlated metric variables. Second, deep integration provisions and measures included in trade agreements have complex patterns of interrelationship, and principal components analysis can elucidate their underlying structures. Third, it provides a basis for building factor-based scores and replacing a large set of variables with a relatively more manageable number of them. In addition, compared to other approaches which also elucidate the main components of the structure of data, principal components analysis has two advantages. It is the most widely used approach (Pallant, 2010: 183), allowing comparisons with future studies and facilitating the aggregation of knowledge. Second, this analysis allows retaining most of the variations in the data (Bartholomew, Steele, Galbraith, and Moustaki, 2011: 118).[127] This reason is particularly important given that this research analyses the variation of form and levels of deep integration in preferential trade agreements.

Prior to performing principal components analysis, the suitability of the data for the analysis was assessed. The six indicators constructed in the previous section (decision power, scope of decision making, legitimacy, coverage of discipline level measures, coverage of limits to the reactive use of protectionist measures, and mechanisms to support and enforce discipline-level commitments) were subjected to principal components analysis using SPSS version 18. First, the sample size and ratio of cases to components[128] were verified to be adequate, based on the recommended criteria for performing this type of analysis. Second, it was confirmed that the Bartlett's test of sphericity and the Kaiser-Meyer-Olin measure of sampling adequacy

[127] Bartholomew (2011: 117) also mentions that in principal components analysis the importance of the components is determined by their contribution to explaining variance, rather than to their contribution to another statistic (such as the Pearson's chi-squared statistic in correspondence analysis). Another popular approach to understand the structure of a set of variables is factor analysis. However, Pallant (2010: 181-182) points out that 'factors are estimated using a mathematical model whereby only the shared variance is analysed' while in principal components analysis, all the variance is used.

[128] The sample size (256 dyadic agreements) is above 150 cases which is considered a small sample size. Also, the ratio of cases (256) to components (2) is above the recommendations of 10 to 1 ratio and 5 to 1 ratio mentioned by Pallant (2010: 181-182).

had the appropriate values.[129] Inspection of the correlation matrix revealed the presence of many coefficients of a value of 0.3 and above. The Kaiser-Meyer-Olin value was 0.643, exceeding the recommended minimum value of 0.5 (Field, 2013), and Bartlett's test of sphericity reached statistical significance at 0.001, also exceeding the recommended value of 0.05 (Pallant, 2010: 183), supporting the factorability of the correlation matrix.

Several criteria recommended in literature were followed in the decision to retain the first two components: proportion of variance explained, eigenvalues, and examination of the scree plot.[130] The objective when selecting the number of components is to retain the minimum number of components that explain most of the variation in the data. Principal components analysis revealed the presence of two components with eigenvalues exceeding one. The two components explain 70% of the variance, with Component 1 contributing 42% and Component 2 contributing 28%. An inspection of the scree plot in Figure 4.1 revealed a clear break after the second component, which supported the decision to retain the two components.

To help interpret these two components, direct oblimin rotation was performed. This oblique (non-orthogonal)[131] rotation method was selected because the components refer to aspects of the same concept, deep integration, and it is important to maintain the correlation between the components. The rotated solution also revealed the presence of a structure of the two components, with both components showing a number of strong loadings and all variables loading substantially (above 0.4) on one of the two components (see Table 4.6 below for the main results and Appendix B for the detailed results).

The two components contrast one subset of the variables with another subset. The relative strength with which a variable loads on one component represents its relative contribution to that component (Bartholomew, Steele, Galbraith, and Moustaki, 2011: 124), and the variables with higher loadings in a component are key to their interpretation (Pallant, 2010: 181-182). To interpret these components, it is also useful to consider what each subset of variables has in common with another (Bartholomew, Steele, Galbraith, and Moustaki, 2011: 118). The first component

[129] The Bartlett's test of sphericity and the Kaiser-Meyer-Olin measure of sampling adequacy are generated by SPSS to assess the appropriateness of the data for the analysis.

[130] Bartholomew (2011) also recommends selecting components with eigenvalues larger than one; selecting components which explain a large proportion of the variation, and identifying the 'elbows' in a scree plot which correspond 'to the point after which the eigenvalues decrease more slowly' and marginally explain more variance (124).

[131] The axes of the components are positioned at right angles in orthogonal rotations (Bartholomew, 2011: 119).

distinguishes categories of provisions which apply to specific disciplines and trade areas from those which apply to the whole agreement, in other words, categories of provisions which are applied to the area/discipline level at one end, and categories of provisions which are not applied to the area/discipline level at the other. At the extreme of high factor loadings, it is possible to find coverage of disciplines and trade areas, coverage of limits to reactive mechanisms, and support and enforcement mechanisms at discipline level. At the extreme of low factor loadings, it is possible to find scope of institutional capacities, decision power, and legitimacy.

In contrast with the first component, the second component distinguishes categories of provisions which apply to the whole agreement from those which apply to specific disciplines and trade areas. The second component also explains a large degree of variance in scores of deep integration but from a different perspective. On the extreme of high factor loadings, it is possible to find scope of institutional capacities, type of agreement and decision power, and legitimacy, whereas on the extreme of low factor loadings, it is possible to find coverage of disciplines and trade areas, coverage of limits to reactive mechanisms, and support and enforcement mechanisms at the discipline level.

The main objective of performing principal components analysis on the set of categories of provisions developed analytically in the previous chapter is to verify their correspondence to the margin to which they were analytically allocated. Nevertheless, to aid interpretation, the signs of the variables were considered in each component. In the first component, corresponding to provisions at discipline-level, the scope of institutional capacities shows a positive sign, whereas decision power and legitimacy have negative signs. Possible explanations are that on the one hand, to deal with the inclusion of deeper provisions at the discipline and trade area levels, the institutions of a trade agreement must manage more complex tasks, and therefore, the scope of their areas of decisions also broadens. On the other hand, it is possible that at higher levels of coverage of provisions at the discipline level, more economic interests may be affected; therefore, governments prefer to retain more autonomy and discretion to face possible problems.

In the second component, corresponding to provisions at the agreement level, coverage of disciplines and trade areas, support and enforcement institutions at discipline level, and legitimacy have a negative sign, whereas coverage of limits to reactive mechanisms, decision power, and scope of institutional capacities have a positive sign. Possible explanations are similar to the ones suggested above. First, governments may face a trade-off between building a robust trade agreement with

strong decision power and wide coverage of institutional capacities on one hand and building one with high legitimacy on the other hand. Although both features contribute to building a robust trade agreement, governments may prefer to retain some discretion and autonomy in at least one of these areas. For example, when signing an agreement which heavily constrains their decision-making powers over a trade area, governments may prefer to retain their ability to renew the agreement after a certain number of years or to amend it without the need of ratification in case their circumstances or preferences change over time.

Second, governments' decisions to retain less discretion and autonomy may also be reflected in the establishment of limits to their capacity to react and impose protectionist measures when their domestic industries are being harmed. Third, signing an agreement with a wide coverage of disciplines and trade areas and/or creating strong support and enforcement mechanisms at the discipline level requires considerable resources. Since governments have limited resources, they may also face a trade-off in the allocation of said resources. Finally, when including strong support and enforcement institutions at the discipline level, governments may consider it unnecessary to create robust institutions at the level of the whole trade agreement. Although the study of the relationships between the different categories of provisions is beyond the scope of this thesis, these relationships constitute an interesting area for further analysis.

From this analysis, it is possible to conclude that depth may not be captured adequately by a single dimension. Furthermore, there is a difference between provisions that apply to trade agreements as a whole and provisions that apply to specific disciplines and trade areas. First, variables analytically categorized as corresponding to the extensive margin (coverage of disciplines, coverage of limits to reactive protectionist mechanisms, support and enforcement mechanisms at discipline level) loaded strongly on Component 1. Second, variables categorized as corresponding to the intensive margin (decision power, scope of decision making, and legitimacy) loaded strongly on Component 2. There was a weak positive correlation between the two factors ($r= 0.07$). The number of components and their interpretation were consistent with the characterization of the intensive and extensive margins in trade agreements suggested in the previous chapter. The results of this analysis also support the analysis of intensive and extensive margins as different aspects of deep integration, which is presented in the following chapters.

Figure 4-1 Scree plot of eigenvalues in components of deep integration

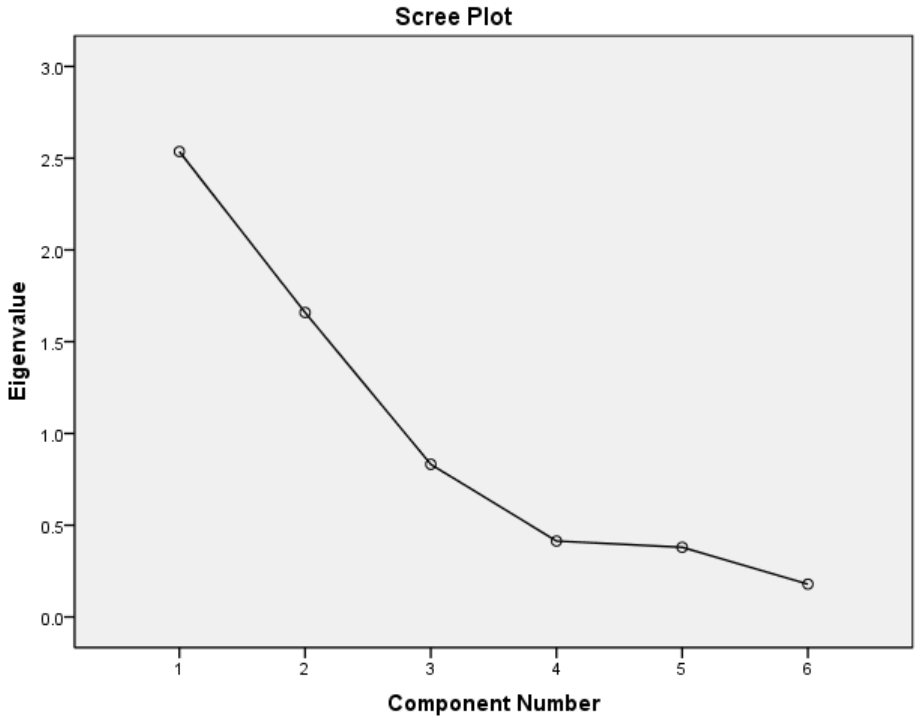


Table 4-6 Pattern and structure matrix for principal components analysis with oblimin rotation of two factor solution of depth of provisions items

Item	Pattern coefficients		Structure coefficients		Commu-nalities
	Compo-nent 1	Compo-nent 2	Compo-nent 1	Compo-nent 2	
Discipline coverage	0.936		0.930		0.872
Discipline support bodies/mechanisms	0.851		0.867		0.728
Discipline reactive coverage	0.853		0.844		0.792
Institutional capacities		0.617		0.643	0.532
Decision power		0.872		0.852	0.798
Legitimacy		-0.688		-0.688	0.474

Note: The main results are presented in this table. Only the substantial loadings (above 0.4) are included here. The complete results are reported in Appendix B.

Overview of deep integration in Latin American trade agreements

This section provides an overview of the depth of the agreements signed by Latin American countries after 1982 and until 2010, highlighting existing variations of the

nature and levels of deep integration at the intensive and extensive margins of each agreement and between trade agreements. These variations are illustrated by comparing the average proportions of depth at the extensive and intensive margins, average overall depth, and patterns and variability of distributions of scores in each margin. An overview of the variations is presented in Figures 4.2 to 4.3, and the scores can be found in Appendixes C and D.

The average scores that trade agreements attained at the extensive and intensive margins provide an overall picture of the depth of their commitments in each of the said margins. This overview allows a broad identification of those agreements that best promote deep integration in their legal texts. After adding the average scores of extensive and intensive margins for each agreement, the maximum score that each agreement can attain is six and the minimum score is zero.[132] On one hand, the highest extreme of six would correspond to the hypothetical case in which all the members of a trade agreement have obtained the highest scores in each margin relative to the ones obtained by members in the other agreements analysed. On the other hand, the lowest extreme of zero would correspond to the hypothetical case in which all the members of a trade agreement have obtained the lowest scores in each margin relative to the scores obtained by members of the rest of the agreements studied. These agreements would have required stronger commitments, obligations, and substantive provisions to attain higher levels of integration at the intensive margin.

Although clear variations emerge when considering deep integration as an overall measure, differentiating the contributions of each margin to the overall score reveals wider and puzzling variations between the agreements. Figure 4.2 and Appendix C show the average scores that each of the trade agreements attained at the intensive and extensive margins. The minimum total scores correspond to the free trade agreements Bolivia-MERCOSUR (0.81) and Peru-Thailand (0.93), whereas the maximum scores correspond to the free trade agreements Mexico-Nicaragua (3.73), Canada-Colombia (3.81), and Chile-P4 (4.15). Even from this broad perspective, it is difficult to identify clear patterns. For example, Mexico and Chile, countries with the largest numbers of trade agreements in the region, have signed agreements with very different levels of depth. In these two cases, the ranges of overall depth start below two for the agreements between Chile and Turkey and between Mexico and Bolivia.

[132] Each margin includes three areas measured within the range [0,1], where the lowest and the highest values correspond to the minimum and maximum scores of deep integration achieved in each area.

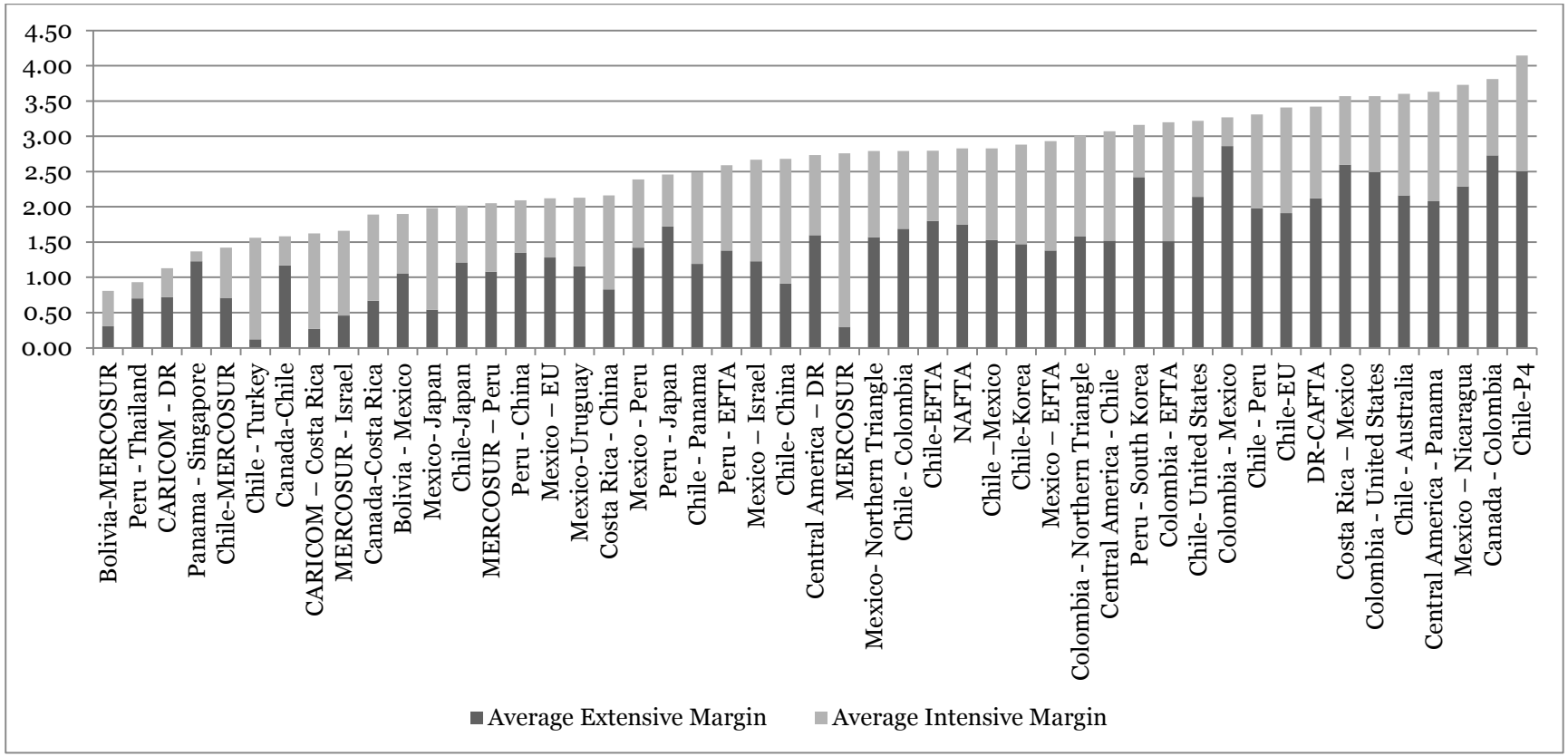
In contrast, Mexico and Chile have also achieved overall scores above 3.5 in their agreements with Nicaragua and with the other countries of the Trans-Pacific Partnership, respectively).

Furthermore, the contrasting levels of depth in each margin in a single trade agreement and through time also seem counterintuitive. First, Figure 4.2 highlights the contrast between the proportions corresponding to the extensive and intensive margins. The reason underlying trade agreements with robust institutions and medium coverage of trade areas is not evident. For example, the agreement between Panama and Singapore attained an overall score of less than 1.5, of which more than 89 per cent corresponds to the extensive margin. In 28 per cent of the trade agreements analysed, the average intensive margin is lower than the average extensive margin.[133] In contrast, although MERCOSUR has an average total score of deep integration of 2.76, almost 90 per cent of it corresponds to the intensive margin. In only 14 per cent of the agreements is the average intensive margin higher than the average extensive margin in more than one point.[134] Second, it could be possible to expect that over time, increased competition and accumulated knowledge from other trade agreements would promote clear trends towards deeper agreements at both margins. Figure 4.3 shows the evolution of the average scores of the margins in the dyads of the agreements analysed. Although the intensive margin is almost always lower than the extensive margin, in general, deep integration does not show a clear pattern of evolution.[135]

[133] The agreements are the following: MERCOSUR, Chile-Turkey, CARICOM-Costa Rica, Mexico-Japan, Chile-China, MERCOSUR-Israel, Canada-Costa Rica, Costa Rica-China, Mexico-Israel, Bolivia-MERCOSUR, Colombia-EFTA, Mexico-EFTA, Chile-Panama, Central America-Chile.

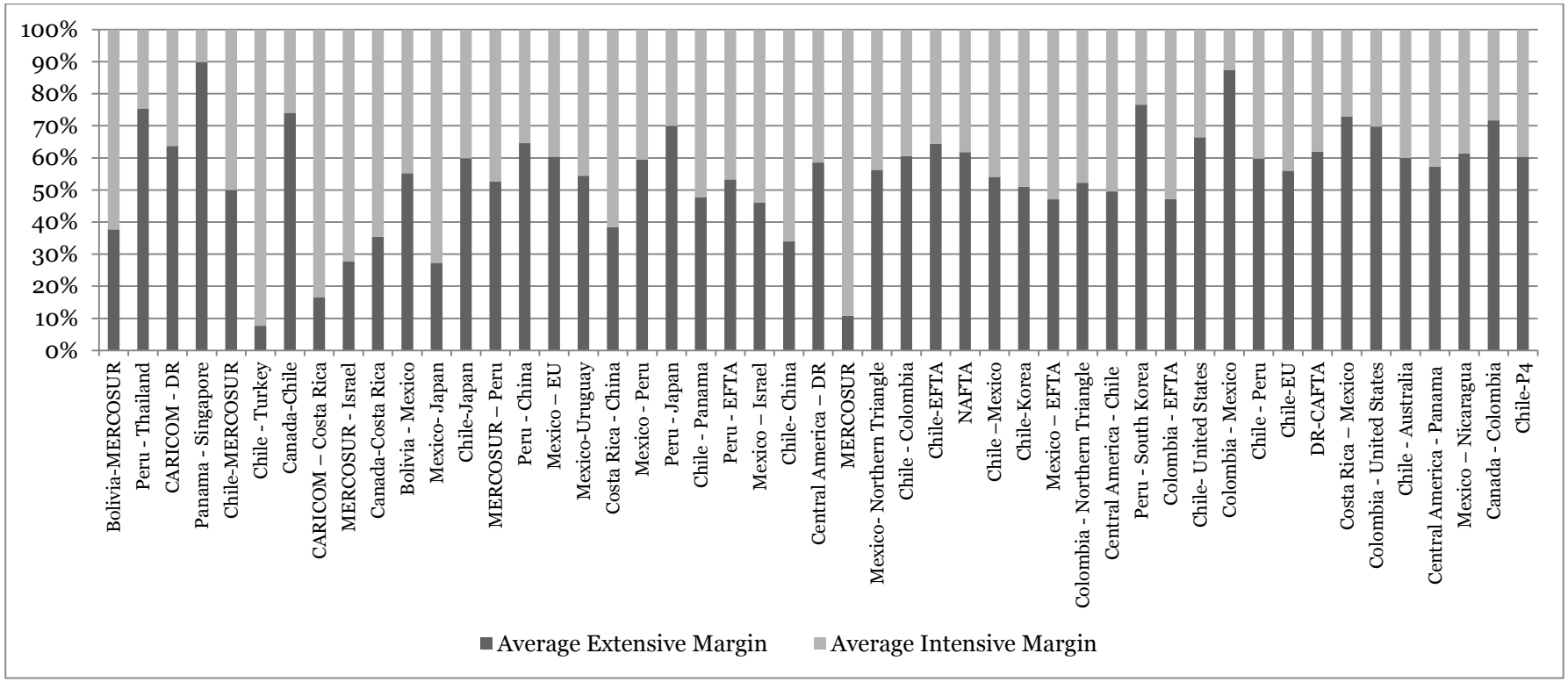
[134] The seven agreements are the following: Colombia-Mexico, Peru-South Korea, Canada-Colombia, Costa Rica-Mexico, Colombia-United States, Panama-Singapore, Chile-United States.

[135] Time elapsed is included as a control variable in the analyses in Chapter 8.



Source: Author's calculations on the basis of the text of the trade agreements.

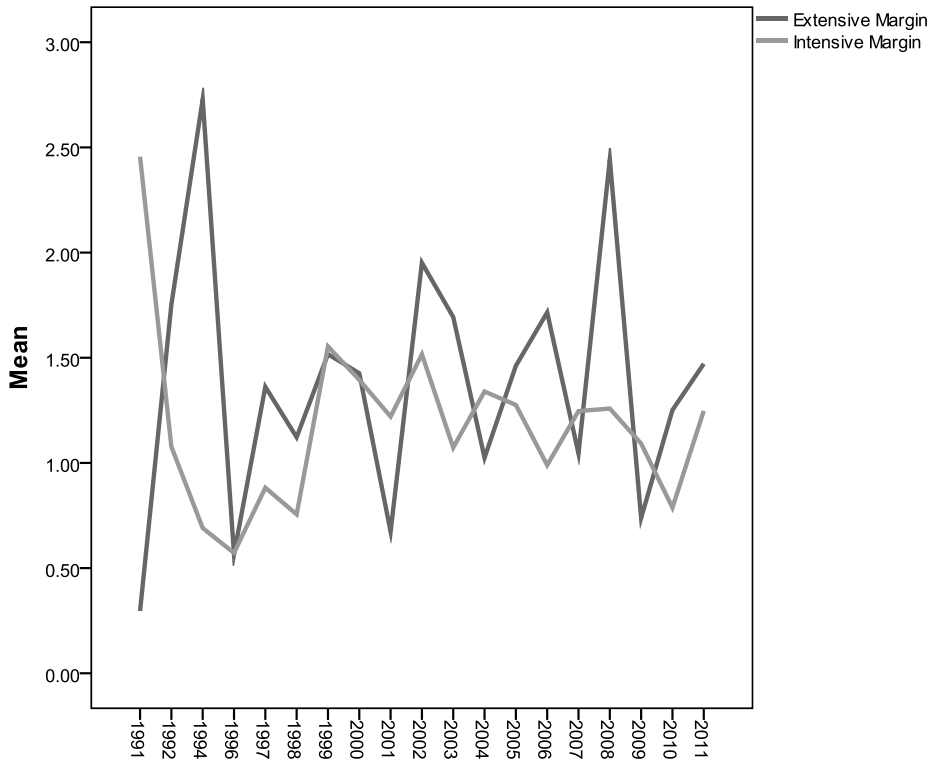
Figure 4-2 Stacked average scores of extensive and intensive margins in trade agreements signed by Latin American countries (1982-2010)



Source: Author's calculations on the basis of the text of the trade agreements (all bars are relative to the total score of deep integration resulting from the addition of the intensive and extensive margins).

Figure 4-3 Share of extensive and intensive margins in total average scores of deep integration in trade agreements signed by Latin American countries (1982-2010)

Figure 4-4 Dyadic mean scores of depth for the intensive and extensive margins over time by number of years after 1991



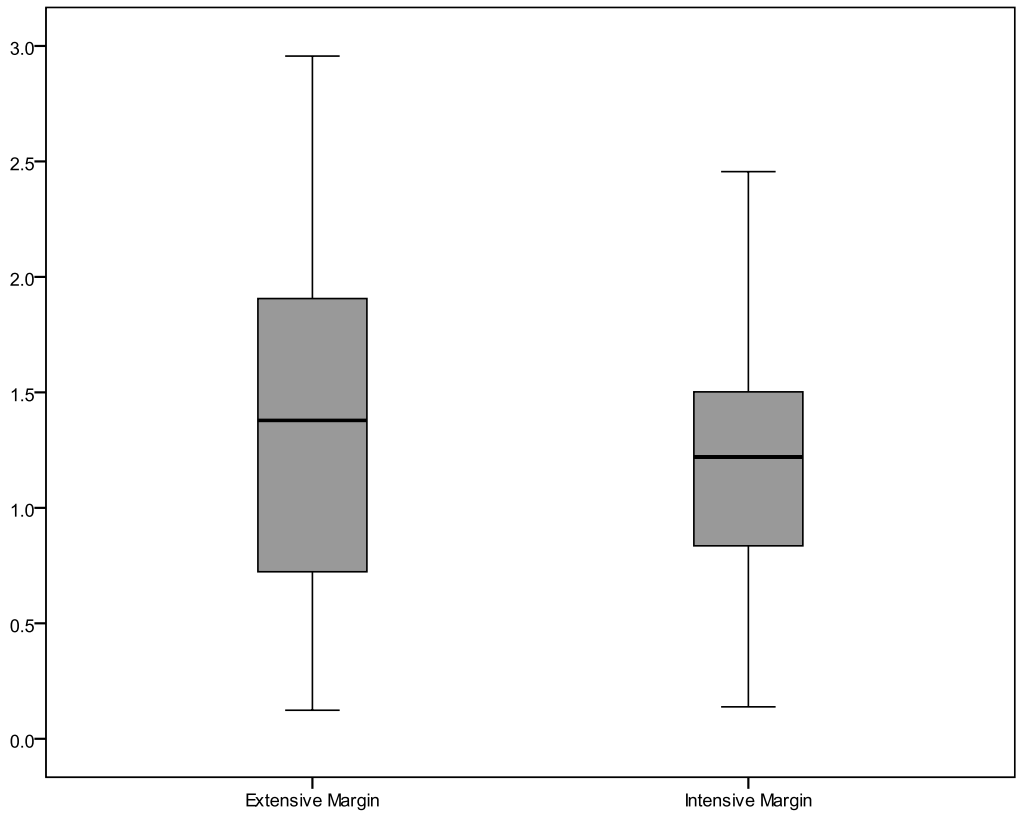
Source: Author's calculations on the basis of the text of the trade agreements.

The wide variation of depth at the intensive and extensive margins existing between the dyadic trade agreements is illustrated in Figures 4.4 and 4.5 below. The overview, given in the form of boxes and whiskers plots, shows the pattern and variability of scores. 'Each distribution of scores is represented by a box and protruding lines (called whiskers). The length of the box is the variable's inter-quartile range and contains 50 per cent of the cases. The line across the inside of the box represents the median value' (Pallant, 2010: 79). In Figure 4.4, the box and whiskers plots show the distribution of scores to be generally wider for the extensive margin than for the intensive margin. Nevertheless, in both cases, the distribution of scores shows that the data in the middle 50 per cent of the dataset are slightly skewed to the left. In addition, in both cases, the longer upper whisker indicates that the higher scores are more spread out than the lower ones.

However, Figure 4.5 clearly shows additional variations in the scores for both margins when the choice of developed and developing partners to create North–

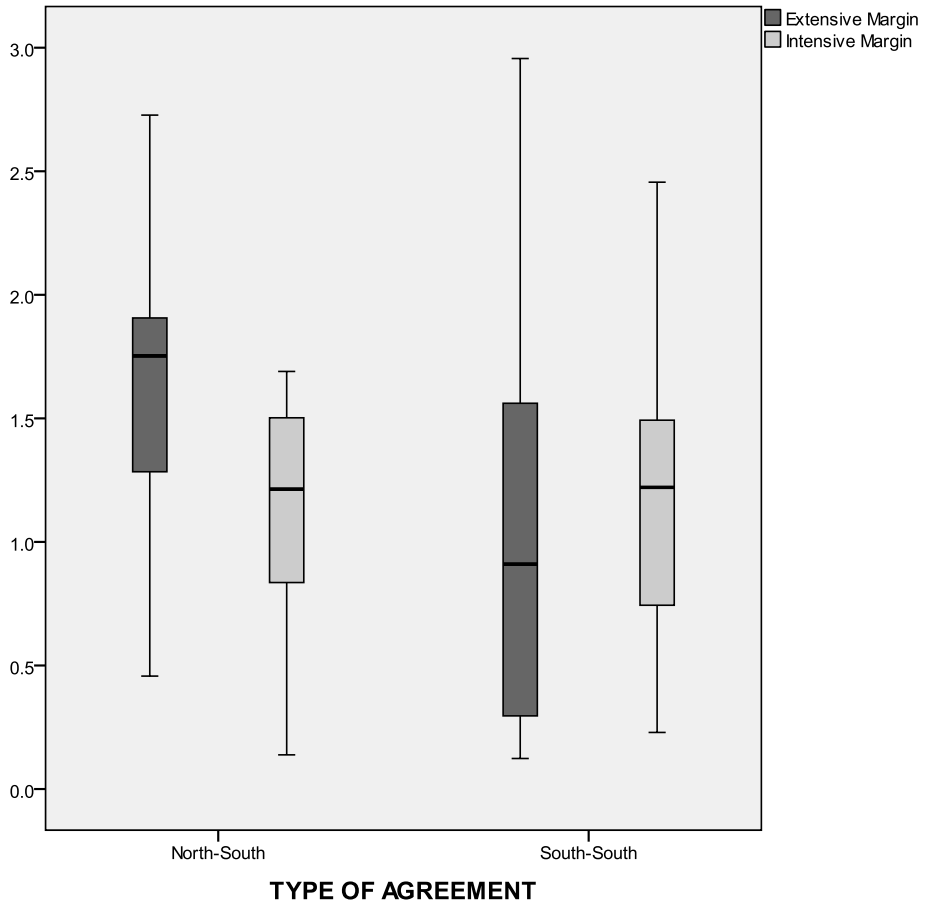
South and South–South agreements, respectively, is taken into account. In general, there is wider variation in both the intensive and extensive margins in South–South agreements compared to North–South agreements. First, in the case of North–South agreements, the distribution of scores at both margins shows that the data in the middle 50 per cent of the dataset are skewed to the left, although they are more pronounced for the extensive margin than for the intensive one. Comparing the length of the lower whisker to the upper one for only the extensive margin shows that the lower scores are spread more widely than the higher ones. Second, in the case of the intensive margin in South–South agreements, the data in the middle 50 per cent of the data is skewed to the left, and it is less dispersed than those for the extensive margin. For both margins, the longer upper whiskers indicate that higher scores are more spread out than the lower ones.

Figure 4-5 Distribution of scores of depth in extensive and extensive margins



Source: Author's calculations on the basis of the text of the trade agreements.

Figure 4-6 Distribution of scores of depth in extensive and extensive margins by type of trade agreement (North–South/South–South)



Source: Author's calculations on the basis of the text of the trade agreements.

Conclusions

This chapter presented the operationalization and empirical tests of the categorization of depth at the intensive and extensive margins. The main conclusion is that there is empirical support for the theoretical classification of provisions at the intensive and extensive margins as suggested in Chapter 3. The general approach followed in this chapter was, first, to analyse each trade discipline and area independently of the others. Second, the various provisions and possible ranges of variation (as regards depth) in each trade discipline and area were analysed and coded. The provisions corresponding to each trade area and discipline were identified by referring to previous literature and by directly analysing the texts of the trade agreements. Third, the depths of areas were measured and aggregated to form six variables. Fourth, principal components analysis was performed, which confirmed that each variable aligns in their corresponding component (intensive or extensive

margin), according to the theoretical analysis developed in the previous chapter. Factor-based sum scores were calculated for each margin to calculate the dependent variables that are used to test the hypotheses presented in the following chapters of this research. Finally, a schematic overview highlighting the variations at the intensive and extensive margins of each agreement and between trade agreements was presented.

The overview of variations existing at the intensive and extensive margins of each agreement and between trade agreements did not show clear patterns in either of the two margins of integration, even after considering the level of development of the participating countries. Differences in deep integration in the agreements analysed in this chapter have the potential to alter the distribution of economic resources between interest groups; therefore, the structure of economic interests in the export sector of countries contributes to explaining differences in the levels of integration achieved in these agreements. In the next chapter, economic actors with incentives to prefer deep integration at the intensive and extensive margins as a way to maximize their economic interests through capturing static and dynamic gains from trade are identified.

5 Exporters' preferences for deep integration

According to endogenous trade theories, in order for deep integration to take place, economically motivated actors in the domestic system must demand this policy outcome. The economic link (Mayer, 1984: 983) places the economy's structure as the main determinant of the process through which a person's real income and interests are affected. The starting point in this chapter is the assumption that even if preferences cannot be observed, actors may be regarded as having preferences for outcomes (Frieden, 1999: 40) based on how their income will be influenced by a policy outcome. Political economy approaches to material interests focus on firms, interest groups, and consumers/voters (McGillivray, McLean, Pahre, and Schonhardt-Bailey, 2001: 6). In accordance with most public choice literature, this research assumes that these actors prefer policies that redistribute income in a way that maximizes their economic benefits. Domestic actors choose deep integration as one mechanism to pursue liberalization if doing so increases their income and wealth.

To begin by deriving actors' preferences from trade theories is an adequate approach for understanding the economic interests behind the demand for deep integration in trade agreements. According to Frieden, this is the most desirable approach, since analysing a policy requires first a clear understanding of the economic interests that are behind it (Frieden, 1991: 450). These economic interests existed in Latin American countries among actors that increased their economic gains through deep integration, such as export oriented producers and particularly those in industries with scale-economies and those with fragmented processes of production.

In this chapter, to identify the preferences of economic interests, these interests are separated from their strategic environments. Political economy scholars refer mainly to two sets of models: models based on trade preferences and models based on collective action costs and governmental institutions (Alt, Frieden, Gilligan, Rodrik, and Rogowski, 1996: 690). Following Frieden's guidelines, this chapter does not refer to models based on collective action costs and institutions. It is important to maintain preferences separate from their settings because preferences may be affected by some of the settings' features. This separation is relevant in order to distinguish between the role of actors' interests and that of their environment. For these reasons, the discussions on the organization of economic interests and the influence of political institutions on trade agreements are analysed separately (in Chapters 6 and 7).

The chapter is divided into three main sections. In the first section, the economic benefits that exporters of final goods obtain from deep integration are identified. This analysis is based on standard trade theories and assumes a setting of perfect competition. First, whether static gains from trade are created mainly through integration at the extensive margin rather than the intensive margin is considered. Second, whether the preferences of the relevant economic actors in Latin American countries are more likely to follow factor or sector lines is analysed. The objective is to identify which groups are better able to capture the static gains from deep trade integration. Third, based on the Ricardo–Viner framework, actors whose economic interests are maximized by deep integration at the extensive margin of trade agreements are identified. Finally, the first hypothesis of the chapter is presented. With all else remaining constant, it is expected that countries with export sectors with a higher degree of concentration are associated with trade agreements with more profound extensive margins than countries with more de-concentrated export sectors.

In the second section, the economic benefits obtained by exporters with scale-economies and/or those engaged in fragmented production from deep integration are identified. The analysis is based on 'new' and 'new new' trade theories. First, how integration through the intensive and extensive margins contribute to creating gains from trade for producers with scale-economies and/or those engaged in internationally fragmented production is analysed. Second, whether the potential for exploiting scale-economies and for engaging in fragmented production existed in Latin American countries after the abandonment of the economic model of industrialization based on the substitution of imports is assessed. Next, the second hypothesis of this chapter, which is that Latin American countries with more concentrated export sectors are associated with deeper trade agreements in both their extensive and intensive margins, compared to countries with more de-concentrated export sectors, is presented. The third section presents the possible outcomes from different levels of export sector (de)concentration. The last section concludes the chapter.

Economic benefits in settings of perfect competition

To explain the extent of trade liberalization and the economic gains derived from it in international trade agreements, it is necessary to analyse different sources of gains from trade. According to Jacob Viner, at the country level, establishing a trade agreement is beneficial when the balance of gains from trade creation and loses from

trade diversion is positive (Cohen, Blecker, Whitney, 2003: 72). The gains from trade theorem, central to trade theory, in general state that 'if a country can trade at any price ratio different from its relative domestic prices, it is better off than if it refrains from trade' (WTO, 2008: xv).[136] Gains from trade are 'the improvement in welfare possible as the result of countries being able to trade with one another, as compared with having autarkic economies' (Black, Hashimzade, and Myles, 2009: 193). Different trade theories are complementary, and the validity of each one 'should be assessed on the basis of its capacity to explain trade in its limited domain' (WTO, 2008: 28). Different economic trade theories provide insight to the different sources, allocations, and distributions of gains from trade.

Static gains from inter-industry trade are explained by standard trade theories. These theories consider settings of perfect competition[137] and focus on gains from trade arising from specialization and relative economic efficiency, based on comparative advantage.[138] Although they cannot be tested through empirical work, the existence of static gains from trade 'fall[s] into the irrefutable category' (Leamer and Levinsohn, 1994: 2). From the perspective of producers within a country, static gains from trade are 'one-time income effects as prices adjust to the opening of regional trade. Endowments are fixed in the short run, comparative costs change slowly and benefits from liberalization do not cumulate over time' (Chase, 2005: 22). Because integration at the intensive margin and that at the extensive margins have different income effects over producers in the economy, there may also be differences between them as sources of static gains from trade.

Deep trade integration at the extensive margin is more likely to produce static gains from trade than deep integration at the intensive margin. As indicated in the two previous chapters, integration at the intensive margin includes provisions which cover the trade agreement as a whole, whereas integration at the extensive margin covers specific trade areas which have an effect on concrete productive sectors of the economy. In contrast to integration at the intensive margin, integration at the

[136] Standard trade theories' general propositions about gains from are the following: countries are better off with free trade than with restricted trade (including small countries); and they are better with restricted trade than with autarky (WTO, 2008: 27).

[137] Perfect competition 'is a market situation in which buyers and sellers are so numerous and well informed that each can act as a price taker, able to buy or sell any desired quantity without affecting the market price' (Black, Hashimzade, and Myles, 2009: 349).

[138] Countries have comparative advantage 'relative to another country or the rest of the world, if the relative cost of producing the good, that is, its opportunity cost in terms of other goods foregone, is lower than it is abroad' (Black, Hashimzade, and Myles, 2009: 369).

extensive margin produces one-time income effects on the productive sectors that are benefitted by liberalization in the areas covered by the agreement. Therefore, static gains from economic efficiency and specialization through comparative advantage are created by integration at the extensive margin, rather than at the intensive margin in a trade agreement.

Beneficiaries of specialization through comparative advantage differ, depending on the assumed sources of comparative advantage and levels of factor specificity.[139] Venables (2003) pointed out that specialization in both the Ricardian and the Heckscher–Ohlin models is associated with a decrease in trade barriers, since economies specialize according to their regional comparative advantage. In the Ricardo–Viner model, the sources of comparative advantage are productivity (technology) differences. In the Heckscher–Ohlin–Stolper–Samuelson models, the sources of comparative advantage are the differences in factor intensity and the cross-country differences in factor abundance (Bernard, Jensen, Redding, and Schott, 2007: 106). According to these theories, changes in exposure to trade influence relative factor rewards.

The models predict different distributions of these rewards because each of them assumes opposite levels of flexibility in the structure of production, leading also to contrasting predictions of the trade preferences of domestic actors. In the Heckscher–Ohlin–Stolper–Samuelson model, preferences follow factor lines; in the Ricardo–Viner model, preferences follow sector lines. To identify which groups benefit from deep integration agreements, the first step is to assess which model is more convenient for analysing trade agreements and Latin American countries after the adoption of the economic model based on the promotion of exports.

Deep integration in Latin America in the factor mobility continuum

Determining which model is more appropriate for the Latin American cases is neither a direct nor a straightforward task, since both models are not necessarily mutually exclusive, despite their assumptions about factor specificity. The Heckscher–Ohlin–Stolper–Samuelson model assumes a flexible structure of production with high mobility between factors. The Ricardo–Viner model assumes a relatively more rigid

[139] Factors of production are land, labour, and capital. Factor specificity is 'the costliness with which factors move from their current use to an alternative one' (Alt, Frieden, Gilligan, Rodrik, and Rogowski, 1996: 690).

structure of production with high specificity of factors. Even if their assumptions are mutually exclusive, since factor mobility cannot be high and low at the same time (Ladewig, 2006: 71), the two models are mutually exclusive only as ideal types. Mobility of factors is not constant and can be considered a continuous variable in which each model would be placed on one of the extremes with different gradations of factor specificity in between (Midford, 1993: 562; Alt, Frieden, Gilligan, Rodrik, and Rogowski, 1996: 692; Ladewig, 2006: 71).[140] The importance of the assumptions about factor mobility is that they lead to contrasting inferences about the distribution of static gains from trade between economic actors (firms and workers). In turn, these inferences also lead to contrasting implications about the economic interests of the said actors and their trade preferences.

Therefore, to determine which economic interests maximize their static gains through deep integration, it is useful to approximate at which point of the factor mobility continuum are the analysed countries and the objects of analysis (trade agreements). As mentioned before, countries are more likely to be located at a point between the extremes of total or null factor mobility. Unfortunately, specific measurements of factor mobility are not available, and a direct measurement of factor mobility can be extremely difficult (Ladewig, 2006). In order to establish which theory provides a relatively more adequate framework for analysing the Latin American cases, an exact estimate of factor mobility in each country is not necessary. Instead, for the purposes of this research, the extreme in the continuum at which the Latin American region is placed can simply be approximated. To deduce which model better predicts the economic interests of the region that benefit from deep integration, first the characteristics of the countries of the region and, second, the nature of the object of analysis (the trade policy output) are analysed.

In terms of the analysed region, since Latin American countries are classified in the middle-income range (WB, 2013),[141] the Ricardo–Viner model seems more appropriate for the analysis. The optimal number of factors depends on the stage of development of the countries being studied (Midford, 1993; Hiscox, 2002a). Midford (1993: 562) argued that a parsimonious model is more appropriate for economies

[140] For example, Beaulieu (2002: 104), considering a two factor model, explains that there are four potential factor markets. On the extreme of perfect factor mobility, corresponding to the Stolper-Samuelson model, there would be two factors. Inter-industry elasticities of substitution would decrease along the continuum until reaching the opposite extreme in which with perfect immobility there would be four factors, as in the Ricardo-Viner model.

[141] The only exception is Haiti, classified in the range of low income. Economies are classified accordingly to their gross national income (GNI) per capita.

that are just starting to develop, but as an economy becomes more advanced, its factors of production, such as the division of labour, will likely become more complex and require further specification. Hiscox (2002a) systematically analysed levels of inter-industry factor mobility in six developed economies (United States, France, Sweden, Canada, and Australia) of the nineteenth and twentieth centuries and concluded that variations in factor mobility correspond with different levels of regulation and different periods of industrialization in those countries:

> 'Early stages of development have typically produced a sharp rise in inter-industry mobility, as innovations in transportation lowered the costs of factor movement and innovations in production gave rise to the factory system and increased demand for unskilled workers and basic forms of physical capital. Later stages of development, however, have generally been associated with a decline in inter-industry mobility, as new innovations have generated more specific forms of human and physical capital and far greater complementarity between technology and labor skills' (Hiscox, 2002a: 10).

Empirical analyses of factor mobility in Latin American economies have not been specifically developed. However, other analyses that infer factor mobility from trade preferences support the use of the Ricardo–Viner model as an appropriate framework for analysing the region. For example, Magaloni and Romero (2008) analysed attitudes towards free trade in 18 Latin American countries and concluded 'our findings disconfirm the Hecksher–Ohlin–Samuelson model: there is no evidence that poorer Latin Americans support free trade [...] The results reveal that support for free trade decreases among lower-income individuals *and* the middle class' (Magaloni and Romero, 2008: 126). In addition, the fact that countries in the medium stages of development may follow sector lines can also shed light on the paradox that, within a standard theory approach, 'exporters in developing countries are also more capital and skill intensive, which are likely to be abundant in unskilled labour' (Alvarez and Lopez, 2005). A final consideration that supports the use of the Ricardo–Viner framework is the argument of Bernard, Jensen, Redding, and Schott (2007: 108), which states that if exporting firms in labour abundant countries specialized in goods consistent with comparative advantage, they would be labour intensive rather than capital-skilled intensive.

Regarding factor specificity from the perspective of the policy output, different degrees of factor specificity can also be explained by its timeframe. The Heckscher–Ohlin model is considered a long run model since 'in the long run there are no assets that are specific to anything' (Alt, Frieden, Gilligan, Rodrik, and Rogowski, 1996:

698).[142] Analyses that focus on long-term periods (e.g. Rogowski, 1989) should use the Heckscher–Ohlin model (Alt, Frieden, Gilligan, Rodrik, and Rogowski, 1996: 698). In contrast, the Ricardo–Viner model is considered a short-run model, since in the short term, very few assets can be transferred without costs. Therefore, according to Frieden (1991: 436), relative to the long-term, the short-term, is a more adequate timeframe for a political analysis of international trade and capital movements

Consistent with Alt, Frieden, Gilligan, Rodrik, and Rogowski (1996) and Frieden (1991), this research considers trade agreements as short-term policies. Specifically, trade preferences regarding trade agreements focus on the short run (Alt, Frieden, Gilligan, Rodrik, and Rogowski, 1996: 698).[143] The argument is that (leaving political interests aside and focusing on economic interests) the redistribution of income between import competing and export oriented industries takes place in the short term. The reason is that preferential trade agreements, in general, have short-term liberalization schemes. The short-term redistribution of income does not leave enough margins for long-term adjustments and creates strong incentives to demand or oppose trade agreements. Since trade agreements are considered a short run policy for the purposes of this research, the Ricardo–Viner model seems appropriate for considering which economic interests benefit from static gains and prefer trade agreements with deep extensive margins.[144]

Exporters' preferences towards deep integration

As mentioned in the literature review, industries in the export oriented sector prefer, if available, multilateral rather than bilateral or plurilateral trade agreements, which are only secondary alternatives to multilateral liberalization. Countries, frustrated

[142] Alt, Frieden, Gilligan, Rodrik, and Rogowski (1996) also mention that in the long term factors of production also have costs of adjustment (distributed over a long period of time).

[143] Beaulieu (2002) claims that trade agreements should be analysed with a long term framework since they are long term commitment devices for governments. However, this characterization is based in political, rather than in economic interests. The author's empirical evidence supports a model of partial factor mobility which is consistent with trade agreements either as long term or short term policies.

[144] Along factor or industry lines, the differences in factor endowments that are central to these theories have implications concerning the choice of partners in trade agreements. For example, the economic drive for inter-industry trade should lead towards the formation of trade agreements (when the multilateral option is not available) between countries with complementary endowments, rather than similar endowments. Developing countries (usually abundant in labour) may be more likely to form an agreement with developed countries (usually abundant in capital). Differences in factor endowments contribute to explain trade agreements between Latin American countries and developed partners.

with the slow progress and problems of the multilateral system, see regionalism trade agreements as an alternative route (Krugman, 1993: 73). In the case of the Latin American and Caribbean countries, it is acknowledged in literature (e.g. Haggard, 1997) that frustration with the multilateral process contributed to the establishment of numerous trade agreements. Bilateral and regional trade agreements were an alternative to multilateralism.[145]

Based on the Ricardo–Viner framework, it is possible to identify which actors' economic interests are maximized through trade agreements with deep extensive margins of integration when the multilateral alternative is not available. The Ricardo–Viner model represents a fairly rigid structure of production, in which distribution of income and trade preferences towards liberalization follow sector lines. As explained previously, the model is considered a short-run model, in which both labour and capital inputs are specific to their industry. According to this model, trade preferences of specific factors follow sector lines.

Regarding labour, there is consensus in literature that highly skilled workers have greater specificity and are more likely to favour liberalization than unskilled workers. In industrial relations literature, it has been well established that skilled workers have greater specificity (Alt, Frieden, Gilligan, Rodrik, and Rogowski, 1996: 705). Therefore, their trade preferences should be aligned towards either import competing industries or export promoting ones. Several studies of developed and developing countries (e.g. Beaulieu, 2002: 104; Broz, 2005: 79; Magaloni and Romero, 2008) found that skilled workers are more likely than unskilled workers to support policies that encourage globalization and factor market integration, such as financial rescues (Broz, 2005: 79)[146] and trade liberalization (Beaulieu, 2001; Magaloni and Romero, 2008). The implications of the existence of a large proportion of unskilled workers in the regional economies' non-formal sector are analysed below.

Several reasons support the argument that it is not necessary to modify the framework of analysis because of the large proportion of workers in the non-formal

[145] Haggard (1997: 23) claims that frustration with multilateralism partially explains that trade agreements (US–Canada FTA, NAFTA, APEC, and EAEG) were negotiated during GATT 'pre-negotiations' (1982–1986) and the Uruguay Round negotiations.

[146] Broz (2005: 493) studies the effect of private actors' interests on voting towards financial rescues in the United States. His findings support the Stolper-Samuelson Theorem. Districts with relatively larger proportions of less educated and low skilled workers are more likely to oppose financial rescues.

productive sector[147] of Latin American countries. First, although trade increases the proportion of 'informal employment' (Bachetta and Bustamante, 2009: 66-67) the increase in number of these workers after the implementation of trade agreements does not influence the design of such agreements.[148] Second, there is no clear evidence that redistribution after trade liberalization affects the income of workers in the non-formal sector.[149] A third, but not least, important reason is that these workers are usually employed in the non-tradable sector:

> 'The idea of informal sector output being traded violates the *raison detere* of informal production because it opens up all sorts of possibilities of taxation and subsidies which by definition do not apply to the informal sector' (Bachetta and Bustamante, 2009: 80).

Based on these scholarly works, it is possible to argue that the existence in Latin American countries of a large informal non-tradable sector in which workers are non-skilled does not require modifications in the analytical framework. Analysing the role of workers in the non-formal sector would appear to be more appropriate when analysing the implementation stage of trade agreements. However, this stage of the policy process falls beyond the scope of this research.

As with specific labour, the preferences of specific capitals also follow sector lines. Firms and individuals that hold diversified assets (in terms of activities and locations) are considered more mobile than those that hold an asset that is completely specific to an industry (Frieden, 1991: 439; Milner, 1988).[150] The latter situation is

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[147] The non-formal, 'informal, or unorganized sector' includes 'economic activities which are not conducted through legally incorporated bodies and are not reported to the tax and social security authorities.' (Black, Hashimzade, and Myles, 2009: 487).

[148] Most academic literature about the non-formal sector has focused on analysing the mechanisms by which trade increases the proportion of 'informal employment' (Bachetta and Bustamante, 2009: 66-67). Also Kar and Marjit (2001), explain that the effect of trade liberalization on the proportion of workers on the non-formal sector and their wages depends on the mobility of capital between the formal and the non-formal sectors. In a setting where capital is not mobile between said sectors, the numbers of workers that can be re-absorbed by the formal sector are limited. In developing countries, capital tends to be less mobile between the formal and non-formal sectors. In such cases, the wages of the workers in the non-formal sector decrease as a consequence of the limits of the formal sector to reabsorb the workers displaced from import competing industries. In contrast, with more capital mobility between both sectors, trade liberalization increases the capital to output ratio, rising, as a consequence, employment in the non-formal sector and the wages of the workers employed in the non-formal sector (Kar, Marjit, and Sarkar, 2003).

[149] Bachetta and Bustamante (2009: 23-67) claim that comparing economic models of the influence of trade liberalization over the non-formal economic sector is difficult. Models tend to differ in their assumptions and predictions about non-formal sector wages and general welfare implications.

[150] Frankel (1990) classifies capital according to its mobility. International financial capital is highly, but not fully, mobile across borders; country and currency risks limit its mobility.

the most vulnerable, since it is costly to move an asset from its existing use to an alternative one. As in the case of labour, trade preferences also follow sector lines, with owners of more mobile assets on one side of the financial sector and firms with high specificity regarding activities and locations on the other side (Frieden, 1991: 442). The latter group has more incentives to demand supportive governmental policies (Frieden, 1991: 443). As in the case of labour, their economic interests are expected to be aligned with either import competing or export-promoting industries.

Considering that in a trade agreement, the source of static gains from trade is integration at the extensive margin (along shallow integration), export oriented industries and sectors are likely to prefer deep integration in this margin. On the one hand, labour and capital employed in comparatively disadvantaged industries (i.e. those that use society's scarce factors) lose from trade. These groups are referred to as the import competing sector. On the other hand, labour and capital that are employed in comparatively advantaged industries (i.e. those that use society's abundant factors) gain from trade. These groups are referred to as the export oriented sector. Thus, trade policy preferences are expected to follow along the lines of export oriented versus import competing industries or sectors (Alt, Frieden, Gilligan, Rodrik, and Rogowski, 1996: 692). Therefore, export oriented industries and sectors are likely to prefer deep integration at the extensive margin because they benefit from the static gains from trade generated in this margin. Benefits are larger for export oriented industries and sectors in which less trade barriers are maintained. In contrast, import competing industries harmed by liberalization in the areas covered by the trade agreement oppose integration in the said margin.

All exporters covered in the agreement benefit from static gains from trade, although larger exporters receive a larger proportion of the gains. In general, Latin American countries have numerous small and medium exporters[151] and few large export oriented firms. Despite the large number of small and medium exporters in the region, their participation as a proportion of total exports (relative to larger exporters) is still limited (ECLAC, 2011: 18). From the characterizations (high

Financial bonds have an intermediate degree of mobility. Finally, firm or industry specific capital is the less mobile and its markets are nationally segmented. High levels of mobility of financial capital tend to reduce specific capital by reducing barriers to entry: financial capital can extend funds to new firms decreasing the benefits of pre-existing firms. However, specific capital will never be reduced to a point in which sector or industry specificity is eliminated (Frieden 1991: 429).

[151] Small and medium sized enterprises account for more than 90 percent of the enterprises in Latin America (ECLAC, 2011: 1).

specificity policy outcome, highly specific policy setting, and frustration with the multilateral process) and the arguments developed above, the expectations would be that, with all else remaining constant, exporters in countries with more concentrated export sectors have higher economic incentives to establish trade agreements with deeper extensive margins than those in countries with more de-concentrated export sectors. This reasoning leads to the following constitutive hypothesis:

> *Constitutive hypothesis 1.* Latin American countries with more concentrated export sectors display deeper integration at the extensive margin of their trade agreements than countries with more de-concentrated export sectors.

Economic benefits from scale and fragmented production

In settings of imperfect competition, some exporters increase their production and reduce their costs by realizing scale economies or relocating some stages of their production processes to foreign countries. Both cases result in increases in the output of final goods and additional gains from trade to only static gains from trade. Complementing standard trade theories, 'new' and 'new new' trade theories suggest that gains from trade may not only arise from relative differences in technology and factor intensity between countries. The 'new' models explain intra-industry trade in settings of imperfect competition through a combination of scale economies and intermediate products or consumer preferences for variety. In 'new new' trade models, firms [152] are heterogeneous. Unlike the explanation of standard trade

[152] Although the role of firms is theoretically taken into consideration in this research, the independent variable is the export-sector. Sector and industry level analyses are consistent in general with how endogenous trade theory has looked at industry characteristics. Empirical evidence shows high coherence between characteristics of sectors and industries (Milner, 1988). Moreover, this approach is widely used in the literature on international political economy of market reforms in developing countries, where constrains in the availability of data exist. Particularly in the case of Latin American countries 'conceptualizing business as sector is often a useful first cut' (Schneider, 2009: 6). The reasons are that sectoral cleavages in Latin America are emphasized, and that many policies have uneven distributions of costs and benefits across sectors. Ideally, firms would be the units of analysis since individual firms with scale-economies and production sharing, not the sector as a whole, are the ones that reap a higher proportion of the benefits from trade agreements. The rest of smaller firms in the sector also obtain benefits from expanded markets, but benefits are not proportional to the ones of larger firms. However, data is not available for the region. Even if data on firms were available, theoretically it is difficult to distinguish when firms or industries exert political pressure (Chase, 2005: 41). Therefore, to characterize economic interests, this research follows Frieden's (1991) deductive approach based on asset specificity which operationalizes business as sectors.

theories, gains from trade arise from specialization and productivity gains in intermediate inputs and 'tasks'[153] instead of final goods. 'New' and 'new new' trade models provide insight into intra-industry trade between countries endowed with similar factors and intra-industry or inter-industry trade where internationally fragmented production exists.

The industries deriving additional gains from trade in settings of imperfect competition are those with scale economies in which exists a taste for variety or are those internationally integrated. According to the model of monopolistic competition (Krugman, 1979), the existence of scale economies in production and differentiated products explains the existence of intra-industry trade. Scale economies arise when the structure of production allows producers to reduce unit costs as output increases.[154] The existence of similar and differentiated products responds to a demand for variety from consumers or for intermediate inputs from integrated firms. As explained below in more detail, when scale economies exist, decreases in costs of trade reduce the need to concentrate the production of all varieties in one country.

When scale economies and demand for variety (in either final or intermediate products) exist, decreases in costs of trade lead to intra-industry trade. For differentiated final products, the model of monopolistic competition assumes that consumers demand variety. Each country produces different varieties of the product,

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[153] Increases in the relative importance of fragmentation of production in trade flows imply increases of interdependence between countries (Yeats, 1999: 1).The reallocation of stages of the process of production of a good or service 'has variously been called fragmentation, unbundling, offshoring, vertical specialization, slicing-up of the value-added chain or trade in tasks' (WTO, 2008: 37). In general, these activities are defined as the internationalization of productive activities, with different countries participating, specializing, and adding value in different stages of the process of production of a specific good (Yeats, 1999: 1; Yi, 2003: 53; Deardorff, 2005: 1). Importing activities include intermediate goods to produce export goods; exporting activities can include both, intermediate and final goods (Yi, 2003: 53).

[154] For example, overhead costs are independent of the output produced and therefore will relatively decline with output increases. External benefits to the industries come from localization economies or urbanization economies. Internal scale-economies arise when the larger size of a plant allows a relatively more efficient exploitation of fixed costs. Localization scale-economies arise by concentrating production in the same industry and the same place. Urbanization scale-economies arise from a larger number of different industries located in the same place (World Bank, 2009: 127-128). The general assumption is scale-economies at national level, where 'external economies arise from scale-economies in the production of intermediate goods, and if these intermediaries are (cheaply) tradable, we should think of scale-economies as applying at the international rather than the national level' (Helpman and Krugman, 1985: 36). Determining the industries in which scale-economies exist is an empirical matter; in general, 'scale economies range from negligible or low among light industries, to high among heavy and high-technology industries' (World Bank, 2009: 129). The existence of scale-economies in the process of production of a proportion of exporters is central in understanding why certain economic interests are maximized through the combination of liberalization and protection provided by trade agreements.

which become imperfect substitutes. Since both countries demand every variety, intra-industry trade is expected for every pair of countries that produce varieties of the good (Helpman and Krugman, 1985: 132).[155] On the other hand, Ethier (1979, 1982) presented a variant of the framework of monopolistic competition which analyses product differentiation in intermediate inputs. The model considers a product whose costs decrease the larger the number of varieties in intermediate inputs. When trade barriers exist, firms can only produce at the same cost when all varieties of inputs are produced in the country where the final good is produced (WTO, 2008: 46). In general, when high levels of intra-industry trade exist between two countries, they are considered to have high levels of production sharing (ECLAC, 2013: 93). Nevertheless, by considering all firms within an industry to face the same demand and cost functions, the 'new' trade theory has limitations in explaining which types of producers within an industry receive economic benefits after trade is liberalized.

After re-localizing stages of their production processes some firms reduce their costs obtaining additional gains from trade (to the static gains from trade). The 'new new' trade theories explicitly model the microeconomic link between trade liberalization and the firms' productivity (Baldwin and Forslid, 2010: 161). The basic and leading model of Melitz (2003) demonstrates that trade openness improves efficiency and welfare by increasing productivity in industries. Baldwin and Robert-Nicoud (2004: 2) mention that such increases in productivity are 'via a selection effect (lowering the maximum marginal cost of active firms) and via a production re-allocation effect (production shifts to the most productive firms).' When differences in efficiency between countries are allowed, trade opening and the resulting import driven or export driven forces benefit the most efficient firms and increases industry productivity in both, the less efficient and the more efficient countries (Falvey, Greenaway, and Yu, 2011). In settings of imperfect competition with heterogeneous firms, two main analytical approaches explain the firms' trade gains from international fragmentation of production.

Approaches explaining product sharing focus on decreases in the costs of production to explain gains from trade. Under the first approach, specialization in

[155] Williamson, (1975) points out that firms have incentives to produce their own inputs in settings where technology determines that few firms concentrate the production of highly specific inputs. This production structure may lead to a costly bargaining game ('horrors of bilateral monopoly') between the price and demand of these highly specific inputs. Then, these firms may fail to reach an efficient agreement and even any agreement at all.

intermediate goods (or services) takes place through comparative advantage, according to standard trade theories. Within this framework, Deardorff (2005) equated fragmentation in production to technological advancement. As a result, product specialization and fragmentation increase the output of final goods and their consumption and create static gains from trade.[156] Under the second approach, Grossman and Rossi-Hansberg (2008) explained a model in which heterogeneous offshoring costs for different tasks existed. Firms decide how to organize their production geographically, based on the said costs and on the price of factors of production in foreign countries. As a result, these firms will choose to perform a task in a foreign country when doing so reduces their costs of production and create productivity gains (in addition to the static gains from trade from comparative advantage).

Preferences of exporters with scale-economies and/or fragmented production

In general, producers from export oriented industries with scale-economies and/or fragmented production prefer trade liberalization to protectionism because it maximizes their economic benefits through gains from trade. Trade liberalization allows industries with scale-economies and with internationalized production to obtain static gains from trade through market expansion. These industries also obtain additional gains from trade through their own production effects when trade leads to the expansion of a country's industries with scale-economies and the reallocation of their steps of production to increase access to foreign markets, cheap input sources, or other competitive reasons (Falvey, Greenaway, and Yu, 2011). From this perspective, for these types of industries, deep integration at the intensive margin creates additional gains from trade. To assess the extensive margin additional characteristics must be considered.

Integration in both the intensive and extensive margins in trade agreements is a source of gains from trade. In the presence of internationalized production, integration in trade agreements must reflect the agreements' 'member-specific idiosyncratic needs,' rather than general rules (e.g. reciprocity or national treatment) applicable without distinction across different sectors (Antràs and Staiger 2012: 3144). These arguments are also applicable to export oriented producers with scale-

[156] Deardorff (2005: 18) concludes that within this framework gains from fragmentation are similar to the conclusions of trade theory about the gains from trade.

economies, which also require the removal of specific trade barriers relevant to their industries to realize increases in scale with their production. One example is the adoption of mutual recognition of conformity assessments between members of a trade agreement. A second example is the decrease in costs of imported inputs for producers which use them intensively (Yi, 2003). From this perspective, the extensive margin promotes integration in trade areas affecting the production of certain industries with internationalized production or scale economies, providing economic benefits for the exporters in these sectors of the economy.

Although integration at the intensive margin is less targeted at removing specific barriers, it is also necessary in trade agreements to create gains from trade for producers which engage in intra-industry trade and those whose production is internationally fragmented. Producers which engage in intra-industry trade and other exporters with fragmented production face high costs in controlling international aspects of production. Therefore, these exporters require better instruments of coordination and governance to manage the costs associated with the 'international coordination of production facilities via the continuous two-way flow of goods, people, ideas and investments' (Baldwin, 2011: 9). In addition, 'formal regional trade arrangements' provide security and certainty against the increased risks of 'disruption'[157] from a fragmented production process (Yeats, 1999: 10). As a result, exporters that engage in intra-industry trade and/or internationalization of production obtain dynamic gains from trade from both the extensive and intensive margins in an agreement.

The profits from deep trade integration are captured by industries and firms that have economic incentives to pursue limited rather than global liberalization. First, 'new' trade theories provide first order endogenous mechanisms to derive trade preferences for deep trade agreements from the economic interests of exporters in settings of imperfect competition. Unlike the perfect competition setting, in which benefits increase with liberalization and limited liberalization is a secondary alternative to multilateral liberalization, in the imperfect competition setting, producers with scale economies benefit from limited rather than global liberalization. The distribution of monopoly profits is earned by firms, unless they are eliminated by entry (Helpman and Krugman, 1985: 40). Further liberalization is counterproductive when it allows external competition to erode the scale economies

[157] According to Yeats (1999: 32) 'disruption of component supplies is apparently perceived [...] as the primary risk' by internationally fragmented producers.

of domestic firms (Milner, 1997). Because of these reasons, exporters with scale economies prefer limited rather than global trade liberalization.

On the other hand, exporters that engage in internationalized production would also benefit from limited integration with their trading partners rather than from multilateral liberalization. First, the costs of trade barriers for this type of exporters increase as a product enters the borders of each of the countries involved in its production (WTO, 2011: 111). Therefore, removing barriers in the countries where the different stages of production are localized decreases the costs of production. Second, considerable and relation-specific 'lock-in effects' are applicable to importers and exporters engaged in a fragmented process of production that shield their own positions and the trade relationships (WTO, 2011: 111; Antràs and Staiger (2012: 3141).

> 'Differentiated intermediate inputs are frequently customized to the needs of their intended buyers and hence embody a disproportionate amount of relationship specific investments, which may be hard to recoup when transacting with alternative parties. Moreover, offshoring often involves the costly search for suitable foreign suppliers or foreign buyers, which makes separations costly and thereby provides another source of lock in. Because contracts involving international transactions are especially hard to enforce, the cross-border exchange of intermediate inputs cannot generally be governed by the same contractual safeguards that typically accompany similar exchanges occurring within borders' (Antràs and Staiger, 2012: 3141).

Thus, exporters whose productions are fragmented also have economic incentives to demand limited rather than global or unilateral trade liberalization. However, these industries' preferences over the degree of liberalization of specific trade areas (e.g. rules of origin) may differ depending on whether their main incentive is to realize and protect their scale economies from competition, or to facilitate production sharing without losing preferential treatment (Chase, 2008). Export oriented industries that have scale-economies and/or that are engaged in fragmented production have no incentives for further liberalization beyond the point of realizing their scale-economies or securing their product-sharing network.

In addition to limited liberalization, an element of protection is also needed to reduce the entry of competitors. Trade agreements provide an element of protection that works as export promotion when scale economies are present in the production structure of a country.[158] Protection is provided through a mechanism that Krugman

[158] For example, country size has been acknowledged as a variable that influences the potential to realize scale-economies. With imperfect competition, a relatively larger country has a larger

(1984, 1992) labelled 'protection as export promotion.' The logic of the model is that in monopolistic, oligopolistic, and segmented markets, protection provides a domestic firm with greater scale economies, while reducing those of its foreign competitors. Protection allows the domestic firm to reap the benefits coming from output to marginal cost to output, thereby decreasing its costs: 'protecting the domestic firm in one market increases domestic sales and lowers foreign sales in all markets' (Krugman, 1992: 80). This situation increases production efficiency and may even make firms more competitive in foreign markets, thereby increasing the efficiency of the firms' production until they reach a level of efficient scale.[159] In each of these steps, industries with scale economies obtain higher profits (Milner, 1997: 81-82); therefore, exporters with the potential to realize scale economies gain economic benefits from reduced competition.

In addition to limited liberalization, an element of protection by limiting the entrance of competitors is also needed to secure fragmented production relationships. By limiting the scope of countries with which to integrate, producers 'lock in' their relationships with buyers or sellers in other countries, thereby shielding their own position and the trade relationship (WTO, 2011: 111). As a result, industries with scale economies and exporters with fragmented production have economic incentives to demand trade agreements: they prefer limited liberalization in order to maximize their profits through exclusive access to the regional market and/or productive network.

Nevertheless, to capture economic benefits from deep integration, a favourable context which allows the realization of scale economies and production sharing must also exist.[160] In the next section, it is argued that the potential for exploiting scale economies and for engaging in production sharing existed in Latin America after most of the countries abandoned their economic models of industrialization based on the substitution of imports in the 1980s.

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market size that increases the possibilities for exploiting scale-economies (Helpman and Krugman, 1985: 152). As a result, relatively smaller countries have incentives to form trade agreements to expand their markets and increase their opportunities to exploit scale-economies. Country size is a control variable in the empirical analyses in Chapter 8.

[159] In addition, when international competition encourages imperfectly competitive firms to reduce their prices and produce more, this can be also considered a source of gains at a country level (Helpman and Krugman, 1985: 263-265).

[160] The potential to exploit scale-economies increases inversely to the point they already have been exploited (Helpman and Krugman, 1985).

Potential of exploiting scale economies and production sharing

Latin American countries had the potential to realize scale economies and, to a lesser extent, engage in production sharing after they abandoned the economic model of industrialization based on the substitution of imports in the 1980s. Academic literature on the characteristics of the imports substitution model that prevailed in Latin American countries after the Great Depression and until the economic crisis of 1982 provide insight for assessing whether industries and firms had the possibility to realize scale economies in their processes of production. On the other hand, an economic model based on the substitution of imports does not, by definition, allow the existence of strong internationalized processes of production. Since Latin American industries and firms were unable to realize scale economies or internationalize their production during the imports substitution phase, these types of exporters had economic incentives to demand deep integration.

Indeed, the protectionist model that prevailed in Latin America after the Great Depression and until the economic crisis of 1982 created obstacles for realizing scale economies and internationalizing production. In any imports substitution process, the starting point is the manufacture of finished consumer goods, moving on to the production of intermediate goods and machinery through backward linkage effects. In contrast to that of developed countries,[161] industrialization in Latin America followed a sequential process on the basis of imported inputs and machines (Hirschman, 1968: 6). The industrial structure that developed in Latin American countries was virtually isolated from the rest of the world (Prebisch, 1963: 71). This situation was particularly critical for industries that required large-scale output to reduce their high fixed costs (such as the steel and automobile industries) to be internationally competitive (Bauer, 1972: 102). The staged process created obstacles to training in technological innovation as well as resistance to backward linkage investments and to exporting:

> 'New industries have been set up exclusively to substitute imports, without any export horizon [...] the foreign branch plants and subsidiaries, which have taken an important part in the process, often are under specific instructions not to compete abroad with the products of the parent company [...] the new industries, set up behind tariff walls, usually suffer from high

[161] The industrialization based on the substitution of imports that took place in Latin America had different characteristics from the one that took place earlier in developed countries. Instead of the gradual import substitution that took place in United States and Europe, the application of said model in Latin America was part of a deliberate development policy in response to the growth of domestic markets (Hirschman, 1968: 6).

> production costs in countries that are, moreover, permanently subject to strong inflationary pressures -hence there is no real possibility of these industries competing successfully in international markets even if they were disposed to do so' (Hirschman, 1968: 25).

The establishment of inefficient and costly industries in countries with small domestic markets and no access to foreign markets took place in a setting with no possibilities of backward linkages. Moreover, in an effort to increase competition, governments allowed numerous firms to create domestic competition, further decreasing any possibility of realizing scale economies (Scitovsky, 1969). These characteristics of industrial growth prevented the realization of scale economies and the competitive internationalization of the processes of production:

> 'The criterion by which the choice was determined was based not on considerations of economic expediency, but on immediate feasibility, whatever the cost of production [...] As is well known, the proliferation of industries of every kind in a closed market has deprived the Latin American countries of the advantages of specialization and scale-economies, and owing to the protection afforded by excessive tariff duties and restrictions, a healthy form of internal competition has failed to develop, to the detriment of efficient productions' (Prebisch, 1963: 71).

Fragmentation of production in international networks and value chains has gradually gained relevance in international trade. According to Yeats (1999), the international fragmentation of production is a phenomenon which started in the 1960s.[162] Fragmented processes increased in complexity as industries needed to increase productivity and remain competitive. Nevertheless, it was only after the international communications revolution,[163] which began in the late eighties, that coordinating extremely complex processes across distances became possible and radically transformed international trade (Baldwin, 2011: 4-5). Simultaneously, after the economic crises in the 1980s, Latin American countries reoriented their economic patterns towards an export promotion model led by private initiatives.

By the beginning of the 1990s, a liberal consensus on the spread of democracy, neoliberal economic reforms, and an increase of interdependence had been achieved

[162] The process involved vertical integration in manufacturing industries (such as electronic components, and chemicals) between developing and developed countries. The stages of production were allocated according to comparative advantage, for example transferring to developing countries the stages of production which were intensive in labour; and also considering the trade barriers to scale-economies in developed countries (Yeats, 1999: 1).

[163] Technological advances and their diffusion in the areas of telecommunications, computing, optic fibre, and the internet, increased the reliability and reduced the costs from sharing information across space. These changes prompted innovations in the management of information and working systems to facilitate the control and coordination of production processes across borders (Baldwin, 2011: 4-5).

in the region. This consensus promoted trade integration as a necessity for achieving economic growth (Peceney, 1994; Haggard, 1998) and trade policies as a pillar of regional economic development. The withdrawal of the state unlocked the possibility for export oriented producers to realize scale economies, engage in fragmented processes of production, and maximize their economic interests through deep integration at the intensive and extensive margins in trade agreements.

Therefore, after Latin American countries abandoned the economic model of industrialization based on imports substitution, some exporters had economic incentives to demand integration at the intensive and extensive margins of trade agreements. Unlike gains from trade analysed in standard trade theories, which benefit all exporters covered by a trade agreement, gains from trade within the 'new' and 'new new' trade theories are concentrated more in the resourceful industries and firms that can realize their scale economies after trade integration has expanded the market, or in those industries and firms that can relocate the steps of their production. As per the arguments presented in the previous section, these types of exporters are present in concentrated export sectors (in contrast with de-concentrated export sectors, which include many small and medium exporters). Maintaining all else constant, exporters with scale economies and/or those engaged in fragmented production may benefit from the removal of additional trade barriers in extensive margin areas which affect their processes of production and from stronger provisions at the intensive margin. These reasoning and arguments lead to the second constitutive hypothesis of this chapter:

> *Constitutive hypothesis 2*. Latin American countries with more concentrated export sectors display deeper integration at the intensive margin of their trade agreements than countries with more de-concentrated export sectors.

Exporters' preferences for deep integration

The possible outcomes for different levels of export sector concentration are represented in Table 5.1.[164] The rows represent the depth at the extensive and intensive margins in a trade agreement. The columns represent the (de)concentration of a country's export sector. In a highly concentrated export sector, few resourceful large industries dominate, whereas in a highly de-concentrated

[164] The first section of this chapter argues that Latin American countries are closer to settings of high specificity of factors. Therefore, the setting of high mobility of factors is not included.

export sector, many average industries are in place. The upper right corner represents the situation that maximizes economic benefits from integration at the intensive margin of trade agreements; the lower left corner represents the situation that maximizes economic benefits from integration at the extensive margin of trade agreements.

Table 5-1 Exporters' economic benefits from deep integration for countries with (de)concentrated export sectors

Export sector (de)concentration	Deep integration	
	Extensive Margin	Intensive Margin
High concentration (Industries/firms with scale-economies and/or fragmented production)	Medium	Deep
Low concentration (Many small/medium exporters)	Medium	Shallow

Source: Elaborated by the author.

Industries with scale economies and/or fragmented production receive the largest economic benefits from deep integration at the intensive margin because they require mechanisms to coordinate and ensure their production processes. These conditions are more likely matched with deeper trade integration at the intensive margin of trade agreements than when a de-concentrated export sector exists. Accordingly, as shown in the lower right corner, small and medium exporters also receive benefits in terms of security from trade agreements that have more robust and capable institutions, but they do not need them to materialize the economic benefits arising from their processes of production.

The situations which maximize economic benefits from the extensive margin in trade agreements are relatively less straightforward. The upper-left corner shows the existence of a concentrated export sector with industries with scale economies and/or fragmented production. In this case, the economic incentives to demand trade agreements with deep extensive margins of integration derive from the increased potential to realize scale economies and production sharing from removing policy obstacles. Because only a few of these types of exporters exist in concentrated sectors, the potential to receive economic benefits is concentrated only in the specific areas which affect their process of production. Nevertheless, since limited liberalization is the first-order preference of such exporters, they could reach deeper agreements than if only small and medium exporters exist. The lower left corner depicts conditions under which industries do not have scale economies, but a large number of small and medium exporters exist. In this case, the latter benefit from an expansion in market size, but incentives to demand trade agreements may be weaker, as multilateral (and not limited) liberalization is the first preference of these exporters. Therefore, these conditions may lead to trade agreements with medium extensive margins of integration.

Conclusions

This chapter identified exporters, particularly those with scale economies and those engaged in fragmented production, as the domestic economic interests which prefer deep integration at the intensive and extensive margins. The main objective was to bring insight to the issue of wide variations in the depth of the trade agreements established by Latin American countries since from 1982 to 2010. To identify the preferences of economic interests, these were separated from their strategic environments. Accordingly, within the endogenous trade theory framework, these economic actors were shown to prefer deep integration because they can capture economic benefits from it.

Standard, 'new,' and 'new new' trade theories were used as the analytical basis for identifying which economic interests derive benefits from deep integration in its extensive and intensive margins. In each case, the economic benefits produced by deep integration, as defined in Chapter 3, were analysed. First, based on standard trade theories, it was argued that integration at the extensive margin reduces trade barriers which expand the size of the market for exporters of final goods and produces static gains from trade which benefit all of them. It was also argued that static gains from trade are created mainly through integration at the extensive rather than the intensive margin.

Second, based on 'new' and 'new new' trade theories, it was argued that integration at the extensive margin is also likely to reduce trade barriers which affect the production process of exporters that are able to engage in fragmented production and realize scale economies. Along the same lines, integration at the intensive margin reduces the costs of coordinating and controlling the foreign aspects of the production process for exporters which engage in horizontal intra-industry trade or in vertical fragmentation of production. The decrease in the marginal costs for these types of exporters creates additional gains from integration at the extensive and intensive margins. To identify potential beneficiaries of deep integration at the intensive and extensive margins of trade agreements, characteristics of the policy output were analysed, and features of the countries in the region were taken into consideration.

From the analysis based on standard trade theories, it was argued that Latin American countries are characterized by its closeness to a setting of high specificity of factors in the factor mobility continuum. In addition, it was considered that trade agreements favour the redistribution of resources according to a highly specific policy

setting. For these reasons, it was argued that the identification of economic interests that derive economic benefits from deep integration under perfect competition should be done within the Ricardo-Viner framework. According to this framework, export oriented economic interests maximize their benefits when they can appropriate static gains from trade through trade agreements (as a second alternative to multilateral liberalization). Export oriented industries that derive benefits from free trade favour integration; import competing industries that are harmed by free trade oppose integration. Thus, we would expect preferences for deep integration to follow along the lines of export oriented versus import competing industries or sectors. The first constitutive hypothesis in this chapter stated that, maintaining all else constant, countries with more concentrated export sectors are expected to display trade agreements with more profound extensive margins than countries with more de-concentrated export sectors.

The analysis based on 'new' and 'new new' trade theories complemented the analysis based on standard trade theories. In this case, the economic benefits that exporters with scale-economies and/or those engaged in fragmented production gain from deep integration were identified. In addition to static gains produced only by market expansion, under settings of imperfect competition, some exporters are able to achieve dynamic gains from trade. As a consequence, the potential for exporters with scale economies and/or those engaged in fragmented production to derive economic profits from deep integration increased. Furthermore, after the abandonment of the model of industrialization based on the substitution of imports, the context of Latin American countries liberated the potential of export oriented producers to exploit scale economies or to engage in fragmented production. Based on these arguments, the second constitutive hypothesis of the chapter was developed.

Based on the derivation of preferences of export oriented producers towards deep integration at the intensive and extensive margins, it is expected that Latin American countries with more concentrated export sectors will be associate with trade agreements that have deeper margins, compared to countries with more de-concentrated export sectors. However, an aspect to bear in mind is that, although concentrated exporters have clear economic incentives to prefer deep integration at both margins, the limited number of such exporters in a concentrated export sector may end up restricting deep integration (because this type of exporters will only be interested in achieving deep integration in the specific areas and mechanisms which affect their production processes).

6 The influence of political access and veto power

The main objective in this chapter is to analyse how domestic political institutions influence variations in depth of trade agreements established by Latin American countries. Trade agreements are usually considered in literature as public goods and a form of international cooperation. Nevertheless, they are also policy outputs, and the extent of the integration trade agreements promote has redistributive consequences on the income of the domestic groups of the countries which establish them. In the previous chapter, export oriented producers, particularly the ones in industries with scale economies and those engaged in production sharing, were identified as the main economic beneficiaries of limited and deep integration through trade agreements. Nevertheless, these interests cannot be simply transposed to public policy outcomes. An analysis of the institutional settings and features of the regional countries and their influence on the extent of deep integration in trade agreements is required. Moreover, although 'old politics' persist in the region (Panizza, 2000: 738), the need for further research on domestic political institutions and their influence on public policy in developing countries, particularly in Latin America, has already been raised (Geddes, 2002; Nielson, 2003; Spiller, Stein, and Tommasi, 2008).[165] Therefore, the aim of this chapter is to help fill this knowledge gap by analysing two ways in which configurations of domestic political institutions may influence deep integration in Latin American countries.

Combining veto player theory and access point theory, this chapter addresses two ways in which configurations of domestic political institutions influence the extent of integration in trade agreements: the way in which the demands for deep integration on the part of its beneficiaries are channelled through domestic political institutions and the way in which institutions control and allocate legislative power over trade agreements. To analyse the influence of institutions in trade policies, scholars refer mainly to two sets of models: one based on particular institutions (e.g. Rogowski, 1987; Nielson, 2003) and the other based on conceptual dimensions (e.g. Tsebelis, 1995, 2002; Ehrlich, 2007, 2011). In Chapter 1, it was argued that the most appropriate approach to analysing the influence of domestic institutions over deep integration in trade agreements is the latter set of models. The most important reason

[165] As mentioned in Chapters 1 and 2, the analysis of institutions in Latin America was dismissed for a certain period because of the authoritarian nature of the governments in the region (Geddes, 2002: 343).

is that most Latin American countries share broadly similar specific institutional characteristics, such as presidential systems and proportional representation. Therefore, to develop the analysis, the two models—veto player theory and access point theory—are combined in the following four sections of this chapter.

The first section explains how veto player theory and access point theory can be combined to analyse the influence of domestic institutional setting characteristics on variations in the depth of trade agreements in Latin American countries. First, the differences and areas of similitude and complementarity of both theories are studied. Second, one way in which both theories can be combined is suggested. The main objective is to create an integrated framework for access points both with and without veto power to analyse two areas of the political process of determining varying degrees of integration in trade agreements. The second section develops a way in which access points with and without veto power influence deep integration. The analysis considers the trade agreements established by Latin American countries after the adoption of the economic model of exports promotion in the region. Five subsections address the following political actors and features: (1) the executive branch as agenda setter; (2) the number of veto players in the executive branch; (3) the number of veto players in the legislative branch; (4) the nature of the veto players, and (5) the role of access points without veto power. Throughout these subsections, the implications for deep integration of each aspect are discussed.

Next, the two constitutive hypotheses of the chapter are presented. First, maintaining all else constant, Latin American countries with fewer effective veto players are associated with trade agreements with deeper integration than countries with more effective veto players. Second, with all else being equal, countries with more access points without veto power are associated with deeper integration in trade agreements than those with fewer access points without veto power. The second constitutive hypothesis focuses only on the possibilities of representation of access points, leaving aside for now assumptions about which interest groups are better able to capture the access points. These aspects are addressed in the next chapter, within a collective action framework.

In the third section, the effects of different configurations of institutional settings over the depth that trade agreements may reach are analysed. Considering different combinations of access points with and without veto power and different degrees of coherence and congruence, the possible outcomes are discussed. The final section presents the conclusion that although veto player theory and access point theory provide a suitable basis for analysing the influence of different configurations of

institutions on deep integration, these theories are limited in explaining more specifically the extensive and the intensive margins of integration.

Combining access point and veto player theories

Complementarities between veto player theory and access point theory

Veto player theory and access point theory, together, provide an adequate framework for analysing the ways in which different institutional settings in Latin American countries influence the levels of deep integration in their trade agreements. To explain how domestic institutions influence variations in the depth of trade agreements based on the definition of deep integration, how these institutions influence the 'intensity' and horizontal and vertical 'distances' given by the magnitude of integration must be considered. The horizontal and vertical distances of integration correspond to the intensive and extensive margins, as discussed in Chapters 2 and 3. Therefore, in order to explain variations in the degree of liberalization of trade agreements, how domestic institutions influence departures from the status quo and the magnitude and direction of the policy change must be addressed.

Veto player theory and access point theory complement each other in analysing deep integration in Latin America. From the perspective of veto player theory, it is possible to study how the configuration of veto players influences the way in which the extent of deep integration is decided between the political actors which have the power to block the enactment of a trade agreement. From the perspective of access point theory, we can analyse how the number of access points influences the ways in which societal demands are channelled regarding the extent of deep integration. Table 6.1 summarizes the main distinctions between the two theories regarding their selection of the conceptual dimension across which they aggregate institutions, their focuses of analyses, and their predictions.

In terms of their focuses of analyses, both theories are useful for explaining the magnitude of policy change and, therefore, the depth of the trade agreements. Veto player theory (Tsebelis 1995, 2002) explains the feasibility of departures from the status quo, whereas access point theory (Ehrlich, 2007, 2011) focuses on explaining the direction and magnitude of the policy change. Because the liberalization and approval of trade agreements cannot be considered as occurring separately, veto

players are likely to influence both instances of policymaking (Mansfield and Milner, 2012: Kindle locations: 486: 5825).[166] From this perspective, the feasibility of departures from the status quo also provides a range for the extent of liberalization that can be achieved within a trade agreement, further exploiting the potential of veto player theory. Finally, although veto player theory has been considered limited for explaining the direction and magnitude of policy change because it requires additional assumptions about the preferences of veto players (Ehrlich, 2007: 576), in this research these assumptions were derived directly from the nature of the object of analysis.[167]

More specifically, both theories are useful for understanding the influence of configurations of different political actors over the depth that a trade agreement can reach. On the one hand, veto player theory focuses on the number of actors (i.e. veto players), who are 'individual or collective actors [which] have to agree to the proposed [legislative] change' (Tsebelis 2002, 2). The configuration of domestic veto players[168] and their sequence in the enactment of a particular policy output create incentives and restrictions which influence the extent of possible departures from the status quo. The theory predicts that a large number of veto points decreases the feasibility and extent of policy change. On the other hand, access point theory focuses on the number of actors (i.e. access points), who should have power over the specific policy output, and they should react to the pressure of the domestic interest groups that are affected by the said output (Ehrlich, 2007: 572). The number of domestic access points influences the costs of lobbying of interest groups, which also influence the magnitude and direction of possible departures from the status quo. Access point theory predicts reductions in the costs of lobbying and a protectionist bias in trade legislation when numerous access points exist.[169] Therefore, from separate

[166] Mansfield and Milner (2012: Kindle locations: 486: 5825) explain that 'veto players are likely to have an impact [over design] because of the transaction costs they can impose on executives at the ratification stage.'

[167] The direction of policy change is already determined for the trade agreements established by Latin American countries after the adoption of the economic development model based on the promotion of exports. Said agreements were designed within an open regionalism approach. Open regionalism trade agreements are, by definition, established to achieve more liberalization and do not allow movements towards more protectionism. Therefore, there is no ambiguity concerning the direction of the policy change.

[168] The configuration of veto players is given by 'a certain number of veto players, with specific ideological distances among them, and a certain cohesion each' (Tsebelis, 2002: 2). The contribution of each of these features to the extent of deep integration is discussed in the next section of this chapter.

[169] Ehrlich (2007: 580-583).develops this argument in two stages. First, relatively more access points reduce lobbying costs. With the reduction in costs of lobbying, groups that could not

perspectives, veto player theory and access point theory are useful for understanding the influence of configurations of different political actors over the depth that a trade agreement can reach. Considering their focus of analysis, selection of conceptual dimension, and predictions, both theories can bring insight into deep integration. In the following subsection, a possible way for combining and adapting the two theories is suggested.

Table 6-1 General comparison between conceptual models of institutional dimensions

Dimension	Theory of Veto Players	Theory of Access Points
	Tsebelis (1995, 2002)	Ehrlich (2007, 2011)
Focus of analysis	Feasibility of policy change. Decisiveness of a political system.	Direction and magnitude of policy change.
Conceptual dimension	Veto players: individual or collective actors whose agreement is required to change the status quo.	Access points: any relevant policymaker who is also either independent or serves a distinct political constituency.
Predictions	The potential for departures from the status quo decrease with the number of veto gates and their veto players, the lack of congruence and the cohesion of such players.	More access points are able represent larger numbers of different political constituencies. The costs of lobbying decrease as the numbers of access point increase. The group that is able (because of collective action advantage) to capture the access points influences the direction and magnitude of policy change.

Combining access point and veto player theories

Combining access point theory and veto player theory allows us to characterize interested actors in a policy according to the following categories: first, veto players, access points without veto power, and relevant actors. Figure 6.1 presents these actors in the groups and subgroups in which they belong. The categorization of these actors in the groups of relevant actors, access points, and veto players is explained in the rest of this subsection.

afford lobbying can then influence policy makers. The second part of the argument is that protectionist groups capture the access points because they have an advantage in organizing compared to liberalizing groups. The result is a protectionist bias in legislation about trade policy, expressed in higher tariffs

Ehrlich (2007: 577) defines access points as 'any *relevant* policymaker who is also either *independent* or serves a *distinct* political constituency.' The policymakers are characterized as 'relevant' when they have actual or potential power over a specific policy. In turn, a veto player is 'an individual or collective actor whose agreement (by majority rule for collective actors) is required for a change in policy' (Tsebelis, 1995: 301). Tsebelis distinguishes between several categories of veto players but focuses on two: institutional veto players, who are specified by the constitution, and partisan veto players, who exist in multiparty parliamentary systems and are members of a government coalition. In most Latin American countries, which have mainly presidential systems, only institutional veto players can block the legislation of a policy output.

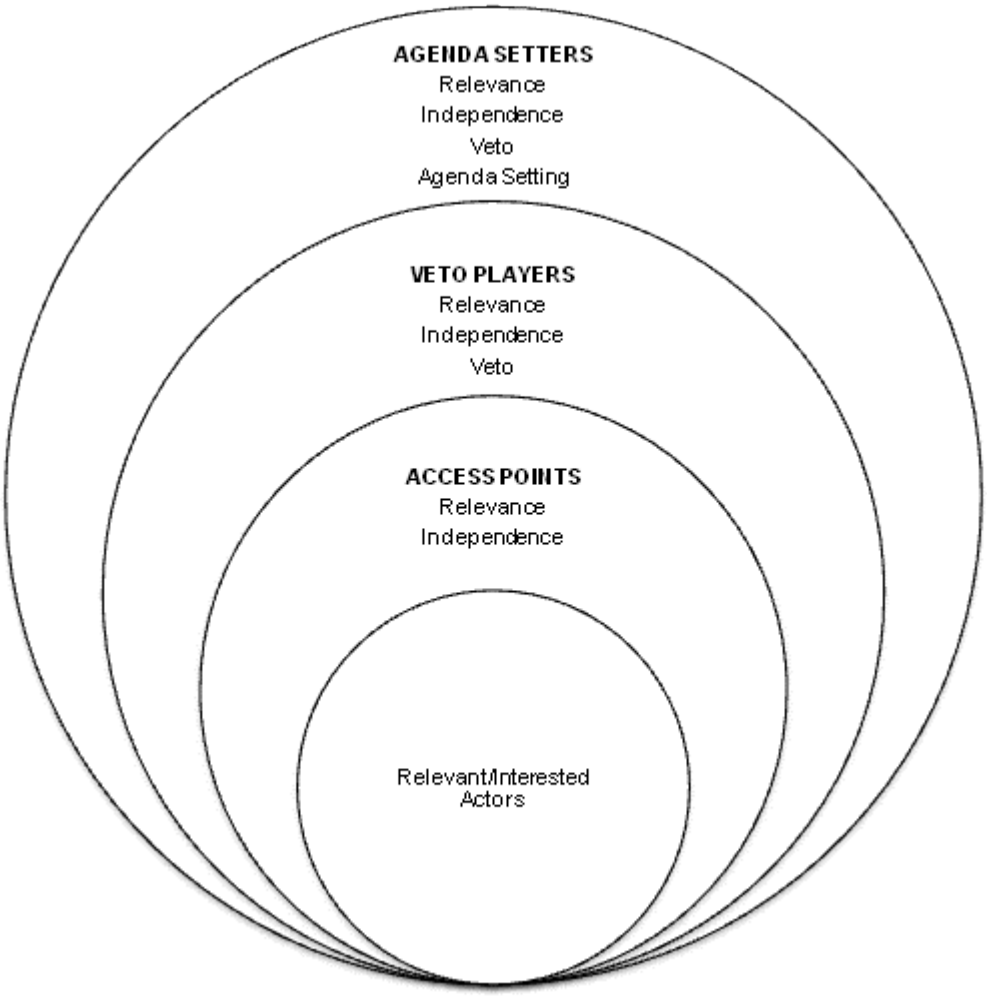
Actors interested in a certain policy output are not necessarily access points, and access points may have veto power or not. Interested actors are the relevant actors, and they form the group to which veto players and access points belong. Ehrlich (2007) exemplifies general relevant actors as all the members in a parliament. He explains that these actors are relevant but not independent. Parliamentary members are considered relevant because they can vote on aspects of the policy output under consideration. However, they are not independent from their party leaders. Access points form a second and separate group, and they are relevant and independent actors. The third group is a subgroup of access points. They are the independent and relevant actors positioned at the institutional gates that can decide over policy changes, since their consent is necessary to modify the status quo. Finally, a fourth group is the subgroup of veto players with agenda setting power. These actors have more influence over policy outcomes than the other actors which also have veto power because agenda setters can influence the policies that replace the status quo through their ability to present 'take-it-or-leave-it initiatives' to other veto players.[170] Ehrlich identifies policymakers as relevant when they have actual or potential power over the policy. Therefore, a political actor with the power to veto a policy and set an agenda is then in the same logical continuum at the extreme of relevance.

Both theories also consider certain characteristics of the political system and institutional features to possibly affect the final count of access points and veto

[170] Tsebelis (1995, 2002) explains that agenda-setters are able to choose between all the possible results the one that they prefer. This ability is restricted to satisfy the condition that the initiative has to be acceptable to the rest of the veto players. Otherwise, the initiative will be rejected and the status quo will remain. The power of the agenda setter is inversely related to the status quo, the smaller the size of the win-set of the status quo (and the larger policy stability) the smaller will be the power of the agenda setter.

players in specific ways. Ehrlich identifies these characteristics as relevance, independence, and distinctiveness, whereas Tsebelis identifies them as congruence and coherence. For Ehrlich, distinctiveness describes the policymakers' capacity to exercise their relevance based on their own preferences among access points. Tsebelis takes into account the distance between them (determined by their location and indifference curves) in the policy space and categorizes them as (in)congruent, depending on the (dis)similarity of their policy positions. Ehrlich identifies independence as the capacity of policymakers to exercise their relevance based on their own preferences among the constituent units of each access point, whereas Tsebelis, again, considers the distance between them (determined by their location and indifference curves) in the policy space and categorizes them as (in)coherent depending on the (dis)similarity of their policy positions.

Figure 6-1 Veto players as a subgroup of access points



Source: Elaborated by author.

After combining the actors, focuses of analysis, and predictions of both theories, it is possible to argue that, maintaining everything else constant, countries with fewer veto gates are more likely to have fewer obstacles in decision making to depart from the status quo. On the other hand, in the first instance, without taking into account the capacity of mobilization of interest groups (which is analysed in Chapter 7), more access point have, by definition, more capability to represent more interests in a society. Therefore, more access points without veto power couldcover more areas of integration and achieve deeper integration in trade agreements.

Nevertheless, an integrated model of veto players and access points presents additional aspects to consider. Combining both theories, the focus still rests on the two veto gates which have the power to establish or block trade agreements and, therefore, whose approval of the agreements' design must be sought. These are the executive and the legislature. In both theories, the numbers of units are independent variables in the analyses of the magnitude of policy change. Both theories also consider that certain characteristics of the actors in the political system (relevance, independence, distinctiveness, congruence, and coherence) may alter the effective number of access points and veto players. In the next section, the influence of these aspects over deep integration is discussed, using the Latin American region after it adopted the economic model based on the promotion of exports as reference.

The influence of veto players and access points without veto power

In Latin America, the executive and the legislature are the relevant political institutions with veto power over legislation concerning trade agreements and the extent of their liberalization. Although both institutions are relevant in the area of trade policy,[171] they do not share their power over the process of establishing trade agreements. Instead, the model of differentiated powers prevails between them.[172] Constitutions give both institutions specific powers over the establishment of trade

[171] For the purposes of this research, the predominant weight of either the executive or the legislature over the other does not affect the analysis because both institutions have clear and differentiated veto powers over the legislation of trade agreements. According to Nielson (2003: 480), the executive is predominant in Brazil, Chile, the Dominican Republic, Ecuador, Honduras, Mexico, and Peru. And the legislature is predominant in Argentina, Bolivia, Colombia, Philippines, Uruguay, and Venezuela.

[172] Depending on the way in which domestic institutions allocate power, it is possible that domestic actors share control over policy making or that they have differentiated powers (Mansfield, Milner and Pevehouse, 2007: 405).

agreements. In general, the executive has the authority to make initiatives to establish trade agreements,[173] whereas the legislature has ratification power over the proposed initiative.

This section discusses the influence of the configurations of veto players and the number of access points without veto power over deep integration. Based on the theories of access points and veto players, Table 6.2 broadly summarizes the effects of the institutional features[174] which are considered most relevant to the analysis of deep integration. The next subsections develop each of the aspects summarized in the tables, using the institutional setting of Latin American countries as reference.

Table 6-2 Influence of institutional features over the extent of policy change

Dimension	Veto player theory	Access points theory
	Tsebelis (1995, 2002)	Ehrlich (2007, 2011)
Presidentialism	Increases veto players when president has veto powers.	Having a president as a separate executive may create an additional access point, in addition to all of the access points in legislature.
Bicameralism	Effective bicameral systems increase the number of veto players.	Effective bicameralism introduces additional access points to a system.
Divided government (presidential systems)	Increases effective number of veto players.	Increases access points by increasing the number of relevant policy makers.
Number of parties in government	More parties in government increase the possibilities of reductions of the win-set.	More parties in government increase the numbers of relevant access points. In parliamentary systems, only parties in government are relevant. In presidential systems minority parties also retain significant policymaking powers.

Source: Elaborated by the author.

[173] Mansfield, Milner and Pevehouse (2007: 405) mention that in several parliamentary systems 'only the executive initiate proposals, and she cannot veto a proposal once the legislature amends and ratifies it.'

[174] Concerning party ideology, from the perspective of veto player theory, polarized ideologies increase the size of the winset and increase policy stability. From the perspective of access point theory, party ideology influences receptivity, not the number of access points. In both cases it has been considered not relevant for the analysis of particular trade-bills.

The executive branch as agenda setter

In terms of veto player theory, the executive and the legislature are the two veto gates for establishing deep integration agreements. In general, the constitutional system and the structure of the legislature[175] are the political institutions which determine the number and position of the veto players in democratic political systems. The constitutional system determines whether regimes are presidential or parliamentary, and the legislative structure determines whether legislatures are bicameral or unicameral (Schiavon, 2001). In this and the following four subsections, the role of the executive and legislative branches of government as veto players over the extent of liberalization in trade agreements is analysed. In the last subsection, the role of the legislature's access points that do not have veto over deep integration in trade agreements is also studied.

As stated above, the executive branch of government in Latin American countries are the key actors that initiate trade agreements. The agenda setter has a considerable advantage as she can choose her preferred point from the win-set[176] of the status quo. Since presidents have agenda-setting power for trade agreements, it is important to understand incentives and motivations affecting their preferences and behaviour.[177] In line with public choice literature, it is assumed in this research that the executive is a rational actor which prefers to maximize its power. In order to maximize their power, politicians should stay in office and maximize the possibilities of re-election or of transcending (Schiavon, 2001).[178] Therefore, for deep integration trade agreements to take place, the executive must perceive these agreements as desirable and as more favourable than shallow or no agreements.

In academic literature, one can identify three main sources that influence the executive's preference for deep integration in Latin America: exogenous economic

[175] Courts of justice and other actors may also be relevant depending on the policy domain, but as above in the case of legislation about trade agreements the executive and the legislature are the relevant domestic institutions which should be under consideration.

[176] The agenda setter's advantage decreases when the win-set of the status quo is small because many veto players exist. Other situations in which significant departures from the status quo are not likely are when the positions of the veto players are divergent and when they are cohesive (Tsebelis, 2002: 2).

[177] This research follows the work of scholars (e.g. Tsebelis, 2002; Mansfield, Milner and Pevehouse 2005, 2007; Ehrlich, 2007) in not making specific claims about the preferences of the rest of domestic actors. The assumption is that some of these actors favour deep integration, while others oppose it.

[178] Transcending is defined as 'transferring power to someone who shares the same or similar goals (normally someone from the same political party)' (Schiavon, 2001).

and international changes, democratization, and pressure from interest groups. First, exogenous economic and political shocks fostered the dissemination of neoliberal economic ideas. These shocks challenged the ideas of the politicians of that moment, who considered the import substitution model a suitable path toward development (Prebisch, 1950).[179] Most politicians and scholars believed that the crisis resulted from the economic model of substitution of imports. Politicians followed the new 'economic policy roadmap' through the promotion of exports, which seemed the most feasible alternative for economic development (Goldstein and Keohane, 1993). Furthermore, several external developments may have also reinforced the beliefs of politicians in the direction explained above: the successful experiences with liberalization in Chile and East Asia, the collapse of the Soviet Union (Edwards 1995); and pressure from financial institutions such as the IMF and the World Bank, which conditioned structural adjustment loans to trade liberalization (Williamson, 1994; Haggard and Kauffman, 1995). Deep integration and liberalization agreements, as components of the economic structural reform (IADB, 2002), also became desirable.

Second, it is plausible that the process of democratization that started in Latin American countries before the 1990s may have contributed to the executive's positive perceptions towards deep integration after the start of the economic structural reform in the region. Compared to non-democratic systems, democratic ones do not necessarily have more veto players,[180] but they do have more access points.[181] During several decades, most Latin American countries moved frequently back and forth between undemocratic and democratic governments to progressively return to

[179] The most important structural factor that challenged these beliefs was the economic and debt crisis of the decade of 1980. However, economic crises only opened the door to reform; they did not determine the content or guaranteed the success of reform (Panizza, 2000).

[180] Regime type and veto players are different concepts, and as in other studies (Mansfield, Milner and Pevehouse, 2007), in this research they are treated as distinct. In general, democracies have a larger number of veto players than non-democratic countries. It is likely, but not necessary, that the number of veto points and veto players is larger in democratic regimes than in authoritarian ones. In non-democratic systems, the executive needs the approval of the military or other actors over her initiatives (Mansfield, Milner and Pevehouse, 2007: 405). Democratic and non-democratic veto players are different mainly in the competition leading to setting the agenda: in the former, it is placed closer to the median voter than in the latter (Tsebelis, 2005: 14). In Latin America, the institutional veto players and gates of non-democratic regimes were similar to the ones in democratic systems because the former maintained the division of powers (with varying degrees of formality) between the executive and the legislative powers (Schiavon, 2001).

[181] In authoritarian countries voting restrictions, restraints on assembly, or the weakness of parties and intermediate associations, increase the likeliness that there will be a fewer number of access points relative to the ones in democratic countries (Ehrlich, 2007, 2011).

democratic rule in the 1980s (Spiller, Stein, Tommasi, 2008: 2).[182] Scholars argued that in democratic countries, politicians prefer trade liberalization over protectionism because the former enlarges consumer surplus, enhances the welfare of voters, and improves the politicians' prospects for re-election (e.g. Mansfield, Milner and Pevehouse, 2007). Since democracies have a more encompassing interest in society than non-democracies, the former generates public policies that benefit the interests of the majority and reflect the citizens' primacy in the allotment of institutional political power (McGuire and Olson, 1999; Acemoglu and Robinson, 2006). Moreover, because the desire of Latin American presidents to be re-elected or to transcend is linked to their individual national constituencies, they prefer to pursue public goods such as trade liberalization (Nielson, 2003: 473). Then, the presidents may also use deep integration to reward the groups that can contribute to the possibility of their re-election or transcending.

Finally, because of interest group demands, the executives in Latin America have a preference for liberalization through trade agreements rather than through unilateral liberalization. The arguments above explain the preferences of the executives for deep liberalization. However, they do not explain the reason why the executives would opt for limited liberalization through trade agreements instead of wider multilateral liberalization. Specifically, some arguments indicate that political leaders prefer minilateral or bilateral agreements that allow them to increase the consumer surplus, while maintaining mechanisms to extract rents from special interest groups, as opposed to generalized liberalization (e.g. Milner, 1997; Milner and Kubota, 2005). An important source of demand for deep integration exists in countries that have producers in industries with scale economies. As discussed in Chapter 5, after the collapse of the economic model based on the substitution of imports, a large potential to exploit scale economies and fragmented production existed in Latin America. These producers would benefit from limited deep trade liberalization, such as the one provided by trade agreements (and, in fact, be harmed by wider multilateral liberalization that could erode their scale-economies or international production networks). Although these three aspects explain the incentives of the executives to present initiatives of deep integration agreements to

[182] The issue of how democratic are Latin American countries is controversial. Following Schiavon's (2001) study about economic structural reforms in Latin America, in this research, the degree of democratization achieved is not central to explain deep integration. Instead, the central concern is the institutional restrictions of the executive to achieve deep integration. However, the degree of democratization of the countries members of a trade agreement is included as a control variable in the empirical analysis developed in Chapter 8.

the legislature, they cannot explain the differences in nature and levels of integration across the agreements signed by countries in the region.

The number of veto players in the executive branch

The number of veto players positioned at the veto gates inversely influences the extent to which deep integration can be achieved. There are one or two veto players in the executive gate, depending on whether there is separation of purpose between the legislature and the executive. When separation of purpose exists, the system is presidential; when there is no separation, the system is parliamentary. Latin American countries have chosen mainly presidential regimes.[183] In presidential systems, the separation of purpose between the legislature and the executive is guaranteed because presidents have both independence of origin and independence of survival.[184] In presidential systems, the powers of the president[185] determine the actions that she can take and her capacity to enact her preferred policy. In contrast, in parliamentary systems, the executive is responsible to the legislature and its survival is tied to the legislature (Shugart and Mainwaring, 1997: 15). Furthermore, in presidential systems, it is possible to find two veto gates:[186] one in the executive and one in the legislature. Maintaining all else constant, the number of veto players is higher in presidential systems than in parliamentary systems.

The number of veto players in the legislative branch

One of the characteristics of legislatures that influences the number of veto players in a domestic system is their number of chambers. The number of veto gates within the structure of the legislature can be one or two, depending on the constitutional powers of each chamber over trade agreements. Unicameral systems tend to be more

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[183] Belize and Suriname have parliamentary systems.

[184] Presidentialism has four main components: popular election (independence of origin); fixed terms (independence of survival); executive appoints cabinet members; executive has certain authority in law making (Shugart and Mainwaring, 1997: 14-15).

[185] In presidential systems, the power of the executive can be constitutional (legislative or non-legislative) or partisan (Shugart and Mainwaring, 1997: 14-15). Also, according to Samuels and Shugart (2001), and Shugart and Carey (1992), a president's power increases with the scope of her veto powers, attributions to introduce specific legislation, or when she has executive decree authority. In trade agreements, the relevant presidential power is proactive constitutional legislative power (Nielson, 2003: 480). For the purposes of this research, this power refers to the presidents' prerogative of presenting initiatives to establish trade agreements with a certain degree of deep integration to the legislature.

[186] These access points are supplementary to the ones existing in the legislature. However, when the legislature delegates all trade policy making powers to the executive, the number of access points is reduced to one (Ehrlich, 2007: 586).

decisive than bicameral ones, since they have only to agree with the president. In contrast, bicameral systems increase policy stability because some parts of what would be the win-set of the status quo are not valid anymore (Tsebelis, 2002: 182). However, bicameral systems do not always have at least three veto points by default. To determine the number of veto gates in the legislative system, one must consider the specific policymaking roles of each chamber, depending on the policy output under analysis.

Constitutional powers determine the role of each chamber in the policymaking process, the power that is allocated to each of them, and the policy areas in which they are relevant. According to veto player theory, when both chambers are relevant to the legislation of a certain policy output, the existence of the additional veto gate in bicameral legislatures is considered a feature that makes departures from the status quo more difficult. In contrast, in the situation where one of the chambers is subordinate to the other one, there is no increase in the number of veto players. Similarly, from the perspective of access point theory, the methods used to select the representatives of each chamber and the basis of their representation also influence the effective chambers (and the final count of access points) in the legislation of a certain policy output. In some countries, members of both houses are elected in the same way. In other countries, members of both houses are elected in different ways. When the members of both houses are elected differently, the composition of their members is different, and they are considered to 'effectively' represent different interests. In this case, both chambers are considered access points with influence over the legislation of the policy output under analysis (Ehrlich, 2007: 585). In Latin America, most countries have bicameral legislatures.[187] These legislatures have been classified as strong or medium-strong in academic literature (Llanos and Nolte, 2003: 58).[188] For this reason, bicameral systems in the region increase the count of veto players when both chambers are symmetric, relevant, and distinctive regarding legislation over trade agreements.

[187] Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Dominican Republic, Haiti, Mexico, Paraguay, Peru, Uruguay, and Venezuela have bicameral legislatures.

[188] In empirical studies about bicameralism in Latin America there is no consensus over the exact degree of strength of each system (Llanos and Nolte, 2003: 58). The lack of consensus over this matter does not represent a major problem for the analysis in this research. The symmetry of both chambers, rather than on the specific degree of strength of their separation is the most relevant aspect for the purposes of this research.

Although the executives in Latin American countries have agenda-setting powers in legislation concerning trade agreements, they need the approval of the other veto players in the legislature. For this reason, the executive must present an initiative that is acceptable for them. This requires the executive to foresee the other veto players' positions concerning the extent of liberalization in the agreement and to adjust the depth of liberalization accordingly;[189] otherwise, the status quo remains (Mansfield, Milner and Pevehouse, 2007: 407; Mansfield and Milner, 2012: Kindle locations: 486: 5825).[190]

An increase in the number of veto players can reduce the extent of liberalization in a trade agreement for two main reasons: first, when more veto players exist in a system, there is more possibility that one of these actors' constituencies is harmed by liberalization through a trade agreement and demands exclusion or the removal of fewer barriers to trade (Mansfield and Milner, 2012: Kindle locations: 519-530: 5825). Second, deeper trade agreements may also reduce the veto power over trade policy of the veto players which are relevant to the legislation concerning a trade policy (Mansfield and Milner, 2012: Kindle locations: 3110-3121: 5825). The first aspect is more likely to affect only the extensive margin, whereas the second may affect both the extensive and intensive margins, as explained below.

An increase in the number of veto players is likely to have a negative effect on the extent of integration at the extensive and intensive margins in a trade agreement. First, at the intensive margin, provisions are related more to the power and attributions of the institutions of the trade agreement as a whole than to specific trade barriers and productive sectors. The provisions at the intensive margin correspond to areas of autonomy and authority delegated from the legislature and the executive to a supranational entity. When more veto players exist in a system, it is more likely that some of them may not want to reduce their leverage by losing control over the areas liberalized in the agreement (Mansfield and Milner, 2012). Second, at the extensive margin, depth is more profound when an agreement highly liberalizes a larger number of trade areas and when governments renounce, to a larger extent, their capacity to use reactive protectionist measures when domestic producers are harmed. Including a larger number of trade areas likely leads a larger number of domestic interest groups to experience the costs of trade liberalization. Nevertheless,

[189] The alternative would be offering the other veto players a bribe to accept the extent of liberalization (Mansfield and Milner, 2012: Kindle locations: 486: 5825).
[190] The authors assume that complete information exists, and therefore failure of ratification is not a possible outcome (Mansfield, Milner and Pevehouse, 2007: 414).

in contrast to liberalization at the intensive margin, veto players also delegate power and attributions at the extensive margin but over specific areas of trade. Therefore, compared to the intensive margin, at the extensive margin it is easier to exempt some contested areas in which the political actors prefer to retain authority and agree to extensive liberalization in the other trade areas. As a result, it is expected that an increase in the number of veto players in a system may negatively influence both the intensive and the extensive margins in a trade agreement.

Nature of veto points

The nature of veto players may also affect their effective number and, consequently, influence the feasibility and magnitude of departures from the status quo in a certain policy domain. According to veto player theory, when divided governments exist, the number of points which can veto the enactment of a certain policy output increases. The reason is that in these governments, the executive's party and the legislature's majority party are different or incongruent. Because they are considered to 'effectively' represent different interests, the number of veto players increases in the system (although the number of veto gates does not change). In presidential systems, unified governments are more congruent than divided governments, and in parliamentary systems, majoritarian governments are more congruent than coalitional governments (Schiavon, 2001). In contrast, in unified presidential systems, where particularly centralized parties that are capable of ruling for themselves exist (Haggard and Webb, 2000), the number of veto players in the system remains unchanged. Therefore, the nature of veto players may divide or cancel some of them, affecting their effective total number. The implication is a negative net effect over the feasibility and magnitude of policy change when divided governments exist.

A second aspect in which the nature of veto players may affect the feasibility and magnitude of departures from the status quo is its possible influence on the size of the win-set of the status quo. Three characteristics of the veto players are relevant to determine the feasibility of policy change: 'their number, their congruence (the difference in their political positions) and their cohesion (the similarity of policy positions of the constituent units of each veto player)' (Tsebelis, 1995: 301). Each of these characteristics affects the results that can replace the status quo (win-set of the status quo). From the conditions that prevailed in Latin America after the crisis of the imports substitution model, it is possible to infer that the status quo was located far from the veto players. Moreover, the win-set of the status quo was large (and policy

stability low). As the status quo approached the veto players, policy stability increased. More incoherent and incongruent players reduce the size of the win-set of the status quo or the core (the space in between the veto players), making departure from the status quo more difficult. In divided governments, the policy preferences of veto players are more likely to be incongruent. On one hand, there is more possibility that their ideological positions may locate them far from each other, reducing the size of the win-set and decreasing the possibility of significant departures from the status quo (Tsebelis, 2002: 2). Maintaining all else constant, from the arguments above, the first constitutive hypothesis in this chapter is formed:

Constitutive hypothesis 3. Latin American countries with fewer effective veto players display deeper integration in their trade agreements than countries with more effective veto players.

Access points without veto power

Access points without veto power cannot determine whether a certain legislation about a policy output is enacted or not; nevertheless, access points without veto power can still influence the direction and magnitude of the policy output. In this research, access points without veto power are independent and relevant; they are not located directly at the veto gates and, therefore, do not have power to block a policy. As stated above, the relevant and independent actors in the area of trade policy are the executive and the legislature in a country. Within these institutions, parties in the legislature are the access points which without having the possibility of blocking legislation over the trade agreement may affect the extent of liberalization.

From the perspective of veto player theory, the number of parties in a political system per se does not affect the possibility of reaching an agreement; however, from the perspective of access point theory, it directly influences the number of access points in the system. The number of parties and their size influence whether the party system in a country can be considered fragmented, in which case more than two parties without majority must exist in the legislature.[191] According to veto player theory, maintaining all else constant, party fragmentation[192] is not considered to affect the number of veto players, as it is a feature of the system which, on its own, does not impede the reaching of an agreement (Tsebelis, 2002: 183). Nevertheless, the number of parties has a direct effect on the number of access points.

More fragmented party systems provide more access points, decreasing the costs of lobbying and affecting the extent and direction of policy change. The effect of the fragmentation of party systems on access points differs for presidential systems and for parliamentary ones. In presidential systems, minority parties are considered access points because they can influence the costs of lobbying and the magnitude of the policy change. In contrast, in parliamentary systems, only the parties in government are considered access points because, unlike opposition parties, they are

[191] Therefore, there is no fragmentation in systems with pure two party systems or with many parties of which one has majority (Karvonen, 2011).

[192] Nevertheless, party fragmentation is expected to 'complicate executive-legislative relations, increase the transaction costs of obtaining policy agreements, and limit policy adaptability' (Scartascini, 2008: 63). In addition, fragmented party systems also increase uncertainty, making more difficult to reach agreements (Nielson, 2003: 475).

the only ones that can influence the costs of lobbying, and therefore, the magnitude of the policy change, as well. In the first instance, without making assumptions about which market actors are able to capture the access points in the political system, more access point are, by definition, more capable of representing more interests in a society. Therefore, more access points without veto power would be able to cover more areas of integration and achieve deeper integration in trade agreements. With all else being equal, these arguments give way to the second constitutive hypothesis in this chapter:

> *Constitutive hypothesis 4.* Latin American countries with more access points without veto power display deeper integration in trade agreements than countries with fewer access points without veto power *(considering only the political representation of economic interests).*

However, according to access point theory, average protectionist groups benefit more from cheaper access to lobbying. This second phase of the theory is integrated in Chapter 7, where the capacity of mobilization of interest groups is studied within a collective action framework which also considers other aspects of the political setting, characteristics of the interest groups, and characteristics of the policy outcome. Briefly, assuming that more access points in a system increases the possibility that they are more easily captured by protectionist groups, a negative effect on the extent of deep integration in the trade agreements signed is expected. An increase in the number of access points reduces the costs of collective action, and protectionist groups can better capture these points. In doing so, they increase congruence in the collective veto players because their preferences are more similar (and better represented by the yolk, which is the definition of congruence).

Theoretically, congruence should facilitate the reaching of an agreement; however, the protectionist bias brought in by the reduced lobbying costs offsets any advantage produced by congruence in the collective veto players. Legislative institutions are collective veto players that decide on policymaking by a majority (Tsebelis, 2002: 80). In contrast to individual veto players that decide by unanimity, collective veto players apply either simple majority or a qualified majority for their decisions.[193] According to veto player theory, the types of majorities required have implications for cohesion of the collective veto players and affect the final count of the number of veto players. In the case where a simple majority applies, political

[193] For analytical purposes it is possible to replace collective veto players with fictional individual players and use their win-sets to study policy change (Tsebelis, 2002: 80).

stability decreases with cohesion. If the decision requires a qualified majority, policy stability increases with cohesion. Latin American countries require de jure or factual qualified majorities to approve or reject a trade agreement presented by the executive.

As stated above, because of democratization, the adoption of the economic model based on the promotion of exports, and exogenous economic and international changes, the executives in Latin America had incentives to establish deep trade agreements. On the other hand, because of increases in the number of access points, which decrease the costs of lobbying and allow their capture by protectionist groups, the legislature acquired a protectionist bias. As a result, there was an increase in the ideological distance between both players, making it more difficult to make significant departures from the status quo. In this scenario, if the players are able to reach an agreement, deep integration is not expected to take place. At this point, it is not possible to derive the implications of different effective numbers of access points and veto players more specifically over each margin of deep integration. These issues are addressed in the next chapter.

Influence of political access and veto power over deep integration

As discussed above, increases in the number of veto players generally influence the extent to which deep integration can be achieved in a trade agreement negatively. Increases in the number of access points, in the first instance, are likely to have a positive influence over the extent of deep integration in a trade agreement. Accordingly, Table 6.3 summarizes the possible outcomes of the influence of the number and alignment of veto players and access points over the depth of trade agreements. The vertical axis specifies the number and coherence of access points. The horizontal axis specifies the number and congruence of veto players. In the lower-right corner and in the bottom of the third column, deep integration is not likely. In contrast, the upper-right first and second combinations have the best conditions for achieving deep integration. In the other cases, only trade agreements with medium depth (high or low) can be achieved, and in seven of the 16 scenarios, the outcomes are uncertain.

Table 6-3 Influence of numbers of access points and veto players over extent of deep integration

Number of veto	Access points without veto

players	Few and coherent	Few and non-coherent	Many and non-coherent	Many and coherent
Few and congruent	Uncertain			Deep
Many and congruent				Deep
Few and non-congruent	Medium-low	Medium-low	Medium-high	Medium
Many and non-congruent	Shallow	Shallow	Shallow	Shallow

Source: Elaborated by the author.

The ideal combination of the number and nature of veto players and access points without veto power is one that has few or many congruent veto players and many coherent access points (cells in the upper-right corner in Table 6.3). Few or many congruent veto players means that the executive has the capacity to establish its preferred policy (in this case, deep integration in trade agreements), without being blocked by other institutional actors with veto power. In the case where there are many veto players, but they are congruent with the executive, the same outcome of the deepest trade agreements holds. The reasoning is that the introduction of another veto player,[194] as long as she does not have different preferences, will not decrease the feasibility (Mansfield, Milner and Pevehouse, 2007: 412) or depth of a trade agreement. Many coherent access points means that they are able to channel the demands of more interests, increasing the coverage of provisions which promote deep integration in a trade agreement (in this chapter, there are no inferences yet about which interest groups capture the access points or veto players). Their coherence may facilitate departures from the status quo and promote deep integration in trade agreements.

On one hand, few or many congruent veto players facilitate deep integration. On the other hand, few access points without veto power are likely to channel the demands of few interest groups. These groups are likely to focus on provisions which affect them particularly, and this may influence the extent of deep integration

[194] Although the net influence of adding veto players depends on their preferences, it is not likely that the additional actors can increase the possibilities of reaching a deep trade agreement. This result holds even considering the possibilities of giving bribes. Mansfield, Milner and Pevehouse (2007: 14) explain that, if bribery is allowed, executives can transfer a proportion of its benefits to the veto players to buy their veto power. However, executives can only transfer as much resources as they get from the agreement. If more incongruent and incoherent players are added, then even larger bribes will be necessary, until the point in which there are not more resources to make the bribe effective. This argument does not consider that the costs of bribes may decrease through competition when the numbers of veto players increase.

negatively. When these access points are non-coherent, they increase the possible representation of interests but may make departures from the status quo more difficult. For these reasons, the final outcomes are uncertain in the overlapping cells in the first and second rows of the horizontal axis corresponding to veto players and the first three columns of the vertical one corresponding to access points without veto power.

In the situation in which an incongruent veto player is added, the possibility that the executive can enact her preferred policy is reduced. The possibility that the additional veto players will not agree to reduce their powers over a trade policy or that their constituents will be damaged by the adjustments necessary to implementing the agreement increases. Therefore, when there are few but incongruent veto players, the executive may achieve, at most, trade agreements with medium depth. The possible outcomes of scenarios with few and incongruent veto players are only medium (high or low, depending on the number and coherence of access points, the effects of which were described above). Finally, many and non-congruent veto players have a low possibility of reaching any level of deep integration, which is reflected in the possible outcomes in the last row of the table.

Conclusions

In this chapter, the influence of various configurations of domestic political institutions (aggregated in conceptual dimensions) over the extent of deep integration in trade agreements was analysed. The main objective is to contribute insight to the issue of wide variations in the depth of trade agreements established by Latin American countries. In working towards this objective, first, it was established that to understand how institutions influence deep integration (as defined in Chapter 2), one must address their influence over the 'intensity' and horizontal and vertical 'distances' of integration. The differences and areas of similitude and complementarity of veto player theory and access point theory were examined to integrate them within one framework.

Both theories are considered useful in explaining the magnitude of policy changes. Veto player theory provides insight into how the configuration of veto players influences the way in which the extent of deep integration is decided between the political actors which are able to block the establishment of the trade agreement. Access point theory shows how the number of access points influences the way in which societal demands concerning the extent of deep integration are channelled

differently. Next, the implications of the number and nature of veto players and access points in a system were assessed. It was argued that the executive in Latin American countries had the incentive to pursue deep integration through trade agreements after the collapse of the economic model based on the substitution of imports. Maintaining all else constant, the capacity of the executive to achieve deep integration in trade agreements is constrained when numerous veto players exist, and/or they are not congruent. Regarding the number and coherence of access points, the more access points there are, the greater the possibility of channelling the demands of diverse interest groups, thereby increasing the possibility of covering more provisions which promote deep integration in a trade agreement. Inferences about which interest groups capture the access points or veto players are incorporated in the analysis in the next chapter. Furthermore, the coherence of access points may facilitate departures from the status quo and deep integration in trade agreements.

From the perspective of the combined veto player theory and access point theory, it is possible to understand how different configurations of institutions influence deep integration in a trade agreement. Based on the combined theories and maintaining all else constant, two constitutive hypotheses were developed. First, countries with fewer effective veto players are associated with more profound trade agreements than countries with more effective veto players. Second, countries with more access points without veto power are associated with more profound trade agreements than countries with fewer access points.

Together, veto player theory and access point theory provide a suitable basis for analysing how different institutional settings influence deep integration. Nevertheless, these theories, combined or separately, are limited when considering differences in the depth between the extensive and the intensive margins of integration. The specific influence of the institutional configurations over the intensive and extensive margins becomes more evident in Chapters 7 and 8, which consider how different configurations of access points with and without veto power in a country combine with (de)concentrated export interests, where exporters have preferences of different intensities for integration in each margin, depending on the preferences that they are able to extract from them.

7 Overcoming collective action costs

This chapter investigates how the economic interests identified in Chapter 5 engage in collective action to demand trade agreements by varying the intensive and extensive margins and how they combine with the different institutional settings discussed in Chapter 6. According to the endogenous trade literature (Olson, 1965; Lavergne, 1983, Baldwin, 1985, 1989; Schonhardt-Bailey, 2006), using a cost–benefit model (e.g. Pincus, 1975; Caves, 1976; Pittman, 1977; Godek, 1985; Grier, Munger and Roberts, 1994) it is possible to infer the costs and benefits of the mobilization of industries.[195] From this model and analysis of the characteristics of the export sector, it is also possible to determine the predisposition of exporters to organize for collective action. Following this approach, trade policy outcomes are the result of interest group pressure and the structural factors that control the benefits and costs of industries' mobilization (Caves, 1976: 286). These characteristics determine how appropriable are the benefits and how assignable are the costs of collective action. Industries investing resources compare the costs of their participation with the benefits derived from the trade agreements. This chapter contributes to explaining how different configurations of export interests combine with the configurations of political institutions to explain the wide variation in the depth of the trade agreements established by Latin American countries.

This chapter is structured in three main sections. In the first section, the characteristics of the policy outcome, interest groups, and setting are analysed to assess their influence over deep integration at the intensive or extensive margin. First, Marwell's and Oliver's (1993) suggestions are followed to approximate the production function of deep integration in trade agreements. Second, the predisposition of interest groups with different characteristics to engage in collective action is taken into consideration. Third, environmental characteristics, such as specificity or mobility, and selective incentives attached to domestic political institutions are also taken into account.

In the second section, the combined institutional framework developed in Chapter 6 is applied by further extending access point theory to consider the settings

[195] As discussed in Chapter 5, this research follows Frieden's (1991) deductive approach based on asset specificity which operationalizes business as sectors. Sectoral analyses are consistent in general with how endogenous trade theory has looked at industry characteristics to understand the propensity of collective action. This approach is widely used in the literature on international political economy of market reforms in developing countries because of limitations in the availability of data (Schneider, 2009).

of imperfect competition and by extending veto player theory to include competition for rents from lobbying. After combining the veto player and access point theories and including imperfect competition, the predictions of veto player and access point theories regarding the extent of deep integration in trade agreements are conditional on the number and power of export oriented producers. Based on the arguments developed in this and the previous section, all else being equal, two conditional hypotheses are put forward. The first is that Latin American countries with relatively more access points without veto power are expected to be associated with more profound trade agreements when the export sector is more de-concentrated and diversified than when it is more concentrated and specialized. The second is that countries in the region with relatively more effective veto players are expected to be associated with deeper trade agreements when the export sector is more concentrated and specialized than when it is more de-concentrated and diversified.

In the third section, different combinations of levels of export concentration and political institutions' predictions and their possible outcomes regarding deep integration are presented. The most important finding is that countries with combinations of a concentrated export sector and numerous veto players are associated with agreements with deeper intensive margins. A second important finding is that countries that have a combination of a relatively more concentrated export sector and numerous access points without veto power are associated with agreements with lower levels of integration at the extensive margins. The general conclusion of this chapter is that different equilibriums of export sector concentration and diversification and their combination with different settings of access points with and without veto power in the region are systematically associated with different levels of deep integration at the intensive and extensive margins.

Collective action costs of the outcome, group and setting

Several aspects related to policy outcome, group characteristics, and setting may influence the costs of mobilization associated with deep integration at the intensive or extensive margins. These aspects should be considered when studying the feasibility of interest groups to mobilize towards deep integration. Several characteristics which are relevant in the analysis of deep integration are discussed below.

The productive function of deep integration

An explanation for how large groups of exporters overcome the costs of collective action to demand trade agreements is provided by the 'critical mass' theory (Marwell and Oliver, 1993). This theory further extends Olson's argument that the heterogeneity of members within large groups increases opportunities to achieve groups' goals.[196] One aspect to consider is that according to Olson, the business community is segmented into industries of different sizes, and therefore, there are different incentives for participation. When heterogeneity exists in large groups, the more powerful members are likely to be exploited by smaller and weaker members. The reason is that resourceful members are more likely to make significant contributions towards achieving the common good. As a result, collective action in large heterogeneous groups can be explained by 'a relatively small cadre of highly interested and resourceful individuals [mobilizing agents], rather than by the efforts of the average group member' (Marwell and Oliver, 1993: 2). This theory also considers strategic interaction between members of a group, in which one person's actions affects others. The smaller members are thus more likely to contribute towards achieving the public good once the resourceful members have made the most significant contributions.

It is possible to consider the productive functions for achieving deep integration in trade agreements in a similar manner to modified step functions. From Marwell's and Oliver's typology of the possible productive functions of public goods, it follows that deep integration cannot be captured by the traditional representation of public goods as S-shaped productive functions.[197] In the S-shaped function, 'a small

[196] Olson (1965) argues that collective action problems are more acute in large groups because contributions are less visible and significant than in smaller groups. Anonymity is connected to the problem of enforcement. considering fixed transaction costs per person, larger groups have smaller stakes and contributions per person. Members of a large group may suppose that their contributions are not definitive in achieving the political outcome and therefore their incentives to contribute decrease. In contrast, members of smaller groups (for example where monopolistic or oligopolistic competition exists) have larger stakes and contributions are more significant per person, increasing the relevance of their contribution towards achieving the group goal. For this reason, in small groups to assume the costs of political participation is rational. In addition, with fixed transaction costs per person, it is more costly to organize a large group than a small group (Olson, 1965: 3; Alt and Gilligan, 1994: 329). In large groups it is difficult to identify and enforce contributions from all of its members; or restrict them from receiving the benefits of collective action.

[197] Productive functions are the relationship between inputs and outputs. They indicate the 'relationship between how many resources are contributed to or invested in purchasing the collective good by the group, and the amount of collective good that is realized or provided by the level of contribution.' (Marwell and Oliver, 2003: 24).

demonstration is expected to have a little impact up to a certain size, and again, large numbers beyond a certain size would not make much difference either, whereas in the middle range, additional numbers increase visibility and impact' (Oberschall, 1980: 48). The dynamics of the costs and benefits of deep integration in trade agreements are not adequately captured by this productive function. For example, a small demonstration at the beginning provides no depth in trade agreements. In the first phase, depth in trade agreements, whether at the extensive or the intensive margins, could be considered as lumpy goods (such as bridges). In this case, the one contribution that changes the outcome from a shallow trade agreement to a deep trade agreement is of crucial importance. This first phase is then represented by a step function.[198] In the second phase, when the lumpy good is achieved, the depth of trade agreements is represented by an accelerative production function in which returns are smaller for initial contributions and increase afterwards.

The intensive margin requires that the critical mass of resourceful exporters reach a higher threshold in comparison to the extensive margin because of the lower excludability and higher uncertainty of its benefits.[199] This type of excludability refers, for example, to the fact that competitive exporters and intensive importers obtain disproportionate benefits from free trade in comparison to the rest of society.[200] In general, more concentrated benefits mean a larger group-to-effect ratio (Pincus, 1975: 759), as explained in Chapters 3 and 4, and the intensive margin provisions are less industry-specific. In contrast, integration at the extensive margin covers specific trade areas that have an effect on concrete industries. Therefore, mobilization in this margin may be considered as being segmented in these sectors. As a result, contributions in each area are easier to identify (since they are more

[198] The analysis of step functions is complicated, they are 'neither general, nor tractable for formal analysis of collective action and tend to be relegated to the status of 'special cases' (Marwell and Oliver, 1993: 60).

[199] Non excludability and non-rivalry create collective action problems, particularly free riding, in the provision of public and common goods. Each member of a group can consume the political pressure supplied by the other members of a group. Consequently, members receive less benefits from the political pressure that they pay; and buy less than they would if they could not benefit from the political pressure that the other members buy (Alt and Gilligan, 1994: 329). Free-riding is central to collective action problems, since individuals prefer to depend on the efforts of others instead of paying the costs to achieve the goal from which they obtain benefits (Sandler, 1992). It is rational for individuals to promote their own interest instead of the interest of the whole group.

[200] This characteristic is common to other public policies and it does not affect the characterization of trade liberalization as a public good. The knowledge that public policies such as defence or education have relatively more benefits for certain groups such as the military and teachers, respectively, is a familiar idea (Nielson, 2003: 472).

visible and significant) than at the intensive margin which includes provisions covering the trade agreement as a whole. From this perspective, the condition of anonymity is also more difficult to overcome at the intensive margin than at the extensive one.

Secondly, uncertainty is a related aspect that also increases the threshold at the intensive margin. At the extensive margin, benefits are more concrete and therefore less uncertain. Outcomes that are more certain are also more likely to promote the mobilization of interest groups in comparison with outcomes that are dubious (Alt and Gilligan, 1994: 329).[201] According to theories of collective action, these characteristics make free riding in integration at the intensive margin more likely than at the extensive margin.[202] In addition to the productive function of deep integration, the characteristics of the groups and the setting (such as factor specificity and political institutions) also influence the likeliness of the mobilization of interest groups towards their desired outcome.

Characteristics of groups: export sector (de)concentration

The natural tendency of Latin American countries towards industry concentration has been strengthened by the implementation of unilateral trade liberalization, which has facilitated the mobilization of concentrated export oriented industries towards demanding deep integration.[203] Although several Latin American countries have institutional systems that use electoral districts, the region has an historical tendency for businesses to concentrate in a small number of cities and regions (Schneider, 2004: 45).[204] Their natural tendency towards imperfect markets and concentration is rooted in a long history of the unequal distribution of income and wealth (Dijkstra,

[201] Uncertainty of political outcomes increases the significance of having a decisive contribution, and gives another advantage to members of smaller groups which are more likely to change the political outcome with their contribution (Alt and Gilligan, 1994: 329.

[202] Free-riding is the central collective action problem in the demand for trade agreements: once economic interests have exerted political pressure and achieved their desired policy nobody can be prevented from sharing its benefits. Individuals prefer to depend on the efforts of others instead of paying the costs to achieve the goal from which they obtain benefits (Pincus, 1975: 758; Sandler, 1992; Alt and Gilligan, 1994: 329).

[203] In a setting of geographic representation, geographic dispersion of export oriented industries also contributes to solve the collective action problem to achieve trade liberalization by decreasing lobbying costs, enhancing the prospects for collective action (Pincus, 1975; Schonhardt-Bailey, 2006).

[204] Schneider (2004) also mentions that data about geographic concentration and political action in Latin America is too incomplete and inconsistent to be incorporated in a solid systematic analysis.

2000: 1570). Trade liberalization was one of the reforms implemented in Latin America after the debt crisis in the 1980s and early 1990s that included broader economic adjustment policies and some stabilization measures.[205] As mentioned in Chapter 5, according to standard, 'new' and 'new-new' trade theories, trade liberalization leads to increased concentration and specialization of the export sector according to countries' comparative advantages.[206] These predictions are supported by empirical evidence, which is discussed below.

Trade liberalization increased absolute manufacturing production specialization in Latin American countries during the 1980s and 1990s. Academic literature has extensively documented the dynamic transformation of specialization patterns over time and the evolution towards specialization during periods of liberalization in developed countries; however, this relation has been empirically tested for developing countries only recently (Samen, 2010). Volpe and Estevadeordal (2009) studied how trade liberalization influenced specialization in several Latin American countries during the 1980s and 1990s.[207] They find that trade liberalization (measured in terms of most favoured nation tariffs) led the structures of the analysed countries' production to become more and differently specialized. The phenomenon of concentration was stronger in sectors that are intensive in natural resources. A second finding is that preferential liberalization led to relative specialization between countries in the region and produced wider dissimilarities in their manufacturing production structures. Although unilateral liberalization moved the export sectors of Latin American countries towards specialization and concentration, other public policy directed them towards de-concentration at the same time.

The transformation of the economic development model from import substitution to export promotion also encouraged the efforts of Latin American countries towards diversification.[208] Specialization has been acknowledged by influential economists since the 1950s as a force that fosters the dependence of

[205] Chile initiated its process of structural reform much earlier during the decade of 1970, and implemented its trade reform during 1974-1978.

[206] For natural resources and agricultural products, comparative advantage is given and unchangeable; in contrast for industrial, technological and services goods, it can be induced (Samen, 2010: 10).

[207] The sample includes ten Latin American countries over the period 1985-1998.

[208] According to Volpe and Estevadeordal (2009: 257) 'a country is relatively specialized if its structure is different from that of some reference benchmark.' There are two main definitions of export diversification: 'the change in the composition of a country's existing export product mix or export destination [...] or as the spread of production over many sectors (Samen, 2010: 4). The latter is the definition used in this research.

developing countries on industrialized countries and maintains a structure of exports in which developing countries export primary products and import investment goods (e.g. Prebisch, 1950; Singer, 1950). Samen (2010: 3-6) points out that this trade pattern increases uncertainty and instability, as the concentration of exports in a few primary commodities could increase the probability of volatility and instability in foreign exchange, unpredictable declining terms of trade, and deteriorating governance. In addition, Samen observes that during the 1980s, an important motivation for diversification efforts was research which linked this process to stability in terms of income from exports and economic growth and considered it to be a source of increasing employment levels in the economy. The rationale is that diversification and trade openness policies in general increase the competitive advantage of various industries by augmenting their efficiency, technological innovation, and export opportunities. As a result, by diversifying their export products and markets, Latin American countries can achieve more productive export structures and progress towards developing their economies.

Methods of promoting the diversification of the export sector were affirmed by the Washington Consensus, several associated development funds that emerged during that time, and policy initiatives.[209] Empirical data about the diversification of Latin American countries after the adoption of the export promotion economic development model is still scarce. To assess to what extent countries in the region effectively diversified their export structures, Taylor (2003: 123-124) examined their patterns of exports to the United States during the 1990s. The results of the study show that all countries diversified their exports to the United States, increasing 'the number of products in which they specialized and the share of exports attributable to these products.'[210] Export supply responses after unilateral liberalization efforts have been mixed, but expanding and diversifying exports is still a priority for many Latin American policy makers (Samen, 2010: 3). As a result, policy makers' efforts to expand and diversify their exports have contributed to increasing the number of exporters and to the de-concentration of the sector.

The particular equilibriums reached between the concentration and diversification forces in each country created heterogeneous export sectors with

209 Taylor (2003) mentions as examples the Caribbean Basin Economic Recovery Act, and the Caribbean Basin Trade Partnership Act.

210 The countries and organizations included in the study are Mexico, Central America, Barbados, Guyana, Belize, Jamaica, Trinidad and Tobago, Haiti, Dominican Republic, and the Organization of Eastern Caribbean States.

varying degrees of concentration, with implications for the possible mobilization of their members. All else being equal, according to Olson's theory, it is more costly to organize larger groups of exporters, which would benefit from deep integration than smaller ones. In non-concentrated industries, average members are likely to calculate that they will collect the benefits derived from policy regardless of whether they assume their corresponding share of the costs (Pittman, 1977: 39). From this perspective, export oriented interest groups mobilize towards deep integration more easily in countries with more concentrated export sectors than do groups in countries with more de-concentrated export sectors. Furthermore, the existence of a critical mass —which is required in the production function of deep integration in trade agreements, particularly at the intensive margin— is also met more easily in countries with concentrated export sectors that facilitate their mobilization.

Factor specificity of the setting and the excludability of benefits

The position of Latin American countries towards high specificity in the factor mobility continuum likely increases the excludability of benefits from deep integration and facilitates the mobilization of export oriented producers that obtain economic benefits from this integration. In an environment with high factor mobility, the gains from trade are distributed among all factor owners regardless of the industry in which they are employed. In this setting, opportunities for free riding arise from the fact that non-participants cannot be excluded from enjoying the policy benefits. On the other hand, when factors are highly specific, the policy benefits are concentrated in the factors that are employed in specific industries. All else being equal, it is more difficult for factors to mobilize a lobbying campaign than for sectors because of free riding (Alt and Gilligan, 1994: 183-185). Then, as factor specificity increases, the excludability of policy benefits rises, and it is easier for economic interests to organize to exert political pressure and demand deep integration in trade agreements. As discussed in Chapter 4, Latin American countries are closer to high specificity in the continuum of factor mobility. This environment may likely increase the opportunities of export oriented industries to organize political pressure towards deep integration in trade agreements.

With imperfect competition, the same logic described above applies, but the excludability of policy benefits is even higher. The effect is amplified for industries with scale economies in which fragmented production exists because of three main reasons. First, as mentioned in Chapter 5, incentives are higher for these types of export oriented industries and firms because limited liberalization is their preferred

mechanism for liberalization (this contrasts with industries in settings of perfect competition, for which trade agreements are a second-best option). Second, trade policy benefits are even more excludable since scale economies and entry barriers tend to coexist (Stigler, 1968; Caves and Porter 1976). As Gilligan (1997: 456-464) explains, trade policy in industries with scale economies can be considered 'virtually a private good' since its benefits 'are highly concentrated on single firms.' Then, it is more likely for industries with scale economies and fragmented production to mobilize and demand deep integration.

Opaque channels of political influence as selective incentives

A widely used approach in studies on how economic interests engage in collective action to exert political pressure in developed countries is to analyse how industries' characteristics of (de)concentration match political inputs in order to achieve a desired policy outcome. Industries and corporate political activities encompass a wide array of activities (Hansen, Mitchell and Drope, 2005). Political pressure typically involves 'lobbying, organization of votes in hypothetical referendum, or campaign contributions' (Nielson, 2003: 471). Other types of political pressure include deliberative or consultative councils, corporatist tripartite bargaining, and 'party finance, networks and appointments to government positions, and corruption' (Schneider, 2005: 2). Economic interests can combine a variety of these channels to exercise pressure for the implementation of their desired policy. The three most prevalent and visible political tactics are 'making political contributions, the use of staff lobbyists, and hiring outside lobbyists' (Schuler, Rehbein, Cramer, 2002: 660). Some of these methods to influence the political system are difficult for outsiders to detect (Pittman, 1977: 37). The difficulty of tracing these and other business activities that aim to influence policy depends on their own opacity and that of the countries that are being analysed.

After the abandonment of the model of economic development based on the substitution of imports, the usual channels of political influence, such as corruption and clientelism, changed the direction of their political pressure towards liberalization. Observers expected that the dismantling of state-led development would deprive interest groups of channels of communication and political access to government officials (Schamis, 1999). However, after the implementation of market reforms in Latin America, the old channels of clientelism, patronage, and corruption were not eliminated; they adapted to the new export promotion model and were instrumental to its reforms (Schamis, 1999; Panizza, 2000; 738). Interest groups

responded to incentives to secure economic benefits in the same way as they had previously done to demand protectionism (Schamis, 1999: 267-268), contacting the government over trade agreements, subsidies for export sectors, and programs for technological development (Pages, 2009). In addition, these channels of political influence act as selective incentives for business mobilization.

In Latin America, the privileged access that business groups obtain from the government contributes to explaining why groups organize to achieve deep integration despite the issue of free riding. According to Olson's 'by-product theory of pressure groups,' large groups can obtain contributions from their members by providing them with non-collective benefits (selective incentives) in addition to the successful achievement of the common good. In this way, trade agreements produce multiple goods. Cornes and Sandler describe these as joint products: 'Each individual, in addition to consuming a pure private good, can contribute toward, or acquire, units of a second good, the public good. Each unit thereby acquired adds to the sum total of the good, which is available to all. But in addition the subscriber derives utility from his or her contribution alone' (Cornes and Sandler, 1996: 114). In this case, in addition to their benefits at the international level,[211] deep integration in trade agreements provides private benefits for certain groups and public benefits for society. In the case of trade agreements in Latin America, states that seek to gain political support and minimize opposition to their policies provide business representatives with access to governmental decision makers. Schuler, Rehbein, and Cramer (2002) explain the value of this access for export oriented groups:

> 'Is government policy, which determines the rules of commerce; the structure of markets (through barriers to entry and changes in cost structures due to regulations, subsidies and taxation); the offerings of goods and services that are permissible; and the sizes of markets based on government subsidies and purchases. Consequently, gaining and maintaining access to those who make public policy may well be a firm's single most important political goal' (Schuler, Rehbein, and Cramer, 2002: 659).

Furthermore, opacity and corruption in the region facilitate the use of this access to government officials as a selective incentive. In Latin America, 'there is a wide use of personal networks, which 'involve very small numbers and are often largely invisible, even to other participants in policy-making' (Schneider, 2005: 1). Case studies in Argentina, Chile, and Mexico find that 'collusion between political and economic power and the formation of distributional coalitions have been the driving

[211] This issue falls beyond the scope of this research; it is part of the debate of trade agreements as stumbling or building blocks towards multilateralism.

forces behind the policy reform process in Latin America' (Schamis, 1999: 268). On the one hand, it is not possible to obtain records from campaign or party finances or lobbying activities because of the opacity and unreliability of these processes in Latin American countries. A study published by Transparency International and the Carter Centre at the end of the analysed period, 2010, reported 'deep flaws in the standards and practices governing transparency and accountability in party and campaign financing systems' (Transparency International and The Carter Center, 2010)[212] On the other hand, it is not possible to obtain systematic data from business organizations. A main problem is the underdevelopment of these associations:

> 'A cursory glance at the full range of business associations in the major countries of Latin America reveals a bewildering array of hundreds of associations and larger business belong to several of them. The vast majority of these associations are similar across Latin America: they are small and narrow, and often consist of a letterhead and a telephone' (Schneider, 2009: 6).

From a different perspective, the difficulty in tracing political input is the first challenge to systematically analysing how interest groups organize to exert political pressure to their desired policy in Latin American countries. Although political pressure on trade liberalization exists, the problem for analysis is that the usual research approaches to obtain data on interest groups' political input from either government or business organizations are not feasible in Latin America. In general, the body of literature on business politics in Latin America is very limited (Schneider, 2009). Also, the opacity of the political processes described above makes it impossible to gather systematic data on the political input of market actors to achieve deep integration.

Capturing access points and veto players to achieve deep integration

In the previous chapter, it was argued that the combination of veto player theory and access point theory provides an adequate approach for analysing the influence of domestic political institutional configurations over the extent of deep integration. In this section, the potential of the combined theories is further exploited by extending

[212] The countries included in the study are the following: Argentina, Colombia, Costa Rica, Guatemala, Nicaragua, Panama, Paraguay and Peru. According to the study, the most prevalent issues are the following: lack of oversight for private donations, scarce accountability by candidates, unreliable data delivered by parties, and lack of public information about political financing.

this combination to settings of imperfect competition and by considering the differences in the lobbying costs of veto players and the costs of access points without veto power. Interest groups are likely to target access points and veto players depending on the influence these political actors have over the interest group's desired outcome and the ability of the group for capturing those points.

First, the lobbying costs of veto players must be higher than the cost of access points without veto power because their number is smaller and their influence more determinant. Veto players and access points without veto power have different levels of influence over deep integration. Veto players are determinant over the intensive and extensive margins in trade agreements. As discussed in Chapter 6, the executive and legislative branches of government are the relevant political institutions with veto power over legislation about trade agreements and the extent of their liberalization. These institutions have differentiated constitutional powers, which can be summarized generally as follows: executives have the authority to undertake initiatives to establish trade agreements, while legislatures have ratification powers over these initiatives. The parties in the legislature are the access points without veto power that are relevant to influencing deep integration in trade agreements. These access points without veto power are not determinant, since they cannot decide whether legislation is enacted or not.

Second, extending Tsebelis' framework to include competition for lobbying rents has implications for the analysis and predicted outcomes of veto player theory. As stated above, larger numbers of access points reduce the costs of lobbying through competition between the access points. When the number of veto players in the system increases, the costs of lobbying decrease. In this context, the likeliness of pro-liberalization interest groups capturing the veto players also increases, and trade agreements with deeper integration are expected. This prediction contrasts with the expectations from veto player theory in which, after an increase in the number of veto players, shallow trade agreements (which would be closer to the status quo) are expected. Furthermore, when there is an increase in the number of access points without veto power and pro-liberalization groups capture these access points, the collective veto player becomes more coherent and congruent with the individual veto player (which, as in the previous chapter, has a preference towards trade liberalization). In this situation, the establishment of trade agreements with deeper integration could be expected.

Third, extending Ehrlich's (2007, 2011) framework to derive the costs of lobbying access points to consider imperfect competition has implications for the analysis and

predicted outcomes of access point theory. First, in addition to the average protectionist and free trade groups, a group of resourceful and concentrated exporters with powerful incentives to lobby for deep trade integration in agreements also exists, as discussed in Chapter 5. The underlying reasoning of Ehrlich's argument that increasing the number of access points reduces the costs of lobbying and increases the level of protection is that if all groups have the same costs of lobbying, there should be no effect on the final policy. This argument then builds on the assumption that liberalization groups obtain fewer benefits relative to the costs of lobbying than do protectionist groups. Because of the assumed collective action advantage of protectionist groups over pro-liberalization groups, it is predicted that they are able to capture the access points. In this setting, it is possible that trade agreements will have less profound levels of integration. Nevertheless, with imperfect competition, resourceful and concentrated export oriented producers are introduced, and it is possible that they have an advantage over protectionist groups in engaging in collective action. In this new setting, pro-liberalization groups would be able to capture access points, and trade agreements with more profound levels of integration could be expected. Therefore, after combining the veto player and access point theories and including imperfect competition, the predictions of veto player and access point theories regarding the extent of deep integration in trade agreements are conditional on the number and power of export oriented producers.

To assess the costs of capturing access points and veto players to achieve deep integration at the intensive and extensive margins, it is necessary to include other aspects related to the policy outcome, group characteristics, and setting which influence the costs of mobilization associated with each margin. As identified in the previous section, integration between these margins has different thresholds in their production functions, the degree of excludability in the policy benefits that they produce, the types of exporters to which they provide substantive economic benefits, and the existence of attached selective incentives. These aspects, framed by the costs of capturing access points and veto players developed in this section, are analysed below.

Mobilization of small and medium exporters

Although resourceful and specialized exporters obtain the most benefits from deep integration at both margins, all else being equal, the existence of numerous small and medium exporters in de-concentrated export sectors would have a positive influence on the extensive margin. First, as discussed in Chapter 5, they obtain concrete

economic benefits from integration at the extensive margin derived from static gains from trade proceeding from expanded markets. Second, compared to the intensive margin, benefits derived from provisions at the extensive margin are more excludable because they are more specific to concrete industries. Third, these exporters would mainly obtain economic benefits from the extensive margin of integration in trade agreements, and concrete economic benefits from the intensive margin of integration would be uncertain. Finally, as argued in the first section of this chapter, integration at the extensive margin requires a lower threshold of contributions to achieve the first phase of the step productive function than the threshold of contributions necessary for deep integration at the intensive margin. All else being constant, countries with more de-concentrated and diversified export sectors are expected to be associated with trade agreements with more profound extensive margins. The more diversified the export sector is in terms of industries, the greater the likeliness that a trade agreement covers a larger proportion of the productive sectors of an economy (and therefore has deeper extensive margins).

Although small and medium exporters mobilize more easily towards integration at the extensive margin than at the intensive one, they are unlikely to achieve profound integration at the extensive margin. The main reason is that they are unlikely to be able to afford the costs of veto players. Furthermore, in settings of perfect competition, protectionist groups have an inherent advantage in organizing towards collective action compared to pro liberalization groups. In this scenario, it is more likely that protectionist groups will capture more access points. In terms of trade agreements, this translates to lobbying for exceptions or avoiding specific provisions or areas; this results in relatively lower levels of integration at the extensive margin but does not have a substantial influence on the intensive margin, where provisions are less specific. Even in the case in which a critical mass is present, it is unlikely that small and medium exporters will able to achieve profound integration at the extensive margin.

According to the critical mass theory (Marwell and Oliver, 1993), smaller exporters have incentives to contribute once a core of resourceful and concentrated export oriented industries (the critical mass) has already made a considerable contribution. The economic motivation for smaller exporters to contribute to the trade agreement is that they also benefit from the expanded markets, although to a lesser degree than the large concentrated industries. However, because benefits from the extensive margins tend to be more excludable and specific to particular industries than those at the intensive margin, resourceful and concentrated exporters lack

economic incentives to contribute; their incentives are restricted to the specific provisions from which they derive economic benefits at the extensive margin. As discussed in Chapter 5, since there are few concentrated and resourceful exporters, even when they are present, trade agreements with deep extensive margins are unlikely when numerous access points exist.

In sum, after the regional movement towards export promotion during the 1980s, governmental strategic policies towards export diversification in Latin America promoted the existence of numerous exporters. The effect of de-concentrated and diversified export sectors over deep integration at the intensive margin is not straightforward. Deep integration at the intensive margin has unclear benefits for small and medium export oriented producers, and it is unlikely that they will have characteristics or conditions that would allow them to reach the threshold required by the productive function of integration in the margin. Numerous access points will probably be captured by protectionist groups, decreasing the depth to which trade agreements may reach (by reducing the costs of lobbying, increasing the coherence of the collective veto player with a protectionist bias, and locating it further away from the pro-liberalization individual player). Considering deep integration at the extensive margin, less diversified and more concentrated export sectors have fewer exporters to compete with protectionist groups, which may decrease integration at the extensive margin of the agreement. From these arguments and the explanations above, the first conditional hypothesis is presented below:

> ***Conditional hypothesis 1.*** Latin American countries with the most access points without veto power display deeper integration at the extensive margin of their trade agreements when the export sector is more de-concentrated and diversified than when the export sector is more concentrated and specialized.

Mobilization of concentrated and specialized exporters

As discussed in Chapter 5, after the abandonment of the model that aimed at industrialization based on the substitution of imports, there was potential for exporters to develop scale economies and engage in production sharing. Later, unilateral trade liberalization processes, which started after the adoption of the economic model of export promotion, increased the specialization and concentration of the export sector. In addition to static trade benefits derived only from the expansion of markets, in settings of imperfect competition, trade produces additional dynamic gains. Static gains from trade benefit all export oriented producers (in

different proportions). Additional gains from trade benefit export oriented producers with scale economies and those engaged in product sharing.

Concentrated export oriented producers with scale economies or fragmented production obtain economic benefits from both the extensive and the intensive margins of integration. Large and concentrated industries, in contrast to small and medium exporters, require a stronger institutional structure to support their processes of production and to realize the scale economies or production sharing required in such processes. Economic benefits from the intensive margin derive from reducing the costs of coordination and giving security and increasing certainty to production processes. Mobilization of resourceful exporters towards achieving integration at the intensive margin faces numerous problems. Although they are important, economic benefits obtained by integration at the intensive margin are less concrete and excludable than those achieved from integration at the extensive margin. In addition, the productive function for deep integration at the intensive margin requires a higher threshold than integration at the extensive margin. Regarding deep integration at the extensive margin, although concentrated exporters also have economic incentives to pursue integration, they may limit their contributions only to the specific areas which affect their production processes. Then, concentrated industries may have a more influential role in the degree of deep integration at the intensive margin than at the extensive one.

In contrast to small and medium exporters, concentrated export oriented producers are able to afford the high costs of collective action imposed by a setting with few access points or veto players. It is easier for firms with scale economies to internalize the benefits of their political activity, and this situation increases their incentives to lobby (Chase, 2005: 41). Because of the existence of selective incentives, in countries with concentrated export sectors, exporters may be better able and more eager to capture veto players in comparison to access points without veto power. There is empirical evidence (e.g. Schmitter and Streeck, 1999: 25; Rettberg, 2000; Schneider, 2004: 45) that the owners of the largest firms with high levels of concentration (such as the ones in industries with scale economies or those engaged in production sharing) prefer to coordinate informally and have direct individual access to top government officials. Furthermore, there is also strong empirical evidence (Schneider, 2004; Chase, 2005)[213] that producers with scale economies

[213] The empirical evidence is inconsistent with Ehrlich's statement (2007: 583) that 'at a low number of access points [...] almost no free-traders lobby, but so do relatively few protectionists.'

directly and informally lobby high-level policymakers (which would be too costly for average interest groups, whether protectionists or free traders).

In sum, heterogeneity in the costs and stakes from deep integration in trade agreements motivates the few resourceful large exporters and the numerous smaller exporters to engage in collective action and exert political pressure to achieve deeper agreements in their corresponding margins of interest. By definition, the prevalence of numerous large exporters in a concentrated specialized export sector is not possible. Therefore, there are limits to the contributions that resourceful exporters can make towards the extensive margin, restraining their influence to the specific areas that affect their processes of production. Because veto players have a more determinant influence over deep integration than access points without veto power, resourceful exporters are likely to try to capture them. In addition, to pursue gains from trade, these export oriented producers aim to benefit from selective incentives such as access to and influence over policy makers. From these arguments and those above, follows the conditional hypothesis:

> ***Conditional hypothesis 2.*** Latin American countries with relatively more effective veto players display deeper integration at the intensive margin of their trade agreements when the export sector is more concentrated and specialized than when the export sector is more de-concentrated.

Overcoming the collective action costs of deep integration

Considering different degrees of sector (de)concentration and the numbers of veto players and access points without veto power, the possible outcomes regarding the intensive and extensive margins are summarized in Table 7.1. The vertical axis specifies two poles in sector concentration. The practical implication of sector concentration is that a critical mass of resourceful industries exists; these can provide political pressure to achieve profound depth in a trade agreement, particularly at the intensive margin. On the other hand, the implication of a diversified and de-concentrated export sector is that a large number of smaller and medium export oriented industries exist and that these can combine their efforts when they have the conditions to overcome their collective action problems to achieve deep integration. The larger the number of export oriented industries that can mobilize, the larger the coverage of industry-specific provisions in a trade agreement and, consequently, the deeper its integration at the extensive margin.

Table 7-1 Influence of export sector (de)concentration and configurations of access points and veto players over margins of deep integration

Export sector	Deep integration			
	Intensive margin		Extensive margin	
	Few veto players	Many veto players	Few access points without veto	Many access points without veto
Concentrated and specialized	Deep (critical mass)	Deep (critical mass)	Outcome uncertain (critical mass coverage uncertain)	Shallow (critical mass irrelevant)
De-concentrated and diversified	Shallow (no critical mass)	Shallow (no critical mass)	Outcome uncertain (depends on balance of protectionist and liberalizing groups)	Shallow (advantage of protectionist groups)

Source: Elaborated by the author.

Table 7.1 displays two extremes in the configurations of domestic political institutions aggregated in conceptual dimensions: few and many veto players and access points with and without veto power. In the upper row, collective action is possible because of the existence of a critical mass of resourceful and concentrated industries. In all cases, deep integration at the intensive margin is achievable. A small number of export oriented industries decreases the likeliness of free riding. However, the small number of export oriented industries may limit the likeliness of coverage of numerous industries in the trade agreements, which may decrease deep integration at the extensive margin. For this reason, the outcome is uncertain. On the other hand, in the upper right corner, the advantage of the large and resourceful industries is not as relevant since it is counterbalanced by the cheaper and accessible costs of lobbying as a result of competition from a large number of access points (which are captured by domestic protectionist groups).

In the lower row, a critical mass of resourceful and concentrated industries does not exist. In the first two cells, which correspond to the intensive margin, only minimum integration is possible. Although small and medium exporters exist, the low excludability of the intensive margin creates a situation in which free riding is rampant. Moreover, the high costs of lobbying veto players make it unaffordable for small and medium exporters to influence depth at the intensive margin. The next two cells correspond to the extensive margin, where the situation is only slightly better.

It is possible that the small group of export oriented industries engage in collective action. However, they can at most achieve liberalization for their industries; they cannot achieve profound and substantial coverage of the productive sectors of a country. In the first cell, where few access points without veto power exist, the situation is uncertain and depends on the balance of power and the feasibility of collective action between small and medium exporters and domestic protectionist groups. In the lower right cell, deep integration reaches the lowest level. As explained by collective action theory (Olson, 1965), a large group of small homogeneous exporters is not likely to overcome its collective action problems because of the non-significance of their contributions, anonymity, and transaction costs. Moreover, the high number of access points without veto power makes the costs of lobbying to protectionist groups affordable, which in settings of perfect competition have an advantage in engaging in collective action over exporters.

Conclusions

The objective in this chapter was to investigate how economic interests are able to mobilize and demand deep integration in trade agreements in combination with configurations of domestic political institutions. Domestic political institutions which supply the provisions that determine the depth of such agreements. The objective was to contribute to explaining the wide variation in the nature and level of depth in the trade agreements established by Latin American countries between 1982 and 2010.

The general argument developed in this chapter is that after the abandonment of the economic model based on the substitution of imports, unilateral trade liberalization and governmental policies of diversification led to particular sets of demands concerning deep integration at the intensive and extensive margins. As discussed in Chapter 5, resourceful and concentrated exporters benefit from deep integration at both margins, and small and medium exporters benefit mainly from integration at the extensive margins. In combination with the domestic political institutional setting in each country, these demands met the productive functions of intensive and extensive provisions of trade agreements at different levels. In exploring these issues, the question of how different characteristics of the (de)concentration of industries and their settings influence their ability to overcome collective action problems was addressed.

After the transformation of the economic model, the economic power of certain export oriented industries in Latin America increased, particularly industries with

scale economies. These industries are able to afford high costs of lobbying in comparison to average domestic protectionist and liberalization groups. The critical mass formed by export oriented industries with scale economies may be able to afford costly lobbying such as that required to capture veto players. Being highly resourceful, such industries are also capable of achieving profound depth at the intensive margin (which is more costly than that at the extensive margin). In contrast, in a setting of perfect competition, small and medium exporters are not able to capture veto players and have a disadvantage against protectionist groups concerning lobbying access points without veto power, and they achieve low levels of integration at the extensive margin.

Based on the arguments above, two conditional hypotheses are put forward. First, that countries in which there is a combination of a relatively more concentrated export sector and large number of veto players are associated with agreements with higher levels of integration at the intensive margins. Second, that countries in which there is a combination of a relatively more de-concentrated export sector and large numbers of access points without veto power are associated with agreements with lower levels of integration at the extensive margins. Chapter 8 presents empirical evidence in support of the arguments and hypotheses discussed above.

8 Empirical examination of the arguments

This research argues that, in Latin American countries, particular characteristics of the (de)concentration of the export sector combined with the institutional settings to influence in specific ways the extent of deep integration at the intensive and extensive margins in their trade agreements established from 1982 to 2010. After the transformation of the model of economic development, the export sectors of Latin American countries were changed in different ways as various forces acted upon them. Unilateral liberalization led to specialization (Volpe and Estevadeordal, 2009) and strengthened the natural tendency (Dijkstra, 2000) of these countries towards industry concentration. On the other hand, countries in the region also made efforts towards diversification to counterbalance the negative effects of specialization (Prebisch, 1950; Singer, 1950; Collier, 2002; Samen, 2010), stimulate economic growth, and enhance export earnings stability (Gutierrez de Pineres and Ferrantino, 1997; Stanley and Bunnagi, 2001; Taylor, 2003). As a result, the process of specialization generated few resourceful and concentrated exporters, and the process of diversification generated numerous small and medium exporters. Resourceful and concentrated exporters and small and medium exporters have different capabilities to afford to lobby different institutional actors with distinctive capacities (veto players and access points without veto power). They also have different intensities of preferences concerning the removal of barriers at the intensive and extensive margins according to the benefits they can appropriate and the inherent excludability of policy benefits at each margin.

The objectives in this chapter are to assess the arguments and to empirically examine the conditional hypotheses put forward in developed in Chapters 5, 6, and 7. The empirical results of the constitutive terms and hypotheses presented in the previous chapters are also reported. All else being equal, the hypotheses below follow the arguments developed in previous chapters:

Conditional hypothesis 1. Latin American countries with the most access points without veto power display deeper integration at the extensive margin of their trade agreements when the export sector is more de-concentrated and diversified than when the export sector is more concentrated and specialized.

Conditional hypothesis 2. Latin American countries with the most effective veto players display deeper integration at the intensive margin of their trade agreements when the export sector is more concentrated and specialized than when the export sector is more de-concentrated and diversified.

Constitutive hypothesis 1. Latin American countries with more concentrated and specialized export sectors display deeper integration at the extensive margin of their trade agreements than countries with more de-concentrated export sectors.

Constitutive hypothesis 2. Latin American countries with more concentrated and specialized export sectors display deeper integration at the intensive margin of their trade agreements than countries with more de-concentrated export sectors.

Constitutive hypothesis 3. Latin American countries with fewer effective veto players display deeper integration in their trade agreements than countries with more effective veto players.

Constitutive hypothesis 4. Latin American countries with more access points without veto power display deeper integration in trade agreements than countries with fewer access points without veto power *(considering only the political representation of economic interests).*

In the first section, the characteristics of the original hand-coded dataset and the statistical methods are discussed. The coding and operationalization of the dependent, independent, and control variables are explained. The rationale of including each variable in the analyses is also discussed. The second section presents the results and a discussion of the empirical analyses. Robustness analyses are also included in this section. The main results are congruent with the arguments developed in previous chapters.[214] Concentrated export sectors in combination with relatively more veto players are associated with relatively higher levels of deep integration at the intensive margin; while concentrated export interests in combination with relatively more access points without veto power are associated with relatively lower levels of depth at the extensive margin. The final section presents the conclusions of the chapter.

Data and variables

A statistical analysis of the level of deep integration at the intensive and extensive margins is performed to estimate separate models for each margin. Studies that address aspects of the design of trade agreements face the issue that governments approve most provisions and features of a trade agreement simultaneously. This creates two main problems for the analysis. First, detailed information about the provisions included and omitted in trade agreements is not readily available. As

[214] The main results are also statistically significant (with a 95% to a 99% degree of confidence).

discussed in Chapters 3 and 4, to perform the empirical analysis, an original, hand-coded dataset of the measurements of the intensive and extensive margins of 256 directed dyads is used. The trade agreements analysed are all the agreements signed from 1982 to 2010 between Latin American countries and their regional and global partners for which data is available. As detailed in Chapter 4, a total of 110 data points for each dyadic trade agreement were coded. Because the coding was performed manually, all entries that overlap with other databases (whether public or accessed by request) were compared and checked for errors in measurement. To the best of my knowledge, the dataset developed for this research constitutes the most extensive and detailed one for the depth of provisions in trade agreements established by Latin American countries and their global and regional partners.

Second, endogeneity issues in the models are common in research about trade agreements.[215] Scholars interested in assessing levels of deep integration mainly opt for one of two main alternatives. First, scholars focus on one aspect of design, such as the type of trade agreements (e.g. Mansfield, Milner, and Pevehouse 2007; Mansfield and Milner, 2012), or second, they aggregate a certain number of provisions in analytical categories, such as flexibility (e.g. Baccini, Dür, and Elsig, 2012a; Kucik, 2012; Haftel, 2013; Johns, 2013). This research follows the second approach, and also includes several features in the design of trade agreements as 'proxy controls.'[216] As in studies that analyse formation, features and provisions in trade agreements, the main challenge regarding the empirical estimation is the problem of endogeneity. In this research, the intensive and extensive margins are two

[215] A common problem in the study of trade agreements is the issue of self-selection. Trade agreements are not exogenous random variables. Countries self-select into forming trade agreements 'for reasons that may be unobservable and/or correlated with levels of trade' (Kono and Rickard, 2010). Baier and Bergstrand (2007) recommend using panel data instead of cross-sectional data to address this issue. According to King, Keohane, and Verba (1994) self-selection is not a problem for analyses such as the ones developed in this research. The reason is that the focus of this research is the study of variation of deep integration in a population of observed trade agreements, not the formation of said instruments. The next section discusses the appropriateness of reporting statistical significance, considering that this research studies the nature and levels of deep integration in the population of dyadic trade agreements established by Latin American countries after 1982 until 2010 (instead of employing random sampling).

[216] Because of the nature of the data, it is not possible to run a controlled experiment. The inclusion of control variables is necessary to limit (as much as possible) that the observed effects of the variables of interest are attributable to other factors (Wooldridge, 2010: 1). Proxy controls 'may partially control for omitted factors but are themselves affected by the variable of interest' and they are an improvement on 'no control[s] at all.' (Angrist and Jörn-Steffen, 2008: Kindle edition: 1229-6582). Following this recommendation, relevant features of the trade agreement (such as the inclusion of protocols about environment/labour, intellectual property, and investment, among others) are included in the analyses of the intensive and extensive margins of deep integration.

widely encompassing but different dimensions of the same concept. It is not feasible to find strong instruments to implement an instrumental variables model.[217]

To test the arguments in this research, it is important that the direction of the effects of the variables be estimated as accurately as possible; the magnitude of the coefficients is of secondary importance. For the purposes of this research, excluding the features of the agreement carries the risk of replacing endogeneity problems for omitted variables, which can affect the direction and significance of the results (King, Keohane, and Verba, 1994). On the other hand, maintaining the endogenous variables in the models generates biased estimates. Therefore, as in recent studies which face related concerns,[218] this research adopts a cross-sectional estimation using OLS[219] with robust standard errors[220] to estimate the following equations,[221] where the intensive and extensive margins are the dependent variables in equations (1) and (2), respectively, and each is one of the control variables in the other equation. The dyads are formed by the main country i (where i = 1, 2… n_i for country i) and the

[217] Avoiding the use of weak instrumental variables is a usual recommendation in literature (e.g. Baier and Bergstrand, 2007; Neumayer and De Soysa, 2012) because when instruments are many and are too weak the estimator is most biased (Angrist, Pischke, Jörn-Steffen, Kindle Locations 3465-3468). Based in Wooldridge (2010), to correctly use instrumental variables in this research, it would be necessary to identify instruments that are a good predictor of deep integration in one margin, and that are theoretically uncorrelated with the error term of deep integration in the other margin. In addition, the instrumental variables must be strongly partially correlated with the independent endogenous variable, and have only an indirect effect (through the instrumental variable) on the dependent variable.

[218] For example, Kucik's (2012) study about flexibility of trade agreements faces similar dilemmas. The author acknowledges possibilities of unaccounted variables as there is no measure for rigidity in the study. In this case it is not possible to use instrumental variables for the co-determined rigidity. The chosen method of estimation is also OLS to assess separately only flexibility. This approach is not exclusive to the study of trade agreements. Neumayer and De Soysa (2012) also include several dependent variables which measure different aspects of child-labour, facing potential endogeneity of one of their main independent variables, foreign direct investment. The authors estimate the analysis using OLS with robust standard errors for each of their dependent variables separately.

[219] Chase (2008: 520) suggests the use of a censored regression model (Tobit model) to analyse the limited dependent variables, such as a measure of the restrictiveness of rules of origin in NAFTA. The author explains that the models were not estimated in Probit because rules of origin in NAFTA is not measured by integer values. This research follows the recommendation of Angrist, Pischke, and Jörn-Steffen (2008: Kindle edition: 1862-6582) whom suggest the use of OLS regression models, even in the presence of limited dependent variables, to improve the interpretation of the results. In this research, there were no differences in the results of the analyses using censored regression models relative to the results obtained from using of OLS regression models.

[220] Robust standard errors are also clustered bypair of countries forming a dyad.

[221] The equations are estimated using SPSS and Stata 12. In all variables where a logarithmic transformation is performed and the value of the variable is 0, 0.001 is added to the original value to retain all observations.

trade partner j (where j = 1, 2… n_j for country $_j$). The coefficients α_1 and α_2 are constants, and ε_1 and ε_2 are the error terms.

Intensive = $\alpha_1 + \beta_1$AccessPointswithVeto$_i$ + β_5Concentration$_i$ + β_7Concentration and AccessPointswithVeto + Independent Variables + ControlVariables+ ε_1 (1)

Extensive = $\alpha_1 + \beta_3$AccessPointswithoutVeto$_i$ + β_5Concentration$_i$ + β_7Concentration and AccessPointswithVeto + Independent Variables + ControlVariables+ ε_1 (2)

Based on the arguments developed in Chapters 5, 6, and 7, when performing a multivariate regression analysis for equation (1), the expectations are to obtain positive values for the interaction effect between the number of veto players and the export sector (de)concentration in the main country. That is, the more concentrated the export sector, the more the negative effect of larger numbers of veto players over the intensive margin decreases. For equation (2), the expectations are to obtain negative values for the interaction effect between the number of access points without veto power and for export sector (de)concentration in the main country. This is, the larger the number of access points without veto power and the more concentrated the export sector, the lower the level of deep integration at the extensive margin.[222] The next section discusses the operationalization of the dependent variables, main explanatory variables, and independent and control variables.

Dependent variables

As discussed in Chapters 3 and 4, when analysing deep integration in international trade agreements, the intensive and extensive margins are differentiated.[223] The

[222] Vogt, Vogt, Gardner, and Haeffele (2014: 242) claim that a probability based approach is inappropriate in studies over populations because these studies do not employ random sampling or random assignment. The authors warn that the use of inferential statistics when studying populations is common, although it is erroneous. They suggest reporting *p*-values and other measures, when studying populations, keeping in mind that said measures have almost null value. This research follows the suggestion of the authors.

[223] At the intensive margin, type of agreement, decision power, legitimacy, and permanency, and institutional capacities were included. At the extensive margin, coverage of non-trade barriers, technical barriers, services, competition, public procurement, trade remedies, and enforcement and support mechanisms for certain trade areas were included. The existence of substantive provisions on intellectual property, investment, and labour and environment were also coded. Other features, such as choice of developed or developing partners, bargaining strategy, number of member, and tariff phasing out period were also coded.

intensive margin refers to a relatively more vertical dimension at the trade-agreement level. These provisions tend to be less excludable than horizontal provisions. In Chapter 4, this variable is measured using a factor-based sum score of the depth of provisions in each relevant area in the trade agreement signed by the two countries. The score's range is [0,3], where the lowest and highest values correspond to the minimum and maximum levels of deep integration at the intensive margin, respectively. Accordingly, an agreement with the lowest score is a free trade agreement with no additional substantive commitments with respect to the intensive margin. The maximum level of integration at the intensive margin is achieved by a customs union, which must also have the deepest provisions as regards decision power, institutional capacities, legitimacy, and permanency.

The extensive margin refers to the horizontal dimension of depth, which includes the coverage and scope of discipline-level provisions. Economic benefits are more specific to particular industries and are therefore more excludable than benefits corresponding to the intensive margin. As discussed in Chapters 3 and 4, to measure this variable, factor-based sum scores of the depth of provisions in each relevant area in the trade agreement signed by the two countries were built. The score's range is [0,3], where the lowest and highest values correspond to the minimum and maximum levels of deep integration at the extensive margin, respectively. An agreement with a score of zero is a trade agreement with no substantive commitments with respect to the extensive margin. The maximum degree of the extensive margin is achieved by an agreement which also has the deepest coverage and discipline-level mechanisms to support the liberalization of services, public procurement, technical barriers to trade, and competition policies. Also, the deepest provisions in the removal of barriers to governments' capacity to impose contingent measures such as antidumping and countervailing duties and global and bilateral safeguards.

Main explanatory variables

Concentration of export interests

The variables $Concentration_i$ and $Concentration_j$ aim to capture the (de)concentration of the export sector in the countries that form a dyad in a trade agreement. As discussed in Chapter 5, countries with de-concentrated export sectors are more likely to have a larger number of small and medium exporters than countries with more concentrated export sectors. These exporters obtain concrete economic benefits from static gains from liberalization at the extensive margin rather

than from uncertain benefits from liberalization at the intensive margin. On the other hand, in more concentrated export sectors, it is more likely that a few specialized resourceful exporters exist. These types of exporters benefit from static gains, the reduction of costs, and increased output in their production processes. These specialized exporters obtain economic benefits from dynamic gains from trade consequent to liberalization at the extensive margin. Because the scale and internationalized organization of their production requires coordination and certainty, these producers also derive economic benefits from integration at the intensive margin. From the perspective of preferences derived from economic benefits, maintaining everything else constant, the expectations are that countries with more concentrated export sectors are associated with agreements with deeper intensive and extensive margins than countries with more de-concentrated export sectors.

As discussed in Chapter 7, groups of specialized, concentrated, and resourceful exporters are more likely to have to overcome fewer obstacles than groups of small and medium exporters to mobilize towards deep integration in their areas of interest at the intensive and extensive margins. From the perspective of collective action, considering only the capacity of mobilization derived from the characteristics of the groups, the expectations are that countries with more concentrated export sectors are associated with trade agreements with deeper extensive and intensive margins than countries with more de-concentrated export sectors. Additional information regarding how the political institutional setting influences the costs of mobilization of export oriented producers is taken into account in the next subsections.

The Hirschman–Herfindahl index is the most commonly used indicator of export concentration.[224] However, based on the work of Parteka (2010), Samen (2010), and Cadot, Carrère, and Strauss-Kahn (2011), for the purposes of this research, the use of the export diversification/concentration index[225] is more appropriate than the use of the Hirschman–Herfindahl index. Three aspects are

[224] The Hirschman–Herfindahl index adds the squared shares of each product relative to the total of exported products. The range of the index is [0,1], where the largest values reflect the highest levels of concentration. Data was compiled from the UNCTAD TRAINS database (World Bank, 2014b).

[225] The export diversification/concentration index is a measure related to the Hirschman Herfindahl index. The export diversification/concentration index is an adaptation of the Finger-Kreinin index (1979) which measures similarity in trade. The index is defined as the share of commodity i in the total exports of country j (hij), discounting the share of the commodity in world exports (hi), divided into two: DXj = (sum |hij – hi|)/2 (Amjadi, Schuler, Kuwahara, and Quadros, 2011). Data was compiled from the UNCTAD TRAINS database (World Bank, 2014b).

relevant for selecting the export diversification/concentration index. First, larger values of the index reflect larger deviations of a country's export structure relative to the world's average structure. While the export diversification/concentration index considers as a reference the average structure of world production, the Hirschman–Herfindahl index measures export concentration regardless of how it compares to other countries' export structures (Parteka, 2010). The range of both indexes is [0,1]. The export diversification/concentration index's lowest value reflects an export structure identical to the world's average structure. The interpretation of the largest values of this index is not unified across academic studies, the differences in interpretation seem to reflect different underlying conceptualizations of diversification.[226] Second, large values also reflect that exports tend to have relatively low international demand (Bernatonyte, 2011). Third, large values also are a sign that the exports also tend to be specialized. Because of these characteristics, the index also provides insight into a country's export dependence on specific products considering world exports. A possible implication that is relevant for this research is that exporters of products on which a country is highly dependent may have more power than if they were exporters in a country with an export structure identical to the world's average structure. The Hirschman–Herfindahl index is included when assessing the robustness of the statistical results in the third section of this chapter, and further details about its construction are provided there.

Veto players

Empirical studies about trade agreements have analysed the role of veto players in the formation of trade agreements. Previous studies (e.g. Mansfield, Milner, and Pevehouse, 2007: 416-417; Baccini, Dür, and Elsig, 2012a) have taken into consideration the role of veto players in the extent of liberalization in different aspects of a trade agreement, such as the type of agreement and provisions related to flexibility and obligations. Consistent with these studies, in this research, the inclusion of the effective number of veto players in the models has the objective of capturing the influence of the extent and alignment of institutions with veto power over the extent of deep integration in trade agreements. According to Chapter 6, as the effective number of veto players increases, the possibility that a larger number of

[226] Scholars interpret differently high values of the export diversification/concentration index. Samen (2010) considers that because high values reflect large deviations of the world average export structure, this reflects a more diversified export structure relative to the world's structure. Contrastingly, Bernatonyte (2011) considers that because high values reflect a more specialized structure relative to the world structure, this reflects a less diversified export structure relative to the world's structure.

the constituents of the veto players are threatened by deep integration also increases. Therefore, maintaining everything else constant, from the perspective of veto player theory, the expectations are that countries with fewer veto players are associated with trade agreements with deeper integration than countries with numerous veto players. The specific effects on the intensive and extensive margins remain analytically unclear. However, as argued in Chapter 7, in the presence of resourceful concentrated exporters, it is possible that veto players are captured by such concentrated exporters. In this situation, it would be possible to achieve greater depth in trade agreements. Therefore, the interaction effect between the export concentration and the number of effective veto players over deep integration is expected to be positive, particularly at the intensive margin.

The measure of veto players used in this research is inspired by Henisz's (2002) veto players index;[227] it accounts for the specific veto players that are relevant for the designed depth in trade agreements. In this research, the variables $Veto\ Players_i$ and $Veto\ Players_j$ are additive measures of the effective number of veto gates in a system within the range [0,4].[228] The lowest score corresponds to a hypothetical situation in which there are no effective veto players, while the highest score corresponds to the case of a presidential system with two non-aligned legislative chambers which balance the executive's power. Henisz's veto players index has been used in most studies which account for the effect of veto players on trade agreements (e.g. Mansfield, Milner, and Pevehouse, 2007; Baccini, Dür, and Elsig, 2012a; Peterson and Thies, 2012) because it has several advantages, as pointed out by Mansfield, Milner, and Pevehouse (2007: 417).[229] These include comparability across countries and focus on one policy dimension (which is appropriate for studies of trade agreements since they focus on trade policy as the policy dimension); it also allows

[227] Henisz's (2002) index accounts for the constraints to change public policies by measuring the branches of government outside the control of the executive, their alignment to the executive's party, and their heterogeneity/homogeneity of preferences.

[228] The measure for veto players is calculated using an arbitrary scale which assigns the value of one to parliamentary systems and the value of two to presidential systems. An additional unit is assigned to non-aligned unicameral legislatures, and two additional units are assigned to non-aligned bicameral legislatures. Primary data to calculate this variable was taken from the Polity IV Project (Marshall, Jaggers, and Gurr, 2011). Missing data were completed based on the relevant country reports from the Economist Intelligence Unit.

[229] Mansfield, Milner, and Pevehouse (2007) claim that, in the cases where samples overlap, there is substantive agreement between Henisz's (2002) veto players index and the other measures of veto players developed in literature (e.g. Beck, Clarke, Groff, Keefer, and Walsh, 2001). The latter are based on aspects of political systems, such as electoral rules, electoral competition, and partisan differences.

the preferences of the veto players to vary in the space (from protectionist to free trade in the case of trade agreements).

However, for the purposes of this research, it is unclear whether a measure of veto players for trade agreements should be the same as that for one applicable to other policies. First, the establishment and negotiation of trade agreements is the purview of two branches of government, the executive and legislative branches, and there is no theoretical justification for incorporating other branches of government that may be relevant for other policy areas. Second, some trade agreements require different ratification/approval processes than other policies. For example, some agreements require only executive approval, while others require ratification. In addition, to focus on the interaction between particular institutional features as mediators of economic interests in their demand for depth at the intensive and extensive margins, it is more appropriate to limit the scope to avoid capturing the influence of other institutions and policies. The objective is to isolate, as much as possible, the relevant institutions from their surrounding complexity.

Access points without veto power

In Chapter 6, access points without veto power were defined as actors that cannot block policy change, although they can still affect the magnitude and direction of policy change (Ehrlich, 2007, 2011). The executive and legislative branches are the individual and collective veto players, respectively. It was also argued that within the legislature, political parties are access points, which can also influence the extent of integration without having veto power. As the effective numbers of parties increase, access becomes cheaper and more affordable for protectionist groups. The expectations in Chapter 7 were that, maintaining everything else constant and considering the mobilization dynamics of interest groups, more access points without veto power may be captured by average protectionist groups, and therefore export oriented producers may see their lobbying advantages reduced.

It is also expected that this negative effect will be magnified when the export sector is highly concentrated. In this situation, it is more difficult to achieve greater depth in trade agreements at both margins, and particularly at the extensive margin. The reason is that, as discussed in Chapters 3, 5, and 7, at the extensive margin, benefits are more easily appropriable than at the intensive margin. Therefore, concentrated exporters can be more selective than at the intensive margin regarding the provisions that they require, and no clear incentives exist to invest resources in lobbying for the removal of barriers which do not directly affect their production

processes. Therefore, the interaction effect of export concentration and access points over deep integration is expected to be negative, particularly at the extensive margin.

Empirical studies in comparative politics literature usually account for the number of parties in the legislature using one of two measures: the effective number of parties index and the Hirschman–Herfindahl index of party fragmentation.[230] These two measures account for the relative weights of the parties. Larger values reflect higher and lower party fractionalization in the effective number of parties index and in the Hirschman–Herfindahl index of parties, respectively. The variables *Access points without veto*$_i$ and *Access points without veto*$_j$ measure the number of access points without veto power that have influence over deep integration.[231] To limit the problems derived from the two indexes resulting from similar but inverse formulas, the effective number of parties index is based on proportions of seats, and the Hirschman–Herfindahl index of parties is based on proportions of votes. In addition, the two measures were compiled or calculated from different datasets.

Independent and control variables

The empirical analyses include a number of variables that were considered in previous studies relevant to the formation of or to specific features of trade agreements. Few studies have considered features and characteristics of the trade agreement as dependent variables. Among these, the studies by Mansfield, Milner, and Pevehouse (2007: 418) and Mansfield, and Milner (2012) are comprehensive in terms of the independent and control variables included. Below, the possible effects

[230] The Hirschman–Herfindahl index of party fragmentation (or Government Hirschman–Herfindahl index) is calculated using the following formula: HIG=∑ (pi2). The effective number of parties index, developed by Laakso and Taagepera (1979), is calculated using the following formula ENP=1/[∑ (pi2)]. In both cases, p is the party, and i its seat/vote share in the legislature. Literature about party fragmentation uses versions of the Hirschman–Herfindahl index of party fragmentation (e.g. Rae, 1971; Taylor and Herman, 1971), and of the effective number of parties (e.g. Laakso, Taagepera, 1979; Schiavon, 2001). Dalton (2008) reviews the measures of party fragmentation and suggests alternative ones.

[231] For the main analyses in this research, the variables *Access points without veto*$_i$ and *Access points without veto*$_j$ are calculated by using the logarithmic transformations of the effective number of parties index in the lower or single house of the main country and its partner in each dyad, respectively. Because the effective number of parties is highly correlated with the existence of divided (or unified) governments, this research follows other studies (e.g. Jones, 1995; Schiavon, 2001) in which the latter is not included in the explanatory models that include party fragmentation. Data about the effective number of parties index was generously provided by Schiavon (2001). Primary data to calculate the The Hirschman–Herfindahl index of party fragmentation was taken from the Polity IV Project (Marshall, Jaggers, and Gurr, 2011). Missing data were compiled from the relevant country reports of the Economist Intelligence Unit.

of most of these variables are discussed, in addition to the possible effects of other variables considered appropriate to this specific research.

Political and economic conditions and relations

Similar political preferences and political relations may create incentives for countries to seek membership together in a trade agreement (Mansfield, Milner, and Pevehouse, 2007: 420). Such preferences and relations may also influence the depth of trade agreements and should therefore be taken into account. *Democracy$_i$ and Democracy$_j$* are essential control variables to ensure that the variables intended to measure the numbers of effective veto players and access points without veto power are not just capturing the general features of democratic regimes.[232] In previous studies (e.g. Henisz, 2000; Jensen, 2003), scholars considered domestic institutional constraints on the executive branch to give more credibility to commitments made to multinational enterprises. Other analyses (Mansfield, Milner and Rosendorff, 2002) have found that democratic regimes are more likely to enter into trade agreements with other democracies. Expectations, therefore, are not straightforward, as less democratic governments may prefer deeper agreements to counterbalance their lack of credibility. On the other hand, countries with similar democratic levels are likely to share close preferences, which may facilitate the achievement of deep agreements.

The variable *North/South partner* aims to capture the economic development asymmetry of the dyad. In literature about international agreements (e.g. Poulsen, 2010), it is widely acknowledged that North–South agreements tend to be qualitatively different to South–South and North–North agreements. Because economic asymmetry increases the possibilities for countries with high economic power to extract deeper concessions in their preferred areas, North–South partners may achieve more profound agreements than South–South partners. Therefore, the analyses include a dummy variable that takes a value of zero in the case of North–South agreements and one for South–South agreements.[233] The robustness analyses

[232] To control for the level of democratization in the countries forming each dyad, this research uses the logarithmic transformation of the democracy indicator from the Polity IV Project (Marshall, Jaggers, and Gurr, 2011). This indicator is an additive eleven-point scale within the range [0,1] where the lowest and highest values correspond to the least democratic states and the most democratic ones, respectively. The indicator measures the level of democracy in a country by taking into account the following aspects: competitiveness of political participation, openness and competitiveness of executive recruitment, and constraints on the chief executive (Marshall, Jaggers, and Gurr, 2011: 15).

[233] Members of a trade agreement are coded as belonging to the South or North based on the income classification of the World Bank (2014a). Countries with high income are coded as North, and countries with medium and low income are coded as South. The World Bank

include the income gap (irrespective of the development level of the partners) and the income levels in each country, both separately and taken together.

Military conflicts, political alliances, and former colonial relationships have also been included in previous studies (e.g. Gowa, 1994; Mansfield, Milner, and Pevehouse, 2007), as indicators of dissimilar and similar preferences. The variable *Alliance*$_{ij}$ takes a value of one if the countries in the dyad have been involved in a military alliance[234] in the year prior to the signing of the agreement and zero otherwise. There is empirical evidence (Baccini, Dür, and Elsig, 2012a) that countries may be more likely to reach agreements with more obligations with partners with which cooperation is already in place. Therefore, a measure for joint membership in non-economic organizations is calculated and included in the robustness analyses. None of the countries in the sample was involved in a serious military dispute from 1982 to 2010.[235] In addition, none of the countries in the sample had a colonial relationship that ended after the World War II. Therefore, the variables *Military Hostilities*$_{ij}$ and *Colonial Relationships*$_{ij}$ are not included in the empirical analysis.

Systemic and international conditions

According to theories of hegemonic stability, the decline of hegemonic power in the international system may create incentives for countries to join trade agreements (Bhagwati, 1993; De Melo and Panagariya, 1993; Krugman, 1993; Mansfield, Milner, and Pevehouse, 2007: 424; Mansfield, 1998). It is then also likely that lower values for the variable *Hegemonic power*[236] are associated with increasing levels of depth in such trade agreements. This variable has the same value for all countries in a given year. In a related line of thought, scholars (Mansfield and Reinhardt, 2003; Mansfield, Milner, and Pevehouse, 2007: 420) have suggested that member states of the GATT/WTO may prefer joining also alternative agreements more than non-

classifies countries according to their GNI per capita (2011): $1, 025 or less; lower middle income, $1, 026-$4, 035; upper middle income, $4, 036-$12, 475; and high income, $12, 476 or more.

[234] Data about political alliances were taken from the Correlates of War Project (Gibler and Sarkees, 2004). Information about missing years and countries were compiled from the relevant country reports of the Economist Intelligence Unit.

[235] According to the Militarized Interstate Dispute Database (Bremer and J. David Singer, 1996; Faten and Palmer, 2003); and the Economist Intelligence Unit Country reports for countries and years not included in the databases.

[236] The variable *Hegemonic power* is calculated by averaging the GDP per capita produced by US, the state with the largest GDP, and then subtracting the average from the GDP per capita produced during the year previous to the signature of the agreement. Primary data to calculate this variable was compiled from the World Development Indicators database (World Bank, 2014c).

member states. Members of the organization are expected to establish more minilateral and bilateral trade agreements than non-members. In addition, member countries have access to alternative provisions that may act as incentives to increase the flexibility of the agreements (Baccini, Dür, and Elsig, 2012a). Although membership in the GATT/WTO is considered an important variable, it is not included in the analysis because all Latin American countries in the study were already members of the organization before 1982. Geographic distance, language differences, and competition are also included in the robustness analyses. Geographic distance and language differences have traditionally been considered to increase transaction costs of forming trade agreements (Baccini, Dür, and Elsig, 2012a). Competition is included because countries are likely to take into consideration trade agreements signed by their competitors because of strategic interaction (Fernandez and Portes, 1998; Mansfield, Milner, and Pevehouse, 2007; Baccini, Dür, and Elsig, 2012a). Details about the construction of these variables are provided in the section on the robustness analysis.

Other features of the agreements

To control that margins of deep integration do not just capture the effects of other features of a trade agreement, the following variables are included in the analysis. The variables *Investment*, *Labour/environment*, and *Intellectual property* are dummy variables with a value of one when the agreement includes such provisions and zero otherwise. Although these features are not directly classified as aspects of international trade (Hicks and Kim, 2010), and may or may not be approved at the time of the agreement, their inclusion is often decided before negotiations about trade provisions begin. *Tariff phasing*[237] is also coded and included to capture part of the variation in shallow liberalization, as it may influence the extent of deep integration that an agreement may reach (WTO, 2011).

The variable *Bargaining position* captures the degree of control that countries have over the negotiating process on an arbitrary scale from one to four; it increases as the complexity of negotiating an agreement increases from bilateral to hub–spoke to spoke–hub to plurilateral schemes. In the same line of thought, the variable

[237] *Tariff Phasing* does not capture the speed of tariff liberalization; it captures the longest time of adjustment given to an issue or a group of issues. To measure this variable, in this research the maximum length of the phasing out period for each country in a dyad was coded. The minimum value is zero, when all tariffs are liberalized at the moment of entry into force, and the maximum value is twenty years. This variable is re-scaled to be within the range[0,1].

Number of previous agreements[238] captures the number of previous agreements signed by a country. More previous agreements may facilitate achieving depth in the new ones because of previous experience. Nevertheless, it is also possible that because countries have limited resources, countries that have signed a large number of agreements have limitations in entering into new deep agreements. Finally, consistent with previous studies about the role of veto players in the formation of trade agreements (Mansfield, Milner, and Pevehouse, 2007), the dummy variable *European Union*[239] is included to control for specific influences of the large number of members (and their particular characteristics) in agreements signed with the European Union. Although *Bargaining Position* and *European Union* may indirectly capture the effect of number of members in a trade agreement, there is empirical evidence (Gilligan, 2004; Baccini, Dür, and Elsig, 2012a) that the number of members has an indirect negative effect on the scope in a trade agreement. For this reason, it is included and discussed in the robustness analyses.

[238] The variable *Number of Previous Agreements* is calculated as the square root transformation of the total of previous preferential trade agreements that a country has signed from 1982 to the previous year to the one in which the agreement is signed.

[239] The dummy variable *European Union* takes the value of one in all dyads where one of the members of a dyad is a member of the European Union; and the value of zero in the rest of the dyads.

Intensive and extensive margins: results and discussion

This section begins by presenting the results for the analyses of the intensive and extensive margins. The descriptive statistics of the dependent, independent, and control variables can be found in Appendix E. Tables 8.1 and 8.2 below show the results of the empirical analyses for the intensive and extensive margins, respectively. The findings generally tend to support the conditional hypotheses presented previously, and are generally in line with their constitutive hypotheses. In addition, the statistically significant variables (with a 95% to a 99% degree of confidence) have the expected sign. As discussed in the previous section, factors that are likely to underlie the differences in preferences and capacities to establish agreements with varying extents of extensive and intensive margins between countries were held constant. In this way, it is possible to improve confidence about the effect of the main variables and the interactions studied. The main objective is to assess the influence of the particular aspects of domestic politics in each margin, identified in Chapters 5, 6, and 7.

Throughout the empirical analysis, four main models are assessed. The first two are restricted models which include the variables which, according to the previous section, are considered most relevant for each margin: veto players and their interaction with concentration are only included in the models that assess the intensive margin, while access points without veto power and their interaction with concentration are only included in the models that assess the extensive margin. In the robustness analyses section, veto players and their interaction with concentration are included in the model that evaluates the extensive margin, while access points without veto power and their interaction with concentration are included in the model that evaluates the extensive margin. As mentioned before in this chapter and in Chapters 3 and 4, both dependent variables measure margins of the same analytical concept, and for this reason, the rest of the independent and control variables included are the same.

The second and third models are extended versions that include the variables *Democracy*$_i$ *and Democracy*$_j$, which are essential control variables to ensure that the variables intended to measure the numbers of effective veto players and access points without veto power do not just capture the general features of democratic regimes. The fact that the coefficients for the interactions and most of the simple effects remain statistically significant (with a 95% to a 99% degree of confidence) and have the expected direction in the four models increases confidence in the results

presented in Tables 8.1 and 8.2 below. In the last sub-section, the results of the robustness tests are presented and discussed.

Table 8-1 Deep integration at the intensive margin

Variable	Extended Model	Restricted Model
Veto players$_i$	-0.15 (0.14)	-0.18 (0.12)
Veto players$_j$	0.15*** (0.04)	0.14*** (0.0320797)
Concentration$_i$	-0.98 (0.58)	-0.71 (0.52)
Concentration$_j$	0.27 (0.18)	0.62*** (0.15)
Veto playersi and Concentration$_i$	0.59*** (0.25)	0.61*** (0.21)
Democracy$_i$	-0.26 (0.13)	
Democracy$_j$	-0.32** (0.13)	
Investment	0.22** (0.08)	0.30*** (0.07)
Intellectual property	-0.13 (0.07)	-0.07 (0.07)
Labour	0.20 (0.15)	0.09 (0.14)
Number of previous agreements	-0.10*** (0.03)	-0.09*** (0.02)
European Union agreements	-0.07 (0.09)	0.01 (0.09)
Bargaining position	0.13*** (0.03)	0.13*** (0.03)
North/South partner	0.23 (0.16)	0.01 (0.13)
Hegemonic power	0.01 (0.01)	0.01 (0.01)
Political alliance	-0.52*** (0.14)	-0.4177785*** (0.1354587)
Tariff phasing	-0.07 (0.12)	-0.1321584 (0.0895936)
Extensive margin	0.10 (0.06)	0.06 (0.06)

Variable	Extended Model	Restricted Model
Constant	1.41*** (0.45)	0.90** (0.44)
Observations	218	256
R-squared	0.40	0.39

Notes: Numbers in parentheses are robust standard errors.

*** p ≤ 0.01, ** p ≤ 0.05, * p ≤ 0.1

Table 8-2 Deep integration at the extensive margin

Variable	Extended Model	Restricted Model
Access points without $veto_i$	1.29** (0.64)	0.91 (0.59)
Access points without $veto_j$	-0.50*** (0.16)	-0.54*** (0.14)
$Concentration_i$	1.86*** (0.59)	1.61*** (0.54)
$Concentration_j$	0.61** (0.24)	0.52** (0.21)
Access points without $veto_i$ and $Concentration_i$	-2.75*** (1.06)	-2.31*** (0.97)
$Democracy_i$	0.20 (0.12)	
$Democracy_j$	0.23 (0.12)	
Investment	0.21 (0.12)	0.02 (0.10)
Intellectual property	0.57*** (0.11)	0.70*** (0.09)
Labour	0.25 (0.13)	0.38** (0.15)
Number of previous agreements	0.04 (0.03)	0.01 (0.03)
European Union agreements	0.29 (0.15)	-0.03 (0.12)
Bargaining position	-0.13*** (0.04)	-0.13*** (0.04)
North/South partner	-0.44*** (0.13)	-0.29** (0.11)
Hegemonic power	0.01** (0.01)	0.01*** (0.01)

Variable	Extended Model	Restricted Model
Political alliance	0.41** (0.13)	0.17 (0.13)
Tariff phasing	0.13 (0.12)	0.37*** (0.10)
Intensive margin	0.21*** (0.07)	0.16** (0.07)
Constant	-0.82 (0.43)	-0.21 (0.38)
Observations	218	256
R-squared	0.64	0.63

Notes: Numbers in parentheses are robust standard errors.

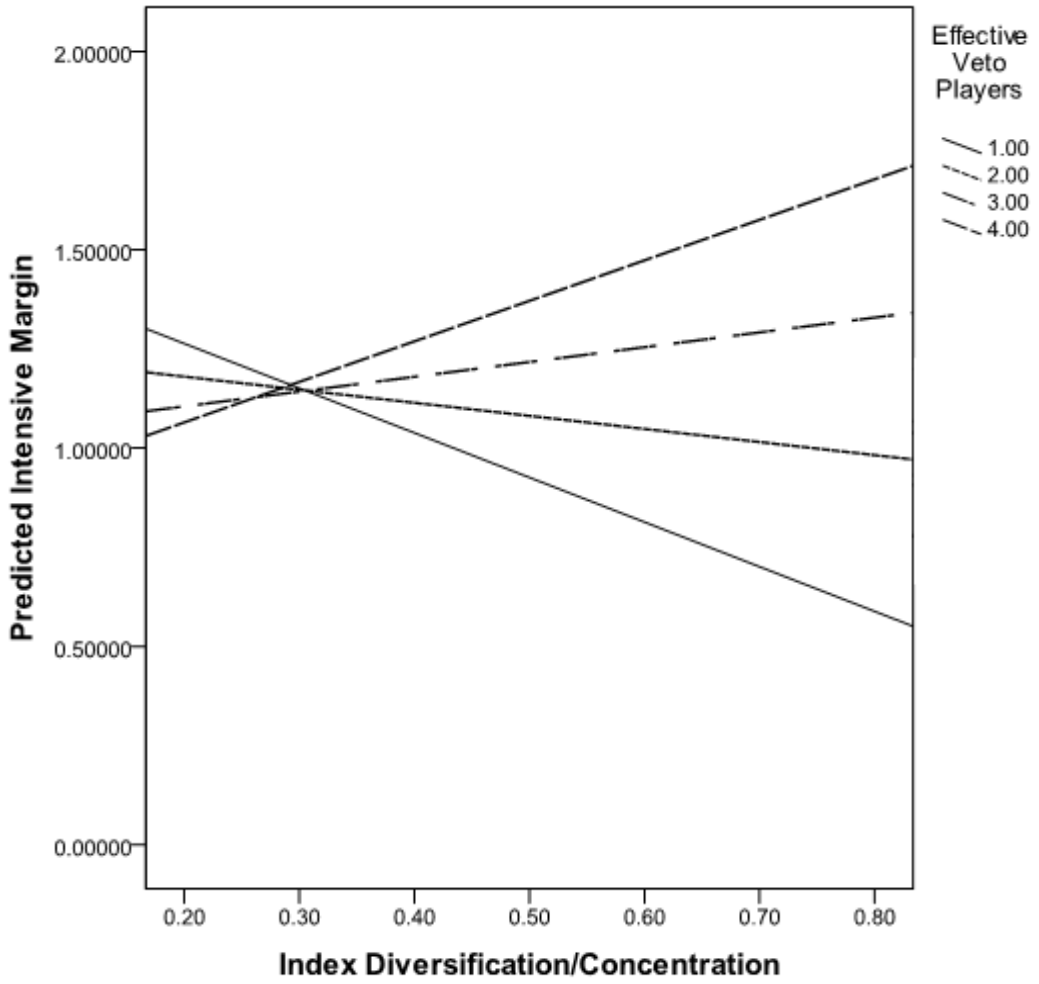
*** p ≤ 0.01, ** p ≤ 0.05, * p ≤ 0.1

Main variables: Export (de)concentration, veto players, and access points without veto power

Intensive margin

First, for the intensive margin, the unstandardized coefficient estimate of the interaction between *Concentration*$_i$ and *Veto players*$_i$ is positive and statistically significant (with a 99% degree of confidence), and is the second largest in the model. For a 10% increase in the interaction between *Concentration*$_i$ and *Veto players*$_i$, the differences in the expected levels of deep integration at the intensive margin are approximately 22 per cent in the extended model (0.66 units) and in the restricted model (0.68 units). Consistently with the theoretical predictions, when the concentration of the export sector increases, the negative simple effect of the effective number of veto players decreases. This effect is represented in Figure 8.1, where, in the presence of highly concentrated export sectors, the negative effect of an increased number of veto players decreases. As a result, for countries with more concentrated export sectors, it is possible to achieve higher scores on the deep integration at the intensive margin of their agreements relative to countries with more de-concentrated export sectors. The simple effects of the variables *Concentration*$_i$ and *Veto players*$_i$ are non-statistically significant, although *Veto players*$_i$ shows the expected negative sign.

Figure 8-1 Interaction effect of the number of veto players and the diversification/concentration index over the predicted values of depth at the intensive margin



The results are consistent with the argument in Chapter 6 that it is easier for the exporters in the most concentrated export sectors (often specialized exporters with scale economies or exporters that are engaged in fragmented production) to capture the veto players than for the exporters in most de-concentrated export sectors. Furthermore, as access points, veto players may also compete for rents from lobbying. From this perspective, exporters in concentrated export sectors seem better able to influence the design of trade agreements towards their preferred outcomes (which, as discussed in Chapter 4, are trade agreements with deep integration in their intensive margins).

Regarding the controls for the partner country, the coefficient of $Concentration_j$ is positive and statistically significant (with a 99% degree of confidence) only in the restricted model. As shown in Table 8.1, an increase of the variable by one unit

increases the expected intensive margin in a trade agreement by 20 per cent (0.62 units). Concentrated export interests in partner countries may also pressure their own governments for more profound intensive margins in trade agreements because this may provide them with a relatively more secure environment in which to pursue dynamic gains from trade associated with production. On the other hand, the variable *Veto Players*$_j$ is positive and statistically significant (with a 99% degree of confidence) in both models. An additional effective veto player in the partner country increases the intensive margin in a trade agreement by approximately five per cent in the extended model (0.15 units) and in the restricted one (0.14 units). A possible explanation is given by the Schelling conjecture, according to which domestic constraints give an advantage to international negotiators. These results are also consistent with the arguments presented in Chapter 5. Political systems with a larger number of effective veto players are more likely to cover larger constituencies than systems with lower numbers of effective veto players. Therefore, in the first case, partner countries may pressure their counterparts towards higher levels of deep integration in their intensive margins, as this brings to their own constituents higher levels of certainty and better guarantees of security in their trade exchanges.

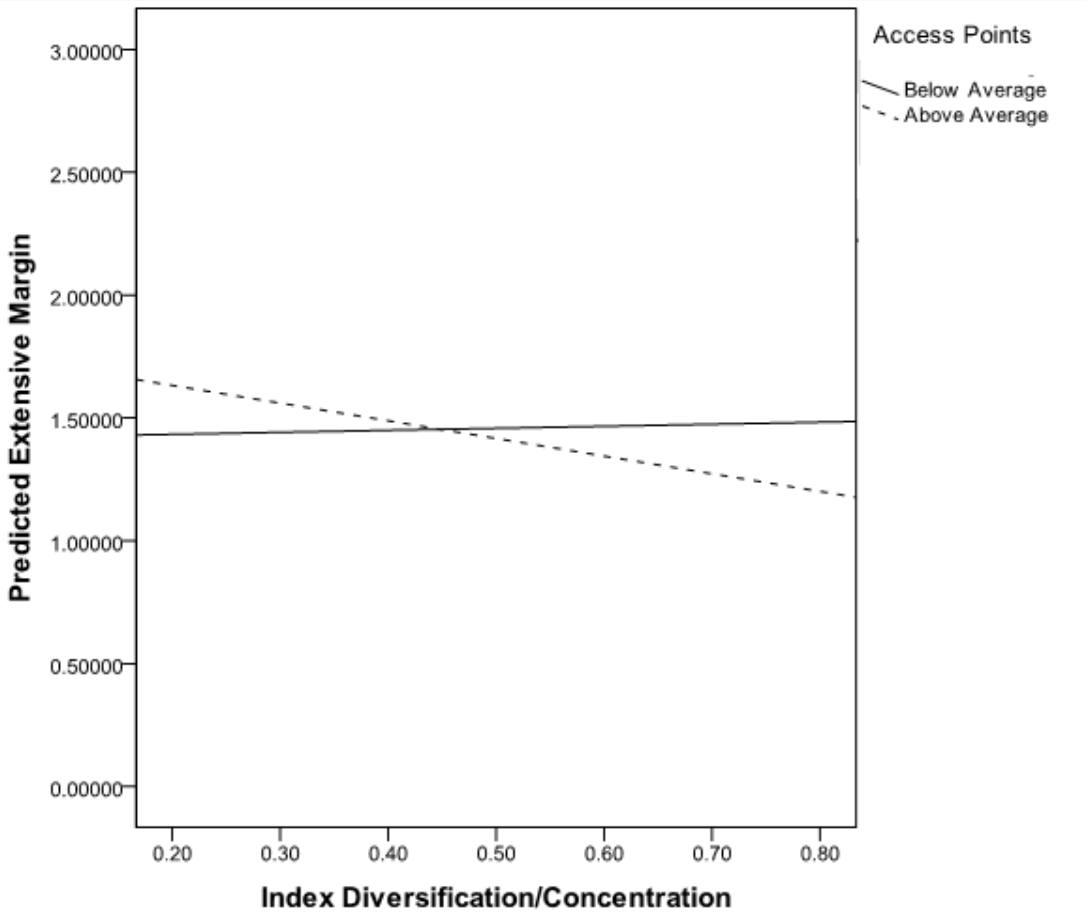
An interesting result is that, consistent with the arguments in Chapter 7, the interaction effect between *Concentration*$_i$ and *Acces points without veto*$_i$ is non-statistically significant when included in the model of deep integration at the intensive margin in the robustness section. Two aspects that are also considered when performing the robustness checks are the results of re-estimating the models using different calculations of veto players and of (de)concentration of the export sector. The main results of the analyses in the robustness section are consistent with those reported above.

Extensive margin

In the case of the extensive margin, the results of the coefficient of the main variables are also reasonably consistent with the arguments and hypotheses developed in Chapters 5, 6, and 7. The unstandardized coefficient estimate of the interaction *Concentration*$_i$ and *Access points without veto*$_i$ is negative and statistically significant (with a 99% degree of confidence), and is the largest in the model. For a 10% increase in the interaction between *Concentration*$_i$ and *Access points without veto*$_i$, the decreases in the expected mean levels of deep integration at the extensive margin are approximately 90 per cent in the extended (2.75 units) and in the restricted (2.5 units) models. This result indicates that the simple positive effect of a

highly concentrated export sector in a country tends to decrease as the number of access points without veto power in the country increases. This effect is represented in Figure 8.2. As argued in Chapter 7, when more access points without veto power exist, they are more likely to be captured by protectionist producers, than when fewer of them exist, decreasing deep integration at the extensive margin. More access points without veto power may reduce the costs of lobbying, decreasing the advantage of exporters in more concentrated export sectors in capturing those access points. Because these access points are more likely to be captured by protectionist interests, they are able to influence the extent of deep integration of the trade agreement towards their preferred outcome. All else equal, the result is that when numerous access points exist in a country with a highly concentrated export sector, trade agreements will tend to have relatively lower levels of deep integration at their extensive margins.

Figure 8-2 Interaction effect of the number of access points above and below the mean and the diversification/concentration index over the predicted depth at the extensive margin



Taking into account the negative effect of the interaction between *Concentration*$_i$ and *Access points without veto*$_i$, the simple effects of these constitutive variables are also generally in line with the arguments and hypotheses presented in Chapters 6 and 7. When *Access points without veto*$_i$, are at their minimum, the simple effect of *Concentration*$_i$ is positive, large, and statistically significant (with a 99% degree of confidence) in both the extended and restricted models. On the other hand, when the export sector is the most de-concentrated, the simple effect of the variable *Access points without veto*$_i$ is positive in both the extended and the restricted model. However, this variable is only statistically significant (with a 95% degree of confidence) in the extended model, which includes controls for the level of democracy in the main and partner countries.

The coefficients of the control variables of the (de)concentration of the export sector and access points without veto power in the partner country also tend to be congruent with the arguments presented previously. *Concentration*$_j$, is positive and statistically significant (with a 95% degree of confidence) in both models. As shown in Table 8.2, a one-unit increase of the variable increases the intensive margin in a trade agreement by approximately 20 per cent (0.61 units) in the extended model and by approximately 17 per cent (0.52 units) in the restricted model. As argued in Chapter 5, exporters in more concentrated export sectors tend to be more specialized and may prefer more profound intensive and extensive margins of deep integration in trade agreements. The reason is that this may provide their exporters with larger gains from trade in the form of reductions in their marginal costs of production. On the other hand, the effect of *Access points without veto*$_j$ is negative and statistically significant (with a 99% degree of confidence) in the extended and restricted models. For a 10% increase in the variable *Access points without veto*$_j$, the decrease in the expected average levels of deep integration at the extensive margin is approximately 18 per cent (0.55 units) in the extended model, and approximately 20 per cent (0.60 units) in the restricted one.

It is also interesting to note that the interaction effect between *Concentration*$_i$ and *Veto players*$_i$ is non-statistically significant when included in the model of deep integration at the extensive margin in the robustness section. This result is consistent with the arguments in Chapter 7. An additional aspect that is considered when performing the robustness checks (besides re-estimating the models with different measurements of (de)concentration of the export sector) is re-estimating the models with different measurements of access points without veto power. The main results of the robustness checks are consistent with those reported above.

Control and independent variables

Democracy

As mentioned above, including a measure of the general level of democracy in the main country and its trade partner is extremely important to ensure that the observed effects of the domestic variables analysed do not just capture more general aspects of democracy.[240] In the model that explores the intensive margin, $Democracy_i$ is non-statistically significant, while $Democracy_j$ is negative and statistically significant (with a 95% degree of confidence). For a 10% increase in the variable $Democracy_j$, the differences in the expected level of deep integration at the intensive margin is 12 per cent (0.38 units). In contrast, in the model that explores the extensive margin, $Democracy_i$ and $Democracy_j$ are non-statistically significant. Previous research (e.g. Mansfield, Milner, and Pevehouse, 2007; Mansfield and Milner, 2012) has found evidence that democratic countries tend to sign more trade agreements with each other than with authoritarian countries. It is possible that the effect of regime type is more relevant for choosing a partner in a trade agreement than for the actual content of the agreement. Including the variables $Democracy_i$ and $Democracy_j$ increases confidence that the interactions between (de)concentration of the export sector and veto players or access points are relevant aspects of domestic politics which also tend to influence the depth of a trade agreement at the intensive and extensive margins.

The extended and restricted models for the intensive and extensive margins of deep integration also include control variables that account for political and economic conditions and relations between the countries, international and systemic aspects, and other features of the agreement. As Tables 8.1 and 8.2 show, most of the coefficient estimates for these variables tend to be statistically significant (with a 90% to a 99% degree of confidence) and also tend to have the expected sign. In the sub-sections below, these results are discussed.

Political and economic conditions and relations

Since political and economic conditions and relations between the countries in an agreement may also influence the depth of the trade agreement, the variables *North/South partner, Bargaining position,* and $Political\ alliance_{ij}$ are also taken into

[240] Mansfield, Milner, and Pevehouse (2007) and Mansfield and Milner (2012) also include a variable that captures the general level of democracy; although they acknowledge that this may generate multicollinearity because of the high correlation between other domestic institutional variables and democracy. In this research, a second set of models without democracy was also included.

consideration in the analyses. Other political nexus such as colonial relations and political disputes are not included in the model because, as explained in the previous section, their value would remain constant. The variable *North/South partner* was included to capture the asymmetry in the level of development of the dyad. In the analysis of deep integration at the intensive margin, the effect of having a South–South agreement is non-statistically significant.

In contrast, in the analysis of deep integration at the extensive margin, the effect of having a South–South agreement is negative and statistically significant in the extended model (with a 99% degree of confidence), and in the restricted model (with a 95% degree of confidence). The result that South–South countries in average achieve less depth at the extensive margin than South–North countries is consistent with the argument that developed countries extract more concessions in the regulation of their areas and disciplines of interest from their developing partners in a trade agreement in exchange of market access (e.g. Shadlen, 2005).[241] Maintaining everything else constant, the level of deep integration in extensive margin of Latin American countries' agreements decreases by 14 per cent (0.44 units) in the extended model and by approximately 10 per cent (0.29 units) in the restricted model when the partner is another developing country.

Regarding political relations, the effect of *Political alliance*$_{ij}$ is statistically significant (with a 95% to a 99% degree of confidence) for the extended models of the extensive and intensive margins and for the restricted model of the intensive margin. However, there is variation in the direction of the coefficients for each margin. Latin American agreements' intensive margin decreases by 17 per cent (0.52 units) in the extended model and by 14 per cent (0.42 units) in the restricted model when the partner is a country with which the main country has established a political alliance. It is possible that between allies, fewer institutional reassurances are needed because there is already an established level of trust between them. On the other hand, Latin American agreements' deep integration at the extensive margin increases by 13 per cent (0.41 units) when the partner is a country with which the main country has

[241] Previous studies about trade agreements (e.g. Mansfield, Milner, and Pevehouse, 2007) have considered that economic conditions in a country are likely to influence forming trade agreements. In this research, expectations about the effect of economic conditions over the extent of deep integration are not straightforward. Although a country with higher income may have fewer incentives to seek expanded markets than a country with lower income (Mansfield, Milner, and Pevehouse, 2007: 419), the former may also have more negotiating power, and better capacities to achieve agreements with higher levels of deep integration in their areas of interest. Therefore, other variables which may capture part of the effect of the economic asymmetry between the countries in a dyad are also included.

established a political alliance. It is possible that for countries with certain levels of trust and similar preferences, it is easier to integrate more trade-related areas into trade agreements with partners with which an adequate level of trust has already been established.

Features of the trade agreement

Additional controls for other features of the agreement, *Intellectual property*, *Labor/environment*, *Investment*, *Tariff phasing*, and *Number* of *partners*, are included in the model. In the analyses of the intensive margin, the coefficient of the variable *Investment* is positive and statistically significant in the extended model (with a 95% degree of confidence), and in the restricted model (with a 99% degree of confidence). In the analyses of the extensive margin the coefficient of the variable *Investment* is non-statistically significant. The link between foreign direct investment and international trade is well documented (e.g. Büthe and Milner, 2014). Agreements which include substantial provisions on investment may also lead partners to engage in fragmented production and require a stronger institutional infrastructure to coordinate and manage their production. When agreements include a chapter or separate protocol about investment, depth at the intensive margin increases by seven per cent (0.22 units) in the extended model and by 10 per cent (0.30 units) in the restricted one. The amount of net inflows of foreign direct investment in each country are also taken into consideration when performing robustness checks, and the results are consistent with those presented above.

In contrast, the coefficient of *Labor/environment* is only positive and statistically significant (with a 95% degree of confidence) in the restricted model of the extensive margin, and the coefficient of *Intellectual property* is positive and statistically significant (with a 99% degree of confidence) in the restricted and extended models of the extensive margin. In agreements that are tied to protocols on labour and environment, average deep integration at the extensive margin increases by 12.6 per cent (0.38 units) for the restricted model. On the other hand, in agreements that include protocols on intellectual property, deep integration at the extensive margin increases in average by 19 per cent (0.57 units) for the extended model and by 23 per cent (0.70 units) for the restricted one. A possible explanation could be that inclusion of these protocols appeases protectionist groups. It is also possible that these two variables are non-statistically significant in the results of deep integration at the intensive margin because they have separate and specific protocols rather than being regulated by the general institutions of the agreement. *Tariff*

phasing is positive and statistically significant (with a 95% degree of confidence) for the restricted model of the extensive margin. It is possible that countries use longer periods of shallow liberalization as a trade-off for including deeper provisions at the extensive margins.

Regarding the margins of deep integration, *Extensive margin* and *Intensive margin* are included as controls in each other's equation. Only the variable *Intensive margin* is positive and statistically significant (with a 99% degree of confidence), although its coefficient is relatively small. All else being equal, agreements' average deep integration at the extensive margin increases by seven per cent (0.21 units) in the extended model and by approximately five per cent (0.16 units) in the restricted one when there is a one-unit increase at the intensive margin of the agreement. It is possible that this result reflects that agreements which cover more areas require stronger institutional structures than agreements which cover fewer areas. These results provide additional indirect support for the argument that each of these margins captures distinctive aspects of depth in a trade agreement. Therefore, they also indirectly support the categorization of deep integration developed in Chapter 3 and the empirical results obtained using principal components analysis in Chapter 4.

To control for the capacity of a country to achieve deep integration in its trade agreements, the following variables were also included in the analyses. The variable *Number* of *previous trade agreements* signed by the country is statistically significant (with a 99% degree of confidence) for the restricted and the extended models of the intensive margin. The coefficient is relatively small and negative, and it may reflect the fact that countries have limited resources and therefore cannot simultaneously maintain numerous agreements with strong (and costly) institutional structures. The variable *Bargaining position* is statistically significant (with a 99% degree of confidence) for both the restricted and the extended models for the intensive and extensive margins. The coefficient in the analysis of deep integration at the intensive margin is positive, which may reflect the need for stronger institutions as the complexity of an agreement increases from bilateral to hub–spoke to minilateral schemes. Increasing the strength of the bargaining position of a country by one level increases depth at the intensive extensive margin by approximately four per cent (0.13 units) in the extended and restricted models. The coefficient in the analysis of deep integration at the extensive margin has the same size; but on opposite direction. Increasing the strength of the bargaining position of a country by one level decreases depth at the extensive margin by approximately four per cent (0.13 units) in the extended and restricted models. As mentioned earlier, the difficulty in

liberalizing a larger number of trade disciplines and institutional areas in greater depth increases with the number of members participating in a trade agreement. It may also reflect the fact that the main country has less control over the negotiation process.

The coefficient of the variable *Hegemonic power* is positive and statistically significant in the restricted model (with a 95% degree of confidence), and in the extended model (with a 99% degree of confidence) of the extensive margin. The literature on economic regionalism has found that when hegemony declines, states tend to form preferential arrangements (Mansfield, 1998; Mansfield, Milner, and Pevehouse, 2007: 424). However, in a recent study, Mansfield and Milner (2012) argue that there are no reasons to expect that the situation of hegemonic power affects the extent of integration in trade agreements (considering only the type of the agreement). The results of the analyses in this section tend to support their argument. The coefficient of *Hegemonic power* is small (0.001 units) in the analysis of the extensive margin, and non-statistically significant in the analysis of the intensive margin. Finally, the coefficient of the control variable *European Union* is included to ensure that the results are not driven by the large number of dyadic agreements signed with the European Union, as in previous studies (e.g. Mansfield, Milner, and Pevehouse, 2007: 424). The coefficient of this variable is non-statistically significant in the four models analysed.

Examination of the robustness of the results

It is important to examine the robustness of the results discussed above. Taken together, the results in this section increase confidence that the results presented above are reasonably robust. The main results presented in Tables 8.1 and 8.2 remain unchanged in the analyses discussed below.

Income level, income fluctuations, and differences in wealth

As in the previous section, economic conditions may influence the extent of integration in a trade agreement at the intensive and extensive margins. In the main model, the variable *North/South partner* was included with the objective of capturing the economic development asymmetry in the dyad. There are other aspects of the economic size and asymmetry of the countries in the dyad that could be taken into consideration. First, it is possible that the economic size of a country has an effect on deep integration regardless of the economic size of the partner in the dyad. Second, it also may be possible that the economic asymmetry of the countries in terms

of GDP matters regardless of the levels of development of the countries in the dyad. Third, fluctuations in income may also influence the adoption and depth of trade agreements, although the direction of their influence is not clear from a purely analytical perspective. [242] Therefore, the models were re-estimated to include variables which could account for those possibilities. The results of the analyses are included in tables F-1 and G-1 in Appendixes F and G.

First, the variables $Income_i$ and $Income_j$[243] are included in the models both separately and together. Next, the models are also re-estimated including the variable $GDP\ difference_{ij}$.[244] The coefficients of the variables are non-statistically significant in any of the models. These results may show that although these variables are relevant to the formation of an agreement, once it has been decided other more specific measures become more relevant to the extent of deep integration in the agreement. Furthermore, as stated above, variables such as *North/South partner* may capture the economic size of both countries. Third, $Change\ of\ GDP_i$ and $Change\ of\ GDP_j$ are calculated[245] and the models are also re-estimated with these variables. The effects of these variables are non-statistically significant. These results are consistent with studies about the formation of trade agreements.[246] Fourth, $Change\ in\ unemployment_i$ and $Change\ in\ unemployment_j$ are calculated and the models are also re-estimated with these variables. Again, the effects of these variables are non-

[242] Expectations about the effect of income fluctuations on deep integration are not analytically straightforward. Economic decline may motivate countries to take risks, to accept losing sovereignty (Mattli, 1999), and to accept more rigid agreements (Koremenos, 2005). Nevertheless, economic growth may also create economic incentives towards free trade through trade agreements. The economic expansion may increase the demand for imports and supply of exports of a country (Mansfield, Milner, and Pevehouse, 2007: 419).

[243] $Income_i$ and $Income_j$ are measured as the logarithmic transformation of GDP (in current 2000 US dollars). Data was compiled from the World Development Indicators database (World Bank, 2014c).

[244] The degree of economic asymmetry, regardless of the level of economic development, is calculated by using the logarithmic transformation of the difference between the GDP (in current 2000 US dollars) of the countries forming a dyad. Data were compiled from the World Bank Development Indicators Database (World Bank, 2014c).

[245] To calculate $Change\ GDP_i$ *and* $Change\ GDP_j$ this research uses the logarithmic transformation of the average of the GDP per capita produced during the previous three years and subtracts the average from the GDP per capita produced during the year previous to the signature of the agreement. $Change\ in\ unemployment_i$ and $Change\ in\ unemployment_j$ are calculated following the same steps. Other variables that capture income fluctuation, such as frequency of crisis, are not included because agreements are designed to work in normal circumstances (Baccini, Dür, and Elsig, 2012b: 11). Primary data to calculate these variables was compiled from the World Development Indicators database (World Bank, 2014c).

[246] Mansfield, Milner, and Pevehouse (2007) found that the effect of change in GDP on the formation of trade agreements is non-statistically significant.

statistically significant. The results of the analyses can also be found in tables F-1 and G-1 in Appendixes F and G.

Trade openness, trade intensity, and trade complementarity

In several studies about trade agreements (e.g. Mansfield, Milner, and Pevehouse, 2007; Baccini, Dür, and Elsig, 2012a; Hoffman and Kim, 2012), *Trade openness*$_i$[247] has been acknowledged as indicative of internationalized domestic interests. Between countries, *Trade intensity*$_{ij}$,[248] and *Trade complementarity*$_{ij}$[249] are also indicative of export activities which would benefit from deep integration. For these reasons, the models which estimate the extent of deep integration at the intensive and extensive margins, were re-estimated including variables which account for these activities. *Trade complementarity*$_{ij}$ is non-statistically significant in either margin, while *Trade intensity*$_{ij}$ is positive and statistically significant (with a 99% degree of confidence) only at the intensive margin. For a 10% increase in the variable *Trade intensity*$_{ij}$, the increase in the expected average levels of deep integration at the extensive margin is approximately five per cent (0.14 units). These results are consistent with the arguments presented in Chapter 5. Trade intensity is relevant for large exporters, which benefit from dynamic gains of trade in which intra-industry trade and production sharing is relevant. The results corresponding to these analyses are included in tables F-2 and G-2 in Appendixes F and G.

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[247] *Trade openness*$_i$ is the sum of all exports and imports as a proportion of GDP. Data was compiled from the World Development Indicators database (World Bank, 2014c).

[248] The variable *Trade intensity*$_{ij}$ is the logarithmic transformation of the trade intensity index, which measures how intensive is trade within each dyad. Using this measure is advantageous because it captures trade flows and it also accounts for their relevance. The index measures the extent of the value of the trade flows compared to what would be expected according to their importance in world trade. Values larger than one are indicative of bilateral trade flows which exceed the expected flows, considering the partner's relevance in world trade. In contrast, values of less than one are indicative of trade flows which are less than expected under the same conditions. To calculate the index, the share of one country's exports (Xit) going to a partner (xij) is divided by the share of world exports (Xwt) going to the same partner (xwj): Tij = (xij/Xit)/ (xwj/Xwt) (Amjadi, Schuler, Kuwahara, and Quadros, 2011: 84). Data was compiled from the UNCTAD TRAINS database (World Bank, 2014b).

[249] The variable *Trade complementarity*$_{ij}$ is the logarithmic transformation of the trade complementarity index, which accounts for the match between the exports and imports of a pair of countries. The index range is [0,100]. The lowest value corresponds to a situation in which no goods are exported by one country or imported by the other. The highest value corresponds to a situation where an exact match exists between the imports and exports of said countries. The trade complementarity index for countries k and j is calculated as: TCij = 100 (1 – sum (|mik – xij|/2)), where xij is the share of good i in global exports of country j and mik is the share of good i in total imports of country k (Amjadi, Schuler, Kuwahara, and Quadros, 2011: 84-85). Data was compiled from the UNCTAD TRAINS database (World Bank, 2014b).

Surprisingly, the results for the coefficient of *Trade openness*$_i$ are non-statistically significant in either margin. The expectation was that more open countries could have more incentives for export oriented groups to push towards deeper intensive and extensive margins. The incentives for export oriented groups to mobilize towards deeper integration would be that these groups would have increased interest in ensuring that trade relations would not be interrupted in the future (Nye, 1988; Mansfield, Milner, and Pevehouse, 2007) or in preventing vulnerability to predatory behaviour from foreign governments (Yarbrough and Yarbrough, 1992; Mansfield, Milner, and Pevehouse, 2007). However, it is also possible that countries with high trade openness require fewer deep provisions to manage trade flows which are already intense than countries with low trade openness. Another possibility is that other variables such as *Tariff phasing* and *Number of previous agreements* may also capture part of the expected effect. The results corresponding to these analyses are also reported in tables F-2 and G-2 in Appendixes F and G.

Number of members, previous cooperation, and competition

Agreements with more members are likely to find it more difficult to reach deep trade agreements, as there may exist 'a broader-deeper trade off' (Gilligan, 2004; Baccini, Dür, and Elsig, 2012a). *Number of members*[250] is statistically significant (with a 95% degree of confidence) and negative for the extensive margin only, which reflects that having larger numbers of members increases the difficulty of achieving deep levels of integration in agreements with numerous trade-related areas. This result is consistent with well known arguments in the literature on regionalism (e.g. Haggard, 1997) that larger numbers of participants in a trade agreement increase difficulties in negotiation and transaction costs. It is possible that regarding integration at the intensive margin, the effect of the number of partners varies more according to the bargaining power of the country analyzed rather than to the specific number of members, and therefore, this effect may be already captured by the variable *Bargaining position*. Some studies (e.g. Baccini, Dür, and Elsig, 2012a) have also suggested that it is easier to reach agreements with deeper obligations in trade agreements with partners with which there is increased trust based on a strong record

[250] The variable *Number of members* is calculated as the logarithmic transformation of the total number of members in a trade agreement.

of cooperation. Therefore, the variable *Joint membership*$_{ij}$ [251] is calculated and included in the models. However, it is non-statistically significant in either model even after removing the variable *Political alliance*$_{ij}$. These results suggest that an established cooperative relation between the countries is more important than the number of instances in which such cooperation takes place. The results of these analyses are reported in tables F-3 and G-3 in Appendixes F and G.

Competition between countries is likely to affect their actions. Therefore, the variable *Competition*[252] was calculated and included in the models. For example, Baccini, Dür, and Elsig (2012b: 8-10) report that in interviews, negotiators of trade agreements mentioned the importance of agreements signed by competitors or neighbours in negotiating the level of obligations in a trade agreement. The authors also report that the negotiators mentioned that they rarely take into account more specific dimensions of these competing trade agreements such as their degree of flexibility. [253] For this research, the expectations are that countries that face competition may sign agreements with higher levels of depth, particularly at the intensive margin, which tends to be less specific than the extensive margin. As expected, the coefficient of the variable *Competition* is positive and statistically significant (with a 99% degree of confidence) only for the analysis of the intensive margin in both the restricted and the extended models. According to previous findings in literature, countries are likely to take into consideration trade agreements signed by their competitors (Fernandez and Portes, 1998; Mansfield,

[251] *Joint Membership*$_{ij}$ is the logarithmic transformation of the number of joint memberships in international non-economic organizations. Primary data to calculate this indicator was compiled from Pevehouse, Nordstrom, and Warnke (2004).

[252] *Competition* measures the number of agreements similar in development (North-South or South-South) established by countries in the region during the previous five years to the signature of the trade agreement. Primary data to calculate this indicator is compiled from agreements notified to the WTO and the SICE.

[253] For example, Baccini, Dür, and Elsig (2012b: 8) mention that in an interview, a Colombian negotiator reported that 'the design of the Colombia-US PTA was influenced by the design of the Chile-US PTA and NAFTA.'

Milner, and Pevehouse, 2007), with more regard for the general level of obligations than for the specific areas or disciplines of the agreements (Baccini, Dür, and Elsig, 2012b: 8-10). The results for both models can be found in tables F-3 and G-3 in Appendixes F and G.

Distance, language, and time elapsed

The variable *Year count*[254] is included to test for the existence of potential trends for deeper liberalization in trade agreements. This variable is relevant because the design of trade agreements has evolved over time, and deeper commitments may be the product of a global trend towards greater liberalization. Unsurprisingly, this variable is statistically significant (with a 99% degree of confidence) in the models of both margins. However, at the extensive margin, the effect is positive, while at the intensive margin, the effect is negative. Because *Year count* has high multicollinearity with *Number of previous agreements*, the models are estimated with and without this variable. For a 10% increase in the variable *Year count* (removing *Number of previous agreements)*, the difference in the expected mean level of deep integration is a decrease of 30 per cent (0.91 units) at the intensive margin, and an increase of 17 per cent (0.51 units) at the extensive margin. The main results presented in Tables 8.1 and 8.2 do not change substantially across the different models. The results of these analyses are reported in tables F-4 and G-4 in Appendixes F and G.

Geographic distance has traditionally been included in previous studies on the formation of trade agreements. The main reasons are first, that it captures some of the commercial and strategic importance between pairs of countries (Baccini, Dür, and Elsig, 2012b: 6), as countries tend to seek membership in trade agreements as a medium to increase access to the markets of relevant trade partners. Second, monitoring of partner's activities (Baccini, Dür, and Elsig, 2012b: 6) or transport among other transaction costs (Mansfield, Milner, and Pevehouse, 2007: 420) may be easier if the partner is closer. Different languages between partners is also considered to increase the transaction costs of trade between countries. Countries with different languages are considered to have substantially different cultures, making it more difficult for exporters to access each other's markets (e.g. Mansfield, Milner, and Pevehouse, 2007: 424). The coefficient for $Language_{ij}$ is statistically

[254] Following Blake's (2010: 125) approach to account for a similar trend in the design of investment treaties, in this research, the variable *Time* is the logarithmic transformation of an annual time counter from 1982 to 2010.

significant (with a 95% degree of confidence) only at the extensive margin. Countries which share the same language have an average increase of approximately six per cent (0.19 units) in the expected level of deep integration at the extensive margin. The coefficient for *Distance*$_{ij}$[255] is non-statistically significant in either margin. Because *North/South partner* could capture part of the effect of distance, the models were re-estimated without this variable, but there was no substantial variation regarding the results stated above. These results can be consulted in tables F-4 and G-4 in Appendixes F and G.

Alternative model specification and measurements of concentration of export sector, veto players, and access points without veto power

First, in equations (1) and (2), each of the dependent variables measures the levels of depth at the intensive and extensive margins that the main country from a pair of countries has achieved in a trade agreement. However, there are independent variables in the models that are purely monadic, such as *Veto players*$_i$, and*Veto players*$_j$ when evaluating the intensive margin, *Access points without veto*$_i$, and *Access points without veto*$_j$, when examining the extensive margin, and *Concentration*$_i$ and *Concentration*$_j$ when asessing both margins. Following other studies with similar concerns (e.g. Mansfield, Milner, and Pevehouse, 2007), to eliminate any efficiency gains that stem from including directed dyads instead of undirected dyads, the models were re-estimated with clustered standard errors. The main results presented in Tables 8.1 and 8.2 do not change, and there is almost no variation in the rest of the variables. These results can be consulted in tables F-5 and G-5 in Appendixes F and G.

Second, to examine whether the results depend on the measure of export concentration, the Hirschman–Herfindahl index replaces the concentration/diversification index. The new variables are *ConcentrationII*$_i$ and *ConcentrationII*$_j$. The variables *ConcentrationII*$_i$ and *Veto players*$_i$ and *ConcentrationII*$_i$ and *Access points without veto*$_i$ replace the interaction variables. As discussed in the first section of this chapter, the Hirschman–Herfindahl index is an alternative measure of export sector (de)concentration. The lower the index, the less concentrated a country's export sector is. The disadvantage of this measure regarding

[255] The variable *Distance*$_{ij}$ is measured as the logarithm of the capital-to-capital distance between i and j Data on distance and contiguity are taken from Oneal and Russett (1999). Missing data was collected by the author.

the concentration/diversification index used in the main analysis is that it does not consider the relative weight and specialization of the exported products compared to the world average. For this reason, *Trade openess*$_i$ and *Relative comparative advantage*$_{ij}$[256] are calculated and included in the models. Specialization relative to the rest of the world and the dependence of certain exporters are important aspects. In Chapter 5, it was argued that highly specialized exporters in concentrated export sectors would obtain the main benefits from deep integration, and in Chapter 7, it was argued that highly specialized exporters in concentrated export sectors would be able to capture the veto players to influence depth at the extensive margin.

The results of the analyses with the new variables are consistent with the main results presented in Tables 8.1 and 8.2 in the previous section. As in the main analyses of the extensive margin, the interaction between *ConcentrationII*$_i$ and *Access points without veto*$_i$ is negative and statistically significant (with a 99% degree of confidence), and the largest interaction in both models. The simple effect of *Access points without veto*$_i$ remains non-statistically significant, while the simple effect of *Concentration II*$_i$ is positive and statistically significant (with a 95% degree of confidence). As in the main analyses of the intensive margin, the interaction between *ConcentrationII*$_i$ and *Veto players*$_i$ is positive, the largest in the model, and statistically significant (with a 99% degree of confidence). The simple effects of *Veto players*$_i$ and *ConcentrationII*$_i$ are non-statistically significant. These results are reported in tables F-5 and G-5 in Appendixes F and G.

Third, to test whether the main results presented in the previous section depend on the way in which the main variables and interactions were introduced in the statistical model, this research follows how other studies (e.g. Mansfield, Milner, and Pevehouse, 2007: 425; Mansfield and Milner, 2012) address similar concerns and replace the assumed linear effect with a non-monotonic effect of *Veto players*$_i$ and *Veto players*$_j$. Following these studies, this research also examines whether the results are driven by collinearity between democracy and veto players, regressing *Democracy*$_i$ on *Veto players*$_i$ and *Democracy*$_j$ on *Veto players*$_j$ to create the new

[256] *Relative comparative advantage*$_{ij}$ was calculated by adding the number of traded tariff lines in which the two members of a dyad have a revealed comparative advantage index score above one. The revealed comparative advantage index is defined as RCAij = 100(Xij /Xwj)/(Xit /Xwt), where country i exports good j, and Xwt is exports by country (or countries) w of good(s) t. For good j, scores above one are interpreted as having a relative comparative advantage, and values below one are interpreted as having comparative disadvantage (Amjadi, Schuler, Kuwahara, and Quadros, 2011). Primary data to calculate this variable, disaggregated at the 4 four digit level, was compiled from the UNCTAD TRAINS database (World Bank, 2014b).

variables *Residual veto players*$_i$ and *Residual veto players*$_j$. These new variables capture 'that portion of veto players that is not explained by a state's regime type' (Mansfield, Milner, and Pevehouse, 2007: 427). The interactions and models are re-estimated with these new variables. These steps are repeated for the variables and interactions of *Access points without veto*$_i$ and *Access points without veto*$_j$, creating the new variables *Residual access points without veto*$_i$ and *Residual access points without veto*$_j$. As reported in tables F-5 and G-5 in Appendixes F and G, there are no important variations from the main results presented in Tables 8.1 and 8.2, which remain statistically significant (with a 95% to a 99% degree of confidence), maintain a similar relative magnitude to the rest of the variables in the models, and retain the same direction.

Fourth, to examine whether the results depend on the measure of access points without veto power, the Hirschman–Herfindahl index of party fragmentation replaces the effective number of parties index.[257] The new variables are *Access points without vetoII*$_i$ and *Access points without vetoII*$_j$. *Concentration* and *Access points without vetoII*$_i$ replace the interaction variable. The results of the analyses with the new variables are also consistent with the main results presented in the previous section. Consistent with the main model, the interaction between *ConcentrationII* and *Access points without vetoII* is now positive instead of negative (since the Hirschman–Herfindahl index measures party fragmentation in an opposite direction to the effective number of parties index), statistically significant (with a 95% degree of confidence), and the largest in the model. The simple effect of *Concentration*$_i$ is non-statistically significant, and the simple effect of *Access points without vetoII*$_i$ is statistically significant (with a 95% degree of confidence) and remains negative. These results are reported in tables F-5 and G-5 in Appendixes F and G.

Finally, both interactions were included in the four models to ensure that they are not capturing the effect of the interaction not included in the model. The main interaction variables remained statistically significant (with a 95% to a 99% degree of confidence), and those not included in the analyses reported in Tables 8.1 and 8.2 remained non-significant. For the extensive margin, when including the interaction between *Concentration*$_i$ and *Veto players*$_i$, this variable was non-statistically significant. For the intensive margin, when including the interaction between

[257] In contrast with the effective number of parties index, the highest values of the Hirschman–Herfindahl index of party fragmentation correspond to the least fragmented party systems.

Concentration$_i$ and *Access points without Veto*$_i$, this variable was non-statistically significant. The results of these analyses are reported in tables F-5 and G-5.

Conclusions

This chapter explored the influence of domestic economic and political actors on the design of trade agreements by separating deep integration into its intensive and extensive margins and incorporating veto players, access points without veto power, and export sector (de)concentration into the statistical analyses. Because both margins are widely encompassing aspects of depth, it is very difficult to find strong instruments to implement an instrumental variables model. Therefore, the main problem—as in previous studies that analyse features and provisions in trade agreements—is the problem of endogeneity. However, this was preferred to having omitted variables, which increases the risks of obtaining erroneous statistical significance and direction of the effects of the variables studied. A cross-sectional estimation using OLS with robust standard errors was used to estimate two separate equations for depth at the intensive and extensive margins as the dependent variables. The main results were statistically significant (with at least a 95% degree of confidence). Moreover, these results did not just capture part of the effects of the level of democratization over deep integration.

The series of statistical tests were performed to provide support for the arguments presented in Chapters 5, 6, and 7. The main argument was that specific configurations of interests in (de)concentrated export sectors combine in distinctive ways with veto players and access points without veto power. Two conditional hypotheses were put forward (and their constitutive hypotheses were also stated). First, that countries in which there is a combination of a relatively more concentrated export sector and a large number of effective veto players are associated with agreements with higher levels of integration at their intensive margins. Second, that countries in which there is a combination of a relatively more de-concentrated export sector and large numbers of access points without veto power are associated with agreements with lower levels of integration at their extensive margins. The main explanatory variables used to analyse depth at the intensive and extensive margins are the interaction of veto players and (de)concentration of the export sector and the interaction of access points without veto power and (de)concentration of the export sector.

For the intensive margin, the interaction between concentration of the export sector and veto players was positive, statistically significant (with a 99% degree of confidence), and the largest in the model. When there were no veto players, the simple effect of concentration was non-statistically significant; and when the export sector was the most de-concentrated, the simple effect of veto players was non-statistically significant. These results tend to support the arguments that economic interests in concentrated export sectors are able to capture the veto players, reducing the negative effect that veto players have over deep integration at the intensive margin (which increases according to their number). These results also tend to support the arguments that concentrated and specialized export oriented economic interests prefer to lobby veto players rather than access points without veto power because the former are more decisive and include selective incentives that the government provides in the form of access to decision makers.

For the extensive margin, the interaction between export sector concentration and access points without veto power was negative, statistically significant (with a 99% degree of confidence), and the largest in the model. When there were no access points without veto power, the simple effect of concentration was positive and statistically significant (with a 95% degree of confidence); and when the export sector was the most de-concentrated, the simple effect of access points without veto power was non-statistically significant. These results tend to support the arguments that a combination of concentrated export interests and large numbers of access points without veto power make it increasingly difficult for governments to achieve trade agreements with high levels of deep integration at the extensive margin. These results also tend to support the arguments that in countries with concentrated export sectors, resourceful exporters tend to lose their advantage (over protectionist groups) in lobbying for deep integration at the extensive margin when a large number of access points without veto power exists.

9 Conclusions

Understanding how the different configurations of interests and institutions in Latin American countries contribute to the level of deep integration their trade agreements may reach is increasingly important. First, all Latin American countries participate in international trade through trade agreements, although to different degrees. Second, trade agreements comprise large proportions of world trade. Third, in general, while provisions that promote deep integration have increased in importance, shallow liberalization has become less important in trade negotiations for participating countries. Finally, trade agreements have historical relevance for the countries of the region, being considered important since colonial times (Salazar-Xirinachs, 2004) and being actively used as policy instruments to increase economic development since the 1950s. Therefore, the question that motivated this research is as follows: What explains the wide differences in the nature and level of deep integration that exists between the trade agreements signed by Latin American countries?

This chapter concludes this research by summarizing how the incentives and constraints delineated by the concentration of the export sector and the number of effective veto players and access points without veto power in each country combined and contributed to the varying levels of designed vertical and horizontal deep integration in their trade agreements. The objectives of this research are to contribute to the understanding of the nature and variation of deep integration in trade agreements, how export oriented economic interests benefit from it, how certain aspects of political institutions may constrain or facilitate it, and how different levels of export sector concentration tend to combine with different aspects of political institutions so that interest groups are able to influence the extent of integration in trade agreements. In the case of vertical integration, relevant to trade agreements as a whole, the emphasis is on the combination of veto players and export oriented producers in concentrated export sectors. In the case of horizontal integration, relevant to specific trade areas and disciplines included in the agreement, the emphasis is on the combination of veto players in de-concentrated export sectors. The first section revisits the analytical framework presented in the introduction. The second section revisits the arguments developed in Chapters 3, 5, 6, and 7, addressing their contributions and limitations. The last section addresses areas for further research.

The analytical framework revisited

The general analytical framework of this research adapts endogenous trade theory to explain the differences in depth between trade agreements signed by Latin American countries. Following Schonhardt-Bailey (2006: 52-53) in adapting endogenous trade theory that focuses on explaining protection to analyse trade liberalization, in this research, the approach is extended to limited trade liberalization through international agreements. In this way, trade agreements are the object of analysis, and they are considered a quasi-public good. A direct assessment of policy outcomes is chosen. Building on previous analyses within the endogenous trade theory approach, it is possible to study how different combinations of economic interests and political institutions may explain the differences of deep integration in the trade agreements signed.

The theory is also extended to address policy outcomes in developing countries in addition to its main application to cases of developed ones (e.g. McGillivray, McLean, Pahre, and Schonhardt-Bailey, 2001; Schonhardt-Bailey 2006). The following aspects which are problematic for the application of general public choice theories were taken into consideration. Opacity and discretion in the institutional settings of Latin American countries[258] create problems for tracing political input and present difficulties in identifying economic interests directly as well as analysing systematically how interest groups organize towards achieving a desired policy and the institutional mechanisms over which they exert such pressure. These issues were an initial challenge which required the identification and application of alternative approaches to those commonly used in the analysis of developed countries, but which were consistent with endogenous trade theory analysis.[259] For example, given the impossibility of systematically tracing political contributions, policy outcomes were considered directly (e.g. Beaulieu, 2002; Frieden, 1991). Also, to characterize economic interests, this research followed Frieden (1991) in using a deductive

[258] Generally speaking and with few exceptions, the state in Latin America tends to be highly centralised, clientelistic, exclusive and lacking institutional, constitutional and legal infrastructure (Davis, 1999: 585).

[259] As discussed in Chapters 1, 5, and 7, these approaches are feasible in industrialized countries, since economic interests' input tends to be more formal and open than in developing countries. Researchers are able to gather data on business political activities input from business organizations or political parties. Neither of these approaches are possible to be developed systematically in Latin American countries because of the opacity of the mechanisms used and because of the characteristics of the institutional settings of Latin American countries.

approach that is based on asset specificity and that operationalizes businesses as sectors.[260]

The general framework developed in this research is partially compatible with the open economy politics approach. First, domestic politics are central explanatory variables in the analysis of deep integration. Second, the research considers the three steps followed in open economy politics. Moreover, although international bargaining is only included as a control variable, most scholars within this approach analyse one of these areas and consider the others in a 'reduced form' (Lake, 2009: 225). Third, this research also suffers from linear accumulation of the analysis from economic interests to domestic institutions and international variables (the latter only as control variables) without allowing feedback between them. Furthermore, this research incorporates such aspects as the existence of industries with scale economies, which have been suggested (e.g. Lake, 2009) as an aspect to be addressed within open economy politics frameworks.

The hand-coded original database developed for this research provides detailed information about the content of trade agreements. This is a general contribution to academic literature about trade agreements. More specifically, the two main approaches, legalization studies and rational design, which acknowledge variation in design across international agreements could benefit from the detailed information contained in the database. 'Legalization' and deep integration are different but related concepts. In this research, the classification of deep integration does not follow the literature on legalization in the sense that it is not divided into obligation, delegation, and precision. However, the intensive and extensive margins broadly differentiate between obligation and delegation, and in general, provisions scores tend to be deeper the more precise such obligations and delegation measures are. Nevertheless, the body of literature on legalization mainly considers variations in international agreements and the consequences of this variation in legalization, compliance, and domestic politics, while in this research, deep integration is not the explanatory variable.

There are also clear differences regarding the analytical framework provided by rational design. This approach focuses on the causes of variation in the institutional

[260] Chapter 5, reviews standard and new trade theories to confirm that a sectoral rather than a factor approach is more adequate to analyse the demand for trade agreements after the adoption of economic structural reforms in the region. Moreover, this approach is used in the literature on international political economy of market reforms in developing countries, since the analysis of this countries presents similar constrains in the availability of data.

features of trade agreements but categorizes the data according to membership, control, flexibility, centralization, and scope. This categorization is not compatible with the one based on the margins of deep integration in this research. The main difference is that when provisions about control, centralization, and scope are coded in this research, they distinguish between those applicable to the trade agreement as a whole and those applicable to specific trade areas and disciplines. In addition, in this research, flexibility, measured inversely, is considered to be the removal of barriers to trade and is therefore an element that promotes deep integration (along other provisions that would correspond to obligations). In addition, membership is considered to be a control variable that influences deep integration. The approach to trade agreements fits within rational design's definition of international institutions as 'incentive compatible' 'explicit arrangements, negotiated among international actors, that prescribe, proscribe, and/or authorize behavior [...] and may require or prohibit certain behavior or simply permit it' (Koremenos, Lipson and Snidal, 2001a: 768).[261] However, in this research, economic interests and how they combine with the institutional setting have the central role in explaining variation in the levels of deep integration in trade agreements.[262]

Finally, the results in this research are consistent with the results of previous studies that have highlighted the importance of systemic and international variables in the formation and design of trade agreements. One of the most important explanations in the study of trade agreements is hegemonic stability theory. From this perspective, hegemonic power exerts influence by coercing or persuading other countries to liberalize their trade. Theoretically, the influence of hegemony has been considered important for the proliferation of 'open regionalism' trade agreements in Latin America (Rigozzi, 2013). The coefficient of this variable was statistically significant (above a 95% degree of confidence) and positive for both the restricted and the extended models of the extensive margin, although the coefficients are extremely small. These results are consistent with the expectations of a recent study about design of trade agreements (Mansfield and Milner, 2012). In addition, the results of the rest of the included systemic and international variables, such as distance and economic asymmetry, are consistent with previous empirical studies

[261] From this perspective actors create, change, and adhere to institutions because they find rational doing it to advance their own interests, which does not necessarily mean that these institutions are beneficial to the states that host them (Koremenos, Lipson, and Snidal, 2001a: 768).

[262] In contrast to distributional and enforcement features, uncertainty and number of actors, which are the main explanatory variables for rational design approaches.

and theoretical expectations. The importance of systemic and international theories and variables is not contested; the domestic-level explanations are developed as a complement to the insight they provide.

The arguments revisited

Two main arguments were developed in this research. The first argument refers to the nature and broad characteristics of the policy outcome under analysis, deep integration in trade agreements established by Latin American countries after the economic crises of 1982 and until 2010 with their global and regional partners. For the purposes of this research, deep integration is disaggregated into vertical and horizontal margins. It is argued that each margin produces benefits with different levels of excludability that can be appropriated by export oriented producers, which differ in size and resourcefulness. The steps followed to construct the first main argument are as follows. First, characterize deep integration into its main overarching margins. Second, map the relevant provisions and allocate them to their respective margins. Third, operationalize and measure these provisions according to their depth in the dyadic agreements (28,160 total data points). Fourth, examine the appropriateness of the categorization and allocation of provisions by performing principal components analysis. Finally, construct two factor-based sum scores that measure integration at the vertical (intensive) and horizontal (extensive) margins.

The second argument is that the structure of the export sector, the configuration of domestic political institutions, and the manner in which they are combined in a country are central to the nature and levels of designed depth in a trade agreement. The steps followed to construct the second main argument are as follows. First, approximate the factor mobility of the policy outcome and the region to characterize trade preferences as following sector or factor lines according to standard trade theories. Second, identify which market actors prefer deep integration at the intensive and/or extensive margin because they obtain economic benefits from them. Third, integrate the theories of veto players and access points to determine how political institutions may place constraints on deep integration and how they may channel societal demands towards deep integration. Fourth, study the way in which the identified market actors that benefit from each margin of deep integration may overcome problems to mobilize and successfully demand deep integration and how they combine with the existing institutional setting to influence the designed extent of deep integration in the agreements. Finally, perform a statistical analysis to determine the plausibility of the arguments developed above.

Intensive and extensive margins

First, the concept of depth used in this research to assess how deep integration is explained since there is no consensual guidance that would allow comparisons between the levels of depth achieved in the agreements established by Latin American countries. To categorize deep integration into its intensive and extensive margins, it was also necessary to integrate conceptualizations developed by other authors. The rationale for selecting, extending, and adapting the categorization suggested by the WTO is that it seems to most closely capture the dimensions in the definition of depth as 'the distance from the top or surface to the bottom of something; or the quality of being intense or extreme' (Oxford Dictionaries, 2014). The intensive aspect refers to the institutional depth of trade agreements, while the extensive aspect refers to the inclusion of additional components beyond the lowering of tariffs in a trade agreement (WTO, 2011). On the one hand, aspects covered at the intensive margin were type of trade agreement, decision power, legitimacy, and permanency. On the other hand, areas covered at the extensive margin were rules of origin, services, technical barriers to trade, competition policy, government procurement, trade defence instruments, and dispute-settlement mechanisms. The operational indicators of depth for the identified dimensions were coded and measured as detailed below. The appropriateness of such conceptualization and categorization was empirically assessed through principal components analysis.

To study the margins of deep integration of trade agreements in Latin America, more than 256 dyadic agreements were gathered and hand-coded in 110 aspects for a total of 28, 160 data points. To the best of my knowledge, this is the most detailed and comprehensive database to measure deep integration in trade agreements established by Latin American countries since the economic crises of 1982 and until 2010. Although the effort and time required was much greater than if dyads were undirected, for the purposes of this research, it was crucial that dyads were directed to avoid the risk of masking aspects of variation and reducing the possibilities of obtaining misleading results. To not acknowledge the variation of trade agreements in a study that intends to explore such variation could create serious problems for the validity of the analysis. One limitation is that more detailed coding can always be done. Ideally, to measure the depth resulting from the provisions included and excluded in a trade agreement, product/industry-specific rules and regime/framework rules can be further analysed. However, the extreme detail of product/industry rules makes the collection and systematization of data unworkable

for the number of agreements studied in this research given the existing resources and time constraints.

The development of this database is relevant for the study of trade agreements because most previous research overlooks the variation of design across trade agreements, erroneously characterizing the object of analysis, creating practical problems for the analysis, and deriving implications that can be improved in accuracy (Koremenos and Snidal, 2003; Allee and Peinhardt, 2010: 1; Hicks and Kim, 2010: 2; Baccini, Dür, Elsig, and Milewicz, 2011: 8). Oversight of the variation of trade agreements is a major shortcoming of most previous academic research (Baccini, Dür, Elsig, and Milewicz, 2011: 8). Not considering the differences in the content of trade agreements may lead to several problems. First, a practical problem is the aggregation of knowledge. For example, knowledge generated from studies with an either/or approach to trade agreements could be useful in determining why governments sign trade or investment agreements, but it is not as useful to explain why governments design schemes that include certain components and exclude others (Allee and Peinhardt, 2010: 1-2). Second, the characterization of the object of analysis may be erroneous. Finally, the mischaracterization of trade agreements may also lead to erroneous implications. For example, if we consider that variation in the design of trade agreements responds to different margins for discretion on governments' trade policy (Hicks and Kim, 2010: 9), homogeneous trade agreements would only be possible where governments have no discretion over trade policy (Maggi and Rodriguez-Clare, 2005: 137) or under the very unlikely situation where governments have the same structure, incentives, and constraints.

Preferences of export oriented producers

It has been argued that deep integration through trade agreements has the potential to alter the distribution of economic resources between interest groups in systematic and predictable ways. This part of the research touches an important question in international political economy concerning the way in which 'integration (or not) into the international economy affect[s] the interests of individuals, sectors, factors of production, or countries and, in turn, national policies' (Lake, 2009: 221).[263] To identify the preferences of export oriented producers, these were separated from their setting (as suggested by Frieden, 1999) and derived from standard, 'new,' and 'new-new' trade theories. Analysing the components of production (Magee, Brock, and

[263] Lake (2009) explains that, from this perspective, policies are the dependent variables. The place of the actor in the global economy is the explanatory variable.

Young, 1989: 1), market actors that obtain economic benefits through deep integration at the intensive and/or extensive margins were identified. In addition, the characteristics of the policy output under analysis and the features of the countries in the region were taken into consideration. According to standard trade theories, trade preferences mainly follow sector lines rather than factor lines. Furthermore, the characteristics of Latin American countries after the abandonment of the model of industrialization based on the substitution of imports was taken into account to assess the potential for export oriented producers to exploit scale economies or engage in fragmented production.

Dynamic and productivity gains from trade were assessed as the main incentives for large and resourceful exporters, which are mainly industries with scale economies and those engaged in production sharing, to prefer deeper integration at both the intensive and extensive margins. Static gains from trade were assessed as incentives for large and resourceful exporters to prefer deep integration (in their areas of interest) at the extensive margin. Static gains from trade were also assessed as second-order incentives (after multilateral liberalization) for small and medium exporters to prefer deep integration at the extensive margin.

The first constitutive hypothesis was that, all else being equal, countries with more concentrated export sectors are associated with trade agreements with more profound extensive margins than are countries with more de-concentrated export sectors. The second constitutive hypothesis was that, all else being equal, countries with more concentrated export sectors are associated with trade agreements with more profound intensive margins than are countries with more de-concentrated export sectors. A note of caution was that, although concentrated exporters have economic incentives to prefer deep integration at the intensive and extensive margins, the limited number of such exporters may restrict deep integration (because such exporters will only be interested in the specific areas and mechanisms which affect their production). The results of the empirical analysis are generally in line with the constitutive hypotheses developed in this section of the research. Because (de)concentration of the export sector is a constitutive term in both the analysis of deep integration at the intensive and the extensive margins, its results are discussed in the subsection that also addresses its combination with access points and veto players (the last subsection of this section).

Regarding economic interests and preferences, in addition to the limitations of predicting the effect of export sector (de)concentration over depth at the intensive margin, two additional limitations of the analysis are reflective of the chosen

analytical framework. First, it has been argued that considering interests as exogenous ignores re-shaping of economic interests over time.[264] Second, Lake (2009) mentions that the derivation of preferences from economic trade theories has been criticized as materialist and narrow (e.g. Farrell and Finnemore 2009; Katzenstein 2009; Keohane 2009). In terms of policy preferences, interests are 'the engine that drives preferences,' but their influence may be 'mitigated by other factors, including ideology, party affiliation and institutional constraints' (Schonhardt-Bailey, 2006: 23). Although these aspects of preferences cannot be derived from economic trade theories, economic interests capture a concrete element that influences preferences towards deep integration. For the purposes of this research, this information should be used instead of assuming that economic interests are already represented by the positions of political institutions. Deriving preferences from economic trade theories is also a feasible alternative for analysing Latin American and other developing countries, where systematically gathering complete information about preferences presents additional obstacles regarding systematization, transparency, and accuracy.

Domestic political institutions

To analyse how the political institution setting influences the depth of trade agreements established by Latin American countries, it has been argued that an integrated setting of institutions as access points for societal demands and as veto players is an appropriate approach. The main reason is that most Latin American countries share broadly similar institutional characteristics. Furthermore, most Latin American countries share the specific political institutions to which trade liberalization is attributed in literature, presidentialism (e.g. Nielson, 2003) and proportional representation (e.g. Rogowski, 1987). Therefore, conceptual approaches that incorporate multiple institutions and additional areas of variation seem more appropriate to understanding the differences in the nature and levels of integration of the agreements signed in the region. Access point theory (Ehrlich, 2007, 2011) and veto player theory (Tsebelis, 1995, 2002) were discussed, and their areas of differences and complementarities were studied to integrate them in a single framework. Considering veto players and access points in the same institutional framework enables study of two related but distinct areas of influence over the extent of deep integration in trade agreements: how the level of deep integration is decided

[264] This aspect was mentioned in Chapter 5. Unilateral liberalization and diversification of the export-sector promoted by the government transformed the structure of the export-sector in Latin America.

between veto players and how the level of deep integration is influenced by the cost of access points. The approach used is limited in explaining the feedback effects between political institutions and domestic interests (e.g. Rogowski 1989). These effects can be addressed in case studies, as suggested in the last section, which is devoted to further research.

The arguments developed are that after the transformation of the model of economic development, executives in the region had incentives to establish trade agreements with deep levels of integration. All else being equal, from the perspective of veto player theory, the initiatives of the executive to establish these agreements are limited by the number of effective veto players in the system. The number of effective veto players increases when they are not congruent or coherent. On the other hand, from the perspective of access point theory, numerous access points increase the likeliness that the interests of a larger number of groups are represented.[265] Based on these theories, two constitutive hypotheses were put forward. The first is that countries with fewer veto players are associated with trade agreements with more profound deep integration. The second is that countries with more access points without veto power are associated with deeper trade agreements (considering only the aspect of representation). Nevertheless, these theories, whether combined or on their own, are limited when trying to analyse the extensive and intensive margins of integration. The specific influence of the institutional configurations on the intensive and extensive margins becomes clearer after taking into account how different configurations of veto players and access points without veto power in a country combine with (de)concentrated export interests. The corresponding results of the empirical analysis are discussed in the next subsection.

The analytical focus on domestic political institutions departs from previous political economy studies of Latin America that highlight the role of foreign economic pressures and interest groups. More generally, several authors have pointed out that when endogenous trade theory has attempted to study the influence of political institutions, theoretical approaches that endogenize trade protection or liberalization have focused on pressure from interest groups over these political institutions (Rodrik, 1995). Interests are central, but they cannot provide a complete account of how policy outcomes are shaped. Regardless of how clearly specified they are,

[265] As mentioned in the next sub-section, from a collective action perspective, numerous access points also reduce the costs of lobbying and increase the possibilities of being captured by protectionist groups (which are assumed to have a collective action advantage over pro-liberalization groups). In this case, it is more difficult for executives to establish trade agreements with deep integration.

'interests are refracted through political institutions that often have an independent effect on policy choices' (Lake, 2009: 228). This emphasis in academic literature (Geddes, 2002: 343; Spiller, Stein, and Tommasi, 2008: 2) is heightened in the study of Latin American because the undemocratic characteristics of the region promoted lack of analysis of their formal institutions.

Overcoming collective action problems

Building upon the categorization of deep integration at the intensive and extensive margins, the identification of trade preferences of export oriented producers, and the mapping of institutional settings described above, how these elements combine within a collective action framework was analysed. This analysis considered the differences in the excludability of policy benefits and the thresholds of the modified step production functions of deep integration at the intensive and extensive margins in trade agreements. It also considered how export sector (de)concentration influenced the possibility that groups would demand deep integration following the simultaneous processes of unilateral liberalization and export sector diversification. Third, the specificity of the setting and its influence over the excludability of policy benefits was considered. Fourth, selective incentives attached to lobbying for deep integration were analysed. Finally, it was considered how these aspects, combined with the costs of capturing veto players and access points, met the productive functions of deep integration at the intensive and extensive margins at different levels.

In this part of the research, the costs and benefits that impede or facilitate collective action are assessed, as is usual in the literature (e.g. Olson, 1965; Caves, 1976; Pincus, 1975; Pittman, 1977; Lavergne, 1983; Baldwin, 1985, 1989; Godek, 1985; Grier, Munger and Roberts, 1994; Schonhardt-Bailey, 2006). The characteristics of the interest groups in the export sector, the setting, and the policy outcome were considered to analyse how appropriable are the benefits and how assignable are the costs of collective action towards deep integration. The combination of identifying interested actors and their preferences and the decision elements, competition, and channelling of societal preferences of political institutions contributes to a more complete understanding of how and when they influence deep integration at its different margins than when they are considered in isolation. By combining these elements, the objective is to contribute to a better understanding of the puzzle that motivates this research: the existence of variation in

the nature and levels of deep integration of trade agreements signed by Latin American countries.

After combining the veto player and access point theories and including imperfect competition, the predictions of veto player and access point theories regarding the extent of deep integration in trade agreements are conditional on the number and power of export oriented producers. Two conditional hypotheses were put forward. First, countries in which there is a combination between a relatively more concentrated export sector and relatively large numbers of effective veto players, are associated with agreements with deeper integration at the intensive margins. Second, countries in which there is a combination of a relatively more de-concentrated export sector and relatively large numbers of access points without veto power, are associated with agreements with lower levels of integration at the extensive margins. The results of the empirical analyses and robustness tests showed indirect and direct support for the conditional hypotheses put forward in this research, and are generally in line with their constitutive hypothesis.

The main challenge (and limitation) regarding the empirical estimation (as in previous studies hat analyse features and provisions in trade agreements) is the problem of endogeneity. Because both margins are widely encompassing aspects of depth, it is extremely difficult to find strong instruments to implement an instrumental variables model. Using weak instruments would generate the same problems the model is intended to correct (Baier and Bergstrand, 2007; Neumayer and De Soysa, 2012). On the other hand, while endogeneity biases the estimates, omitting the endogenous variables may change the statistical significance and the direction of the studied effects, which is central for the purposes of this research (King, Keohane, and Verba, 1994). Therefore, as in studies that have faced similar dilemmas (Kucik, 2012; Neumayer and De Soysa, 2012) the endogeneity is acknowledged and a cross-sectional estimation using OLS with robust standard errors is used to estimate two separate equations for the intensive and extensive margins as the dependent variables. The size of the coefficients is reported, but it should be interpreted conservatively because of the bias. Finally, since the main interest in this research is studying deep integration established by countries in the Latin American region as a whole, all agreements for which data was available (more than 80 per cent) were included in the empirical analyses.

The different levels of concentration of interests in the export sector influence their capacities to mobilize to different extents, and when combined with different configurations of political institutions in the region, they contribute to explaining the

existence of wide differences in the nature and levels of depth that agreements reach in the region. Regarding the intensive margin, the interaction between export sector concentration and veto players is positive, statistically significant (with a 99% degree of confidence), and the largest in the model; the simple effect of concentration is non-statistically significant when there are no veto players, and the simple effect of veto players is non-statistically when the export sector is the most de-concentrated. Predicting the effect of concentration was analytically unclear: on the one hand, large and resourceful export oriented producers obtain the most benefits from deep integration at the intensive margin, which could lead to deeper trade agreements. On the other hand, these types of producers may only target the specific barriers that affect their processes of production, which would lead to lower levels of integration in trade agreements. Consistent with the predictions from the conditional hypotheses, when the concentration of the export sector increases, the negative effect of larger numbers of veto players on deep integration at the intensive margin decreases. Resourceful exporters in concentrated export sectors form a critical mass that is able to capture costly veto players and achieve trade agreements with strong institutional structures that facilitate the coordination and management of their internationalized processes of production and the realization of scale economies.

Regarding the extensive margin, the interaction between export sector concentration and veto players is negative, statistically significant (with a 99% degree of confidence), and the largest in the model; the simple effect of concentration is positive and statistically significant (with a 99% degree of confidence) when access points without veto power are at their minimum, and the simple effect of access points is non-statistically significant when the export sector is the most de-concentrated. Following only the reasoning that the interest groups with a collective action advantage capture the access points, shallow trade agreements are difficult to explain when increasing returns to scale and fragmented production are taken into consideration. These results tend to support the argument that in countries with concentrated export sectors, exporters tend to lose their advantage in lobbying for deep integration at the extensive margin when a large number of access points without veto power exists. Larger numbers of access points without veto power decrease the costs of lobbying through competition and are more easily captured by protectionist groups, which reduces deep integration at the extensive margin.

Further research

Research regarding deep integration is very limited, and further study on the matter could deepen our understanding of this form of trade liberalization and its causes and consequences. One way in which this research can be extended and deepened is by separately considering each of the areas aggregated at the intensive and extensive margins (type of trade agreement, decision power, legitimacy, permanency, rules of origin, services, technical barriers to trade, competition policy, government procurement, trade defence instruments, and dispute settlement mechanisms). This strategy would make it easier to isolate the specific determinants of each area, to identify the concrete industries that obtain benefits from integration in each area, and to determine how domestic political institutions mediate these interests. Having less encompassing dependent variables would also make it possible to find stronger instruments and to reduce the endogeneity problems in the empirical analyses. A second area for further research is to incorporate the rest of the regions of the world and develop a comparative analysis between them and the Latin American region.

Finally, qualitative case studies would complement this research and allow development of more extensive theory and testing and better measurements, as would considering a less linear research design. For the case studies, historical institutionalism[266] seems to be an appropriate analytical approach to complement the extended endogenous trade theory that framed this research. According to Odell's (2001) and Geddes' (2003) advice on case study selection, choice based on the dependent variables should be avoided and the focus should be placed on the extremes. Four cases seem interesting: Chile, Argentina, Mexico, and Brazil. Geographically, Argentina and Mexico are closer to the economic giants of the region (Brazil and the United States, respectively). However, while Mexico's trade is highly concentrated and complementary with the United States, increasing its dependence on the United States, Argentina's trade is more diversified, reducing its dependence

[266] Rational choice institutionalism and historical institutionalism agree on a definition of institutions; and differ on some of their characteristics. North (1990: 3) defines institutions as 'the humanely devised constraints that shape human interaction.' According to Pierson and Skocpol (2002: 698) rational choice institutionalism and historical institutionalism main differences are whether institutions are considered exogenous or endogenous, the importance of dynamic processes, and the duration of these processes. Lieberman (2002: 709) refer to these dynamic processes as the historical and institutional contexts that determine which and how political power is allocated and regulated affecting political outcomes. Schonhardt-Bailey (2006: 5) emphasizes that both approaches also differ in their preferred methods of analysis: while rational choice research uses more quantitative methods; historical institutionalism makes a more extensive use of qualitative analysis.

on Brazil. On the other hand, Brazil and Chile pursue different strategies. While Brazil's large economic size acts as a magnet for neighbouring countries in the region, Chile's relative isolation and diversified trade make a multilateral strategy preferable to a regional one (Aggarwal, Espach, and Tulchin, 2004: 267-268). The sizes of the economy and population are medium in Argentina and Chile and large in Brazil and Mexico compared to the rest of the countries in the region.

Although in terms of broad institutional configuration, there is no variation in the numbers of veto points between the cases, there is a high level of variation regarding the number and nature of effective veto players and access points. This allows different margins of manoeuvre for executives. Historically, while Argentina and Brazil have had moderate to weak party discipline, Mexico and Chile have had more disciplined parties, which have been more supportive of executive actions. In addition, Argentina and Brazil have stronger federal governments than the other two countries. As regards the configuration of interests, Brazil's powerful industrialist interest groups and Argentina's weak export oriented interest groups limit the possibilities of achieving deep integration agreements. On the other hand, Chile's political support of export oriented interest groups and Mexico's political constraints on groups opposing trade liberalization may have increased their possibilities of achieving deep integration.

In terms of bargaining strategies, the four countries have pursued different approaches. Argentina and Brazil are more focused on the regional level, but in different positions, with the former as a follower and the latter as a leader. In contrast, Chile and Mexico have established a broad array of trade agreements, with the former focusing on the multilateral level and the latter positioning itself as a hub. Further research should explore these case studies, comparing them to test the general statistical results presented in this research. Doing this would allow improvements in the analysis of deep integration in the region through more developed theory (by considering feedback effects between economic interests and political institutions), testing, and measurements.

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A Appendix: Dyads and agreements

Agreement	Date of signature	Main country	Partner
CARICOM – Costa Rica	2004	Antigua and Barbuda	Costa Rica
Bolivia-MERCOSUR	1996	Argentina	Bolivia
MERCOSUR	1991	Argentina	Brazil
Chile-MERCOSUR	1996	Argentina	Chile
MERCOSUR - Israel	2007	Argentina	Israel
MERCOSUR	1991	Argentina	Paraguay
MERCOSUR – Peru	2005	Argentina	Peru
Chile - Australia	2008	Australia	Chile
Chile-EU	2002	Austria	Chile
Mexico – EU	1997	Austria	Mexico
CARICOM – Costa Rica	2004	Barbados	Costa Rica
CARICOM - Dominican Republic	1998	Barbados	Dominican Republic
Chile-EU	2002	Belgium	Chile
CARICOM – Costa Rica	2004	Belize	Costa Rica
CARICOM - Dominican Republic	1998	Belize	Dominican Republic
Bolivia-MERCOSUR	1996	Bolivia	Argentina
Bolivia-MERCOSUR	1996	Bolivia	Brazil
Bolivia - Mexico	2010	Bolivia	Mexico
Bolivia-MERCOSUR	1996	Bolivia	Paraguay
Bolivia-MERCOSUR	1996	Bolivia	Uruguay
MERCOSUR	1991	Brazil	Argentina
Bolivia-MERCOSUR	1996	Brazil	Bolivia
Chile-MERCOSUR	1996	Brazil	Chile

Agreement	Date of signature	Main country	Partner
MERCOSUR	1991	Brazil	Paraguay
MERCOSUR – Peru	2005	Brazil	Peru
MERCOSUR	1991	Brazil	Uruguay
Chile-P4	2005	Brunei Darussalam	Chile
Canada-Chile	1996	Canada	Chile
Canada - Colombia	2008	Canada	Colombia
Canada-Costa Rica	2001	Canada	Costa Rica
NAFTA	1992	Canada	Mexico
Chile-MERCOSUR	1996	Chile	Argentina
Chile - Australia	2008	Chile	Australia
Chile-EU	2002	Chile	Austria
Chile-EU	2002	Chile	Belgium
Chile-MERCOSUR	1996	Chile	Brazil
Chile-P4	2005	Chile	Brunei Darussalam
Canada-Chile	1996	Chile	Canada
Chile- China	2005	Chile	China
Chile - Colombia	2006	Chile	Colombia
Central America - Chile	1999	Chile	Costa Rica
Central America - Chile	1999	Chile	El Salvador
Chile-EU	2002	Chile	Finland
Chile-EU	2002	Chile	France
Chile-EU	2002	Chile	Greece
Central America - Chile	1999	Chile	Guatemala
Central America - Chile	1999	Chile	Honduras
Chile-EFTA	2003	Chile	Iceland

Agreement	Date of signature	Main country	Partner
Chile-EU	2002	Chile	Italy
Chile-Japan	2007	Chile	Japan
Chile-Korea	2003	Chile	Korea
Chile-EU	2002	Chile	Luxembourg
Chile –Mexico	1998	Chile	Mexico
Chile-EU	2002	Chile	Netherlands
Chile-P4	2005	Chile	New Zealand
Chile-EFTA	2003	Chile	Norway
Chile - Panama	2006	Chile	Panama
Chile-MERCOSUR	1996	Chile	Paraguay
Chile - Peru	2006	Chile	Peru
Chile-EU	2002	Chile	Spain
Chile-EU	2002	Chile	Sweden
Chile-EFTA	2003	Chile	Switzerland
Chile - Turkey	2009	Chile	Turkey
Chile-EU	2002	Chile	United Kingdom
Chile- United States	2003	Chile	United States
Chile- China	2005	China	Chile
Costa Rica - China	2010	China	Costa Rica
Peru - China	2009	China	Peru
Canada - Colombia	2008	Colombia	Canada
Chile - Colombia	2006	Colombia	Chile
Colombia - Northern Triangle	2007	Colombia	El Salvador
Colombia - Northern Triangle	2007	Colombia	Guatemala
Colombia - Northern Triangle	2007	Colombia	Honduras

Agreement	Date of signature	Main country	Partner
Colombia - Mexico	1994	Colombia	Mexico
Colombia - United States	2006	Colombia	United States
Colombia - EFTA	2011	Colombia	Iceland
Colombia - EFTA	2011	Colombia	Switzerland
CARICOM – Costa Rica	2004	Costa Rica	Antigua and Barbuda
CARICOM – Costa Rica	2004	Costa Rica	Barbados
CARICOM – Costa Rica	2004	Costa Rica	Belize
Canada-Costa Rica	2001	Costa Rica	Canada
Central America - Chile	1999	Costa Rica	Chile
Costa Rica - China	2010	Costa Rica	China
CARICOM – Costa Rica	2004	Costa Rica	Dominica
Central America – Dominican Republic	1998	Costa Rica	Dominican Republic
Dominican Republic-CAFTA	2004	Costa Rica	Dominican Republic
CARICOM – Costa Rica	2004	Costa Rica	Grenada
CARICOM – Costa Rica	2004	Costa Rica	Guyana
CARICOM – Costa Rica	2004	Costa Rica	Jamaica
Costa Rica – Mexico	1994	Costa Rica	Mexico
Central America - Panama	2002	Costa Rica	Panama
CARICOM – Costa Rica	2004	Costa Rica	St. Kitts and Nevis
CARICOM – Costa Rica	2004	Costa Rica	St. Lucia

Agreement	Date of signature	Main country	Partner
CARICOM – Costa Rica	2004	Costa Rica	St. Vincent and the Grenadines
CARICOM – Costa Rica	2004	Costa Rica	Trinidad and Tobago
CARICOM – Costa Rica	2004	Dominica	Costa Rica
CARICOM - Dominican Republic	1998	Dominica	Dominican Republic
CARICOM - Dominican Republic	1998	Dominican Republic	Barbados
CARICOM - Dominican Republic	1998	Dominican Republic	Belize
Central America – Dominican Republic	1998	Dominican Republic	Costa Rica
Dominican Republic-CAFTA	2004	Dominican Republic	Costa Rica
CARICOM - Dominican Republic	1998	Dominican Republic	Dominica
Central America – Dominican Republic	1998	Dominican Republic	El Salvador
Dominican Republic-CAFTA	2004	Dominican Republic	El Salvador
CARICOM - Dominican Republic	1998	Dominican Republic	Grenada
Central America – Dominican Republic	1998	Dominican Republic	Guatemala
CARICOM - Dominican Republic	1998	Dominican Republic	Guyana
Central America – Dominican Republic	1998	Dominican Republic	Honduras
Dominican Republic-CAFTA	2004	Dominican Republic	Honduras
Central America – Dominican Republic	1998	Dominican Republic	Nicaragua
Dominican Republic-CAFTA	2004	Dominican Republic	Nicaragua
CARICOM - Dominican Republic	1998	Dominican Republic	St. Lucia

Agreement	Date of signature	Main country	Partner
CARICOM - Dominican Republic	1998	Dominican Republic	Trinidad and Tobago
Dominican Republic-CAFTA	2004	Dominican Republic	United States
Central America - Chile	1999	El Salvador	Chile
Colombia - Northern Triangle	2007	El Salvador	Colombia
Central America – Dominican Republic	1998	El Salvador	Dominican Republic
Dominican Republic-CAFTA	2004	El Salvador	Dominican Republic
Central America - Panama	2002	El Salvador	Panama
Chile-EU	2002	Finland	Chile
Mexico – EU	1997	Finland	Mexico
Chile-EU	2002	France	Chile
Mexico – EU	1997	France	Mexico
Mexico – EU	1997	Germany	Mexico
Chile-EU	2002	Greece	Chile
Mexico – EU	1997	Greece	Mexico
CARICOM – Costa Rica	2004	Grenada	Costa Rica
CARICOM - Dominican Republic	1998	Grenada	Dominican Republic
Central America - Chile	1999	Guatemala	Chile
Colombia - Northern Triangle	2007	Guatemala	Colombia
Central America – Dominican Republic	1998	Guatemala	Dominican Republic
Mexico- Northern Triangle	2000	Guatemala	Mexico
Central America - Panama	2002	Guatemala	Panama
Dominican Republic-CAFTA	2004	Guatemala	United States

Agreement	Date of signature	Main country	Partner
CARICOM – Costa Rica	2004	Guyana	Costa Rica
CARICOM - Dominican Republic	1998	Guyana	Dominican Republic
Central America - Chile	1999	Honduras	Chile
Central America – Dominican Republic	1998	Honduras	Dominican Republic
Dominican Republic-CAFTA	2004	Honduras	Dominican Republic
Mexico- Northern Triangle	2000	Honduras	Mexico
Central America - Panama	2002	Honduras	Panama
Dominican Republic-CAFTA	2004	Honduras	United States
Colombia - Northern Triangle	2007	Honduras	Colombia
Chile-EFTA	2003	Iceland	Chile
Colombia - EFTA	2011	Iceland	Colombia
Mexico – EFTA	2000	Iceland	Mexico
Peru - EFTA	2011	Iceland	Peru
Mexico – EU	1997	Ireland	Mexico
MERCOSUR - Israel	2007	Israel	Argentina
Mexico – Israel	2000	Israel	Mexico
MERCOSUR - Israel	2007	Israel	Paraguay
MERCOSUR - Israel	2007	Israel	Uruguay
Chile-EU	2002	Italy	Chile
Mexico – EU	1997	Italy	Mexico
CARICOM – Costa Rica	2004	Jamaica	Costa Rica
Chile-Japan	2007	Japan	Chile
Mexico- Japan	2004	Japan	Mexico
Peru - Japan	2011	Japan	Peru

Agreement	Date of signature	Main country	Partner
Chile-Korea	2003	Korea	Chile
Peru - South Korea	2010	Korea	Peru
Chile-EU	2002	Luxembourg	Chile
Mexico – EU	1997	Mexico	Austria
Bolivia - Mexico	2010	Mexico	Bolivia
NAFTA	1992	Mexico	Canada
Chile –Mexico	1998	Mexico	Chile
Colombia - Mexico	1994	Mexico	Colombia
Costa Rica – Mexico	1994	Mexico	Costa Rica
Mexico – EU	1997	Mexico	Finland
Mexico – EU	1997	Mexico	France
Mexico – EU	1997	Mexico	Germany
Mexico – EU	1997	Mexico	Greece
Mexico- Northern Triangle	2000	Mexico	Guatemala
Mexico- Northern Triangle	2000	Mexico	Honduras
Mexico – EFTA	2000	Mexico	Iceland
Mexico – EU	1997	Mexico	Ireland
Mexico – Israel	2000	Mexico	Israel
Mexico – EU	1997	Mexico	Italy
Mexico- Japan	2004	Mexico	Japan
Mexico – EU	1997	Mexico	Netherlands
Mexico – Nicaragua	1997	Mexico	Nicaragua
Mexico – EFTA	2000	Mexico	Norway
Mexico - Peru	2011	Mexico	Peru
Mexico – EU	1997	Mexico	Portugal
Mexico – EU	1997	Mexico	Spain
Mexico – EU	1997	Mexico	Sweden

Agreement	Date of signature	Main country	Partner
Mexico – EU	1997	Mexico	United Kingdom
NAFTA	1992	Mexico	United States
Mexico-Uruguay	2003	Mexico	Uruguay
Chile-EU	2002	Netherlands	Chile
Mexico – EU	1997	Netherlands	Mexico
Chile-P4	2005	New Zealand	Chile
Central America – Dominican Republic	1998	Nicaragua	Dominican Republic
Dominican Republic-CAFTA	2004	Nicaragua	Dominican Republic
Mexico – Nicaragua	1997	Nicaragua	Mexico
Dominican Republic-CAFTA	2004	Nicaragua	United States
Chile-EFTA	2003	Norway	Chile
Mexico – EFTA	2000	Norway	Mexico
Peru - EFTA	2011	Norway	Peru
Chile - Panama	2006	Panama	Chile
Central America - Panama	2002	Panama	Costa Rica
Central America - Panama	2002	Panama	El Salvador
Central America - Panama	2002	Panama	Guatemala
Central America - Panama	2002	Panama	Honduras
Panama - Singapore	2006	Panama	Singapore
MERCOSUR	1991	Paraguay	Argentina
Bolivia-MERCOSUR	1996	Paraguay	Bolivia
MERCOSUR	1991	Paraguay	Brazil
Chile-MERCOSUR	1996	Paraguay	Chile

Agreement	Date of signature	Main country	Partner
MERCOSUR - Israel	2007	Paraguay	Israel
MERCOSUR – Peru	2005	Paraguay	Peru
MERCOSUR	1991	Paraguay	Uruguay
MERCOSUR – Peru	2005	Peru	Argentina
MERCOSUR – Peru	2005	Peru	Brazil
Chile - Peru	2006	Peru	Chile
Peru - China	2009	Peru	China
Peru - Japan	2011	Peru	Japan
Peru - South Korea	2010	Peru	Korea
Mexico - Peru	2011	Peru	Mexico
MERCOSUR – Peru	2005	Peru	Paraguay
Peru - Thailand	2010	Peru	Thailand
MERCOSUR – Peru	2005	Peru	Uruguay
Peru - EFTA	2011	Peru	Iceland
Peru - EFTA	2011	Peru	Norway
Peru - EFTA	2011	Peru	Switzerland
Mexico – EU	1997	Portugal	Mexico
Panama - Singapore	2006	Singapore	Panama
Chile-EU	2002	Spain	Chile
Mexico – EU	1997	Spain	Mexico
CARICOM – Costa Rica	2004	St. Kitts and Nevis	Costa Rica
CARICOM – Costa Rica	2004	St. Lucia	Costa Rica
CARICOM - Dominican Republic	1998	St. Lucia	Dominican Republic
CARICOM – Costa Rica	2004	St. Vincent and the Grenadines	Costa Rica
Chile-EU	2002	Sweden	Chile
Mexico – EU	1997	Sweden	Mexico

Agreement	Date of signature	Main country	Partner
Chile-EFTA	2003	Switzerland	Chile
Colombia - EFTA	2011	Switzerland	Colombia
Peru - EFTA	2011	Switzerland	Peru
Peru - Thailand	2010	Thailand	Peru
CARICOM – Costa Rica	2004	Trinidad and Tobago	Costa Rica
CARICOM - Dominican Republic	1998	Trinidad and Tobago	Dominican Republic
Chile - Turkey	2009	Turkey	Chile
Chile-EU	2002	United Kingdom	Chile
Mexico – EU	1997	United Kingdom	Mexico
Chile- United States	2003	United States	Chile
Colombia - United States	2006	United States	Colombia
Dominican Republic-CAFTA	2004	United States	Dominican Republic
Dominican Republic-CAFTA	2004	United States	Guatemala
Dominican Republic-CAFTA	2004	United States	Honduras
NAFTA	1992	United States	Mexico
Dominican Republic-CAFTA	2004	United States	Nicaragua
Bolivia-MERCOSUR	1996	Uruguay	Bolivia
MERCOSUR	1991	Uruguay	Brazil
MERCOSUR - Israel	2007	Uruguay	Israel
Mexico-Uruguay	2003	Uruguay	Mexico
MERCOSUR	1991	Uruguay	Paraguay
MERCOSUR – Peru	2005	Uruguay	Peru

B Appendix: Factor analysis

Table B-1 Correlation matrix

	Discipline coverage	Discipline reactive coverage	Discipline support bodies/mechanisms	Decision power	Legitimacy	Institutional capacities
Discipline coverage	1.000	0.752	0.708	-0.262	-0.038	0.272
Discipline reactive coverage	0.752	1.000	0.583	0.021	-0.156	0.371
Discipline support bodies/mechanisms	0.708	0.583	1.000	-0.210	-0.015	0.177
Decision power	-0.262	0.021	-0.210	1.000	-0.408	0.374
Legitimacy	-0.038	-0.156	-0.015	-0.408	1.000	-0.136
Institutional capacities	0.272	0.371	0.177	0.374	-0.136	1.000

Table B-2 Kaiser-Meyer-Olkin Measure of Sampling Adequacy and Bartlett's Test

Kaiser-Meyer-Olkin measure of sampling adequacy.		0.643
Bartlett's test of sphericity	Approx. Chi-Square	584.472
	df	15
	Sig.	0.000

Table B-3 Communalities

	Initial	Extraction
Discipline coverage	1.000	0.872
Discipline reactive coverage	1.000	0.792
Discipline support bodies/mechanisms	1.000	0.728
Decision power	1.000	0.798
Legitimacy	1.000	0.474
Institutional capacities	1.000	0.532

Extraction Method: Principal Component Analysis

Table B-4 Total variance explained

Component		Initial eigenvalues			Extraction sums of squared loadings			Rotation sums of squared loadings[a]
		Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
dimension 0	1	2.536	42.274	42.274	2.536	42.274	42.274	2.526
	2	1.659	27.651	69.925	1.659	27.651	69.925	1.688
	3	.832	13.867	83.792				
	4	.414	6.895	90.686				
	5	.380	6.329	97.015				
	6	.179	2.985	100.000				

Extraction Method: Principal Component Analysis.

a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.

Table B-5 Pattern matrix and structure matrix

Item	Pattern coefficients		Structure coefficients		Commu-nalities
	Compo-nent 1	Compo-nent 2	Compo-nent 1	Compo-nent 2	
Discipline coverage	0.936	-0.086	0.930	-.016	0.872
Discipline reactive coverage	0.851	0.203	0.867	0.266	0.728
Discipline support bodies/mechanisms	0.853	-0.126	0.844	-0.063	0.792
Institutional capacities	0.346	0.617	0.392	0.643	0.532
Decision power	-0.269	0.872	-0.205	0.852	0.798
Legitimacy	-0.007	-0.688	-0.058	-0.688	0.474

Extraction Method: Principal Component Analysis.
Rotation Method: Oblimin with Kaiser Normalization.
Rotation converged in 4 iterations.

Table B-6 Component correlation matrix

Component	1	2
1	1.000	0.074
2	0.074	1.000

Extraction Method: Principal Component Analysis.
Rotation Method: Oblimin with Kaiser Normalization.

C Appendix: Average deep integration scores

Date of signature	Agreement	Extensive margin	Intensive margin
1991	MERCOSUR	0.30	2.46
1992	NAFTA	1.75	1.08
1994	Colombia - Mexico	2.86	0.41
1994	Costa Rica – Mexico	2.60	0.97
1996	Bolivia-MERCOSUR	0.31	0.50
1996	Canada-Chile	1.17	0.41
1996	Chile-MERCOSUR	0.71	0.71
1997	Mexico – EU	1.28	0.84
1997	Mexico – Nicaragua	2.29	1.44
1998	CARICOM - Dominican Republic	0.72	0.41
1998	Central America – Dominican Republic	1.60	1.13
1998	Chile –Mexico	1.53	1.30
1999	Central America - Chile	1.52	1.55
2000	Mexico – EFTA	1.38	1.55
2000	Mexico – Israel	1.23	1.44
2000	Mexico- Northern Triangle	1.57	1.22
2001	Canada-Costa Rica	0.67	1.22
2002	Central America - Panama	2.08	1.55
2002	Chile-EU	1.91	1.50
2003	Chile- United States	2.14	1.08
2003	Chile-EFTA	1.80	1.00
2003	Chile-Korea	1.47	1.41
2003	Mexico-Uruguay	1.16	0.97
2004	CARICOM – Costa Rica	0.27	1.36
2004	Dominican Republic-CAFTA	2.12	1.30
2004	Mexico- Japan	0.54	1.44
2005	Chile- China	0.91	1.77
2005	Chile-P4	2.51	1.64
2005	MERCOSUR – Peru	1.08	0.97
2006	Chile - Colombia	1.69	1.10
2006	Chile - Panama	1.19	1.30
2006	Chile - Peru	1.98	1.33
2006	Colombia - United States	2.49	1.08

Date of signature	Agreement	Extensive margin	Intensive margin
2006	Panama - Singapore	1.23	0.14
2007	Chile-Japan	1.21	0.81
2007	Colombia - Northern Triangle	1.58	1.44
2007	MERCOSUR - Israel	0.46	1.20
2008	Canada - Colombia	2.73	1.08
2008	Chile - Australia	2.16	1.44
2009	Chile - Turkey	0.12	1.44
2009	Peru - China	1.35	0.74
2010	Bolivia - Mexico	1.05	0.85
2010	Costa Rica - China	0.83	1.33
2010	Peru - South Korea	2.42	0.74
2010	Peru - Thailand	0.70	0.23
2011	Colombia - EFTA	1.51	1.69
2011	Mexico - Peru	1.42	0.97
2011	Peru - EFTA	1.38	1.21
2011	Peru - Japan	1.72	0.74

D Appendix: Deep integration scores

Main country	Partner	Agreement	Extensive margin	Intensive margin
Antigua and Barbuda	Costa Rica	CARICOM – Costa Rica	0.27	1.49
Argentina	Bolivia	Bolivia-MERCOSUR	0.26	0.71
Argentina	Brazil	MERCOSUR	0.3	2.46
Argentina	Chile	Chile-MERCOSUR	0.71	0.71
Argentina	Israel	MERCOSUR - Israel	0.46	1.2
Argentina	Paraguay	MERCOSUR	0.3	2.46
Argentina	Peru	MERCOSUR – Peru	1.08	0.97
Australia	Chile	Chile - Australia	2.16	1.44
Austria	Chile	Chile-EU	1.91	1.5
Austria	Mexico	Mexico – EU	1.28	0.84
Barbados	Costa Rica	CARICOM – Costa Rica	0.27	1.49
Barbados	Dominican Republic	CARICOM - Dominican Republic	0.72	0.41
Belgium	Chile	Chile-EU	1.91	1.5
Belize	Costa Rica	CARICOM – Costa Rica	0.27	1.49
Belize	Dominican Republic	CARICOM - Dominican Republic	0.72	0.41
Bolivia	Argentina	Bolivia-MERCOSUR	0.35	0.71
Bolivia	Brazil	Bolivia-MERCOSUR	0.35	0.71
Bolivia	Mexico	Bolivia - Mexico	1.05	0.85
Bolivia	Paraguay	Bolivia-MERCOSUR	0.35	0.38
Bolivia	Uruguay	Bolivia-MERCOSUR	0.35	0.38
Brazil	Argentina	MERCOSUR	0.3	2.46
Brazil	Bolivia	Bolivia-MERCOSUR	0.26	0.38
Brazil	Chile	Chile-MERCOSUR	0.71	0.71
Brazil	Paraguay	MERCOSUR	0.3	2.46
Brazil	Peru	MERCOSUR – Peru	1.08	0.97

Main country	Partner	Agreement	Extensive margin	Intensive margin
Brazil	Uruguay	MERCOSUR	0.3	2.46
Brunei Darussalam	Chile	Chile-P4	2.53	1.64
Canada	Chile	Canada-Chile	1.17	0.41
Canada	Colombia	Canada - Colombia	2.73	1.08
Canada	Costa Rica	Canada-Costa Rica	0.67	1.22
Canada	Mexico	NAFTA	1.75	1.08
Chile	Argentina	Chile-MERCOSUR	0.71	0.71
Chile	Australia	Chile - Australia	2.16	1.44
Chile	Austria	Chile-EU	1.91	1.5
Chile	Belgium	Chile-EU	1.91	1.5
Chile	Brazil	Chile-MERCOSUR	0.71	0.71
Chile	Brunei Darussalam	Chile-P4	2.53	1.64
Chile	Canada	Canada-Chile	1.17	0.41
Chile	China	Chile- China	0.91	1.77
Chile	Colombia	Chile - Colombia	1.69	1.1
Chile	Costa Rica	Central America - Chile	1.52	1.55
Chile	El Salvador	Central America - Chile	1.52	1.55
Chile	Finland	Chile-EU	1.91	1.5
Chile	France	Chile-EU	1.91	1.5
Chile	Greece	Chile-EU	1.91	1.5
Chile	Guatemala	Central America - Chile	1.52	1.55
Chile	Honduras	Central America - Chile	1.52	1.55
Chile	Iceland	Chile-EFTA	1.8	1.11
Chile	Italy	Chile-EU	1.91	1.5
Chile	Japan	Chile-Japan	1.21	0.88

Main country	Partner	Agreement	Extensive margin	Intensive margin
Chile	Korea	Chile-Korea	1.47	1.41
Chile	Luxembourg	Chile-EU	1.91	1.5
Chile	Mexico	Chile –Mexico	1.53	1.3
Chile	Netherlands	Chile-EU	1.91	1.5
Chile	New Zealand	Chile-P4	2.43	1.64
Chile	Norway	Chile-EFTA	1.8	1.11
Chile	Panama	Chile - Panama	1.19	1.3
Chile	Paraguay	Chile-MERCOSUR	0.71	0.71
Chile	Peru	Chile - Peru	1.98	1.33
Chile	Spain	Chile-EU	1.91	1.5
Chile	Sweden	Chile-EU	1.91	1.5
Chile	Switzerland	Chile-EFTA	1.8	1.11
Chile	Turkey	Chile - Turkey	0.12	1.44
Chile	United Kingdom	Chile-EU	1.91	1.5
Chile	United States	Chile- United States	2.14	1.08
China	Chile	Chile- China	0.91	1.77
China	Costa Rica	Costa Rica - China	0.83	1.33
China	Peru	Peru - China	1.35	0.74
Colombia	Canada	Canada - Colombia	2.73	1.08
Colombia	Chile	Chile - Colombia	1.69	1.1
Colombia	El Salvador	Colombia - Northern Triangle	1.67	1.33
Colombia	Guatemala	Colombia - Northern Triangle	1.56	1.33
Colombia	Honduras	Colombia - Northern Triangle	1.56	1.33
Colombia	Mexico	Colombia - Mexico	2.76	0.41

Main country	Partner	Agreement	Extensive margin	Intensive margin
Colombia	United States	Colombia - United States	2.49	1.08
Colombia	Iceland	Colombia - EFTA	1.51	1.69
Colombia	Switzerland	Colombia - EFTA	1.51	1.69
Costa Rica	Antigua and Barbuda	CARICOM – Costa Rica	0.27	1.22
Costa Rica	Barbados	CARICOM – Costa Rica	0.27	1.22
Costa Rica	Belize	CARICOM – Costa Rica	0.27	1.22
Costa Rica	Canada	Canada-Costa Rica	0.67	1.22
Costa Rica	Chile	Central America - Chile	1.52	1.55
Costa Rica	China	Costa Rica - China	0.83	1.33
Costa Rica	Dominica	CARICOM – Costa Rica	0.27	1.22
Costa Rica	Dominican Republic	Central America – Dominican Republic	1.6	1.11
Costa Rica	Dominican Republic	Dominican Republic-CAFTA	2.12	1.3
Costa Rica	Grenada	CARICOM – Costa Rica	0.27	1.22
Costa Rica	Guyana	CARICOM – Costa Rica	0.27	1.22
Costa Rica	Jamaica	CARICOM – Costa Rica	0.27	1.22
Costa Rica	Mexico	Costa Rica – Mexico	2.6	0.97
Costa Rica	Panama	Central America - Panama	2.08	1.55
Costa Rica	St. Kitts and Nevis	CARICOM – Costa Rica	0.27	1.22
Costa Rica	St. Lucia	CARICOM – Costa Rica	0.27	1.22
Costa Rica	St. Vincent and the Grenadines	CARICOM – Costa Rica	0.27	1.22

Main country	Partner	Agreement	Extensive margin	Intensive margin
Costa Rica	Trinidad and Tobago	CARICOM – Costa Rica	0.27	1.22
Dominica	Costa Rica	CARICOM – Costa Rica	0.27	1.49
Dominica	Dominican Republic	CARICOM - Dominican Republic	0.72	0.41
Dominican Republic	Barbados	CARICOM - Dominican Republic	0.72	0.41
Dominican Republic	Belize	CARICOM - Dominican Republic	0.72	0.41
Dominican Republic	Costa Rica	Central America – Dominican Republic	1.6	1.11
Dominican Republic	Costa Rica	Dominican Republic-CAFTA	2.12	1.3
Dominican Republic	Dominica	CARICOM - Dominican Republic	0.72	0.41
Dominican Republic	El Salvador	Central America – Dominican Republic	1.6	1.11
Dominican Republic	El Salvador	Dominican Republic-CAFTA	2.12	1.3
Dominican Republic	Grenada	CARICOM - Dominican Republic	0.72	0.41
Dominican Republic	Guatemala	Central America – Dominican Republic	1.6	1.11
Dominican Republic	Guyana	CARICOM - Dominican Republic	0.72	0.41
Dominican Republic	Honduras	Central America – Dominican Republic	1.6	1.11
Dominican Republic	Honduras	Dominican Republic-CAFTA	2.12	1.3
Dominican Republic	Nicaragua	Central America – Dominican Republic	1.6	1.11
Dominican Republic	Nicaragua	Dominican Republic-CAFTA	2.12	1.3
Dominican Republic	St. Lucia	CARICOM - Dominican Republic	0.72	0.41
Dominican Republic	Trinidad and Tobago	CARICOM - Dominican Republic	0.72	0.41

Main country	Partner	Agreement	Extensive margin	Intensive margin
Dominican Republic	United States	Dominican Republic-CAFTA	2.12	1.3
El Salvador	Chile	Central America - Chile	1.52	1.55
El Salvador	Colombia	Colombia - Northern Triangle	1.56	1.55
El Salvador	Dominican Republic	Central America – Dominican Republic	1.6	1.11
El Salvador	Dominican Republic	Dominican Republic-CAFTA	2.12	1.3
El Salvador	Panama	Central America - Panama	2.08	1.55
Finland	Chile	Chile-EU	1.91	1.5
Finland	Mexico	Mexico – EU	1.28	0.84
France	Chile	Chile-EU	1.91	1.5
France	Mexico	Mexico – EU	1.28	0.84
Germany	Mexico	Mexico – EU	1.28	0.84
Greece	Chile	Chile-EU	1.91	1.5
Greece	Mexico	Mexico – EU	1.28	0.84
Grenada	Costa Rica	CARICOM – Costa Rica	0.27	1.49
Grenada	Dominican Republic	CARICOM - Dominican Republic	0.72	0.41
Guatemala	Chile	Central America - Chile	1.52	1.55
Guatemala	Colombia	Colombia - Northern Triangle	1.56	1.55
Guatemala	Dominican Republic	Central America – Dominican Republic	1.6	1.11
Guatemala	Mexico	Mexico- Northern Triangle	1.57	1.22
Guatemala	Panama	Central America - Panama	2.08	1.55
Guatemala	United States	Dominican Republic-CAFTA	2.12	1.3
Guyana	Costa Rica	CARICOM – Costa Rica	0.27	1.49

Main country	Partner	Agreement	Extensive margin	Intensive margin
Guyana	Dominican Republic	CARICOM - Dominican Republic	0.72	0.41
Honduras	Chile	Central America - Chile	1.52	1.55
Honduras	Dominican Republic	Central America – Dominican Republic	1.6	1.11
Honduras	Dominican Republic	Dominican Republic-CAFTA	2.12	1.3
Honduras	Mexico	Mexico- Northern Triangle	1.57	1.22
Honduras	Panama	Central America - Panama	2.08	1.55
Honduras	United States	Dominican Republic-CAFTA	2.12	1.3
Honduras	Colombia	Colombia - Northern Triangle	1.56	1.55
Iceland	Chile	Chile-EFTA	1.8	0.88
Iceland	Colombia	Colombia - EFTA	1.51	1.69
Iceland	Mexico	Mexico – EFTA	1.38	1.55
Iceland	Peru	Peru - EFTA	1.38	1.21
Ireland	Mexico	Mexico – EU	1.28	0.84
Israel	Argentina	MERCOSUR - Israel	0.46	1.2
Israel	Mexico	Mexico – Israel	1.23	1.44
Israel	Paraguay	MERCOSUR - Israel	0.46	1.2
Israel	Uruguay	MERCOSUR - Israel	0.46	1.2
Italy	Chile	Chile-EU	1.91	1.5
Italy	Mexico	Mexico – EU	1.28	0.84
Jamaica	Costa Rica	CARICOM – Costa Rica	0.27	1.49
Japan	Chile	Chile-Japan	1.21	0.74
Japan	Mexico	Mexico- Japan	0.54	1.44
Japan	Peru	Peru - Japan	1.72	0.74
Korea	Chile	Chile-Korea	1.47	1.41

Main country	Partner	Agreement	Extensive margin	Intensive margin
Korea	Peru	Peru - South Korea	2.42	0.74
Luxembourg	Chile	Chile-EU	1.91	1.5
Mexico	Austria	Mexico – EU	1.28	0.84
Mexico	Bolivia	Bolivia - Mexico	1.05	0.85
Mexico	Canada	NAFTA	1.75	1.08
Mexico	Chile	Chile –Mexico	1.53	1.3
Mexico	Colombia	Colombia - Mexico	2.96	0.41
Mexico	Costa Rica	Costa Rica – Mexico	2.6	0.97
Mexico	Finland	Mexico – EU	1.28	0.84
Mexico	France	Mexico – EU	1.28	0.84
Mexico	Germany	Mexico – EU	1.28	0.84
Mexico	Greece	Mexico – EU	1.28	0.84
Mexico	Guatemala	Mexico- Northern Triangle	1.57	1.22
Mexico	Honduras	Mexico- Northern Triangle	1.57	1.22
Mexico	Iceland	Mexico – EFTA	1.38	1.55
Mexico	Ireland	Mexico – EU	1.28	0.84
Mexico	Israel	Mexico – Israel	1.23	1.44
Mexico	Italy	Mexico – EU	1.28	0.84
Mexico	Japan	Mexico- Japan	0.54	1.44
Mexico	Netherlands	Mexico – EU	1.28	0.84
Mexico	Nicaragua	Mexico – Nicaragua	2.29	1.44
Mexico	Norway	Mexico – EFTA	1.38	1.55
Mexico	Peru	Mexico - Peru	1.42	0.97
Mexico	Portugal	Mexico – EU	1.28	0.84
Mexico	Spain	Mexico – EU	1.28	0.84
Mexico	Sweden	Mexico – EU	1.28	0.84
Mexico	United Kingdom	Mexico – EU	1.28	0.84

Main country	Partner	Agreement	Extensive margin	Intensive margin
Mexico	United States	NAFTA	1.75	1.08
Mexico	Uruguay	Mexico-Uruguay	1.16	0.97
Netherlands	Chile	Chile-EU	1.91	1.5
Netherlands	Mexico	Mexico – EU	1.28	0.84
New Zealand	Chile	Chile-P4	2.53	1.64
Nicaragua	Dominican Republic	Central America – Dominican Republic	1.6	1.33
Nicaragua	Dominican Republic	Dominican Republic-CAFTA	2.12	1.3
Nicaragua	Mexico	Mexico – Nicaragua	2.29	1.44
Nicaragua	United States	Dominican Republic-CAFTA	2.12	1.3
Norway	Chile	Chile-EFTA	1.8	0.88
Norway	Mexico	Mexico – EFTA	1.38	1.55
Norway	Peru	Peru - EFTA	1.38	1.21
Panama	Chile	Chile - Panama	1.19	1.3
Panama	Costa Rica	Central America - Panama	2.08	1.55
Panama	El Salvador	Central America - Panama	2.08	1.55
Panama	Guatemala	Central America - Panama	2.08	1.55
Panama	Honduras	Central America - Panama	2.08	1.55
Panama	Singapore	Panama - Singapore	1.23	0.14
Paraguay	Argentina	MERCOSUR	0.3	2.46
Paraguay	Bolivia	Bolivia-MERCOSUR	0.26	0.38
Paraguay	Brazil	MERCOSUR	0.3	2.46
Paraguay	Chile	Chile-MERCOSUR	0.71	0.71
Paraguay	Israel	MERCOSUR - Israel	0.46	1.2

Main country	Partner	Agreement	Extensive margin	Intensive margin
Paraguay	Peru	MERCOSUR – Peru	1.08	0.97
Paraguay	Uruguay	MERCOSUR	0.3	2.46
Peru	Argentina	MERCOSUR – Peru	1.08	0.97
Peru	Brazil	MERCOSUR – Peru	1.08	0.97
Peru	Chile	Chile - Peru	1.98	1.33
Peru	China	Peru - China	1.35	0.74
Peru	Japan	Peru - Japan	1.72	0.74
Peru	Korea	Peru - South Korea	2.42	0.74
Peru	Mexico	Mexico - Peru	1.42	0.97
Peru	Paraguay	MERCOSUR – Peru	1.08	0.97
Peru	Thailand	Peru - Thailand	0.7	0.23
Peru	Uruguay	MERCOSUR – Peru	1.08	0.97
Peru	Iceland	Peru - EFTA	1.38	1.21
Peru	Norway	Peru - EFTA	1.38	1.21
Peru	Switzerland	Peru - EFTA	1.38	1.21
Portugal	Mexico	Mexico – EU	1.28	0.84
Singapore	Panama	Panama - Singapore	1.23	0.14
Spain	Chile	Chile-EU	1.91	1.5
Spain	Mexico	Mexico – EU	1.28	0.84
St. Kitts and Nevis	Costa Rica	CARICOM – Costa Rica	0.27	1.49
St. Lucia	Costa Rica	CARICOM – Costa Rica	0.27	1.49
St. Lucia	Dominican Republic	CARICOM - Dominican Republic	0.72	0.41
St. Vincent and the Grenadines	Costa Rica	CARICOM – Costa Rica	0.27	1.49
Sweden	Chile	Chile-EU	1.91	1.5
Sweden	Mexico	Mexico – EU	1.28	0.84
Switzerland	Chile	Chile-EFTA	1.8	0.88

Main country	Partner	Agreement	Extensive margin	Intensive margin
Switzerland	Colombia	Colombia - EFTA	1.51	1.69
Switzerland	Peru	Peru - EFTA	1.38	1.21
Thailand	Peru	Peru - Thailand	0.7	0.23
Trinidad and Tobago	Costa Rica	CARICOM – Costa Rica	0.27	1.49
Trinidad and Tobago	Dominican Republic	CARICOM - Dominican Republic	0.72	0.41
Turkey	Chile	Chile - Turkey	0.12	1.44
United Kingdom	Chile	Chile-EU	1.91	1.5
United Kingdom	Mexico	Mexico – EU	1.28	0.84
United States	Chile	Chile- United States	2.14	1.08
United States	Colombia	Colombia - United States	2.49	1.08
United States	Dominican Republic	Dominican Republic-CAFTA	2.12	1.3
United States	Guatemala	Dominican Republic-CAFTA	2.12	1.3
United States	Honduras	Dominican Republic-CAFTA	2.12	1.3
United States	Mexico	NAFTA	1.75	1.08
United States	Nicaragua	Dominican Republic-CAFTA	2.12	1.3
Uruguay	Bolivia	Bolivia-MERCOSUR	0.26	0.38
Uruguay	Brazil	MERCOSUR	0.3	2.46
Uruguay	Israel	MERCOSUR - Israel	0.46	1.2
Uruguay	Mexico	Mexico-Uruguay	1.16	0.97
Uruguay	Paraguay	MERCOSUR	0.3	2.46
Uruguay	Peru	MERCOSUR – Peru	1.08	0.97

E Appendix: Descriptive and collinearity statistics

Table E-1 Extensive margin: Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Access points without veto$_i$	256	0.00	0.94	0.51	0.19
Access points without veto$_j$	256	0.00	0.94	0.51	0.19
Concentration$_i$	256	0.25	0.80	0.59	0.16
Concentration$_j$	256	0.25	0.80	0.59	0.16
Concentration and Access points without veto	256	0.00	0.70	0.30	0.15
Democracy$_i$	237	0.00	1.04	0.36	0.29
Democracy$_j$	237	0.00	1.04	0.36	0.29
Investment	256	0.00	1.00	0.55	0.50
Intellectual property	256	0.00	1.00	0.55	0.50
Labor	256	0.00	1.00	0.12	0.32
Number of previous agreements	256	1.73	9.27	6.76	1.64
European Union	256	0.00	1.00	0.18	0.38
Bargaining position	256	1.00	4.00	2.28	0.88
North/South partner	256	0.00	1.00	0.52	0.50

	N	Minimum	Maximum	Mean	Std. Deviation
Political alliance	256	0.00	1.00	0.59	0.49
Tariff phasing	256	0.00	1.00	0.47	0.28
Intensive margin	256	0.14	2.46	1.18	0.45
Extensive margin	256	0.12	2.96	1.32	0.68

Table E-2 Extensive margin: Collinearity statistics

	Tolerance	VIF
Access points without $veto_i$	0.05	21.44
Access points without $veto_j$	0.84	1.19
$Concentration_i$	0.09	10.61
$Concentration_j$	0.61	1.63
Concentration and Access points without veto	0.03	33.46
$Democracy_i$	0.56	1.79
$Democracy_j$	0.56	1.79
Investment	0.33	3.07
Intellectual property	0.47	2.14
Labor	0.31	3.26

	Tolerance	VIF
Number of previous agreements	0.40	2.50
European Union	0.31	3.26
Bargaining position	0.61	1.64
North/South partner	0.16	6.22
Hegemonic power	0.60	1.66
Political alliance	0.16	6.20
Tariff phasing	0.55	1.83
Intensive margin	0.75	1.33

Table E-3 Intensive margin: Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Veto players$_i$	256	1.00	4.00	2.17	0.83
Veto players$_j$	256	1.00	4.00	2.17	0.83
Concentration$_i$	256	0.25	0.80	0.59	0.16
Concentration$_j$	256	0.25	0.80	0.59	0.16
Concentration and Veto players	256	0.25	3.04	1.29	0.61
Democracy$_i$	237	0.00	1.04	0.36	0.29
Democracy$_j$	237	0.00	1.04	0.36	0.29

	N	Minimum	Maximum	Mean	Std. Deviation
Investment	256	0.00	1.00	0.55	0.50
Intellectual property	256	0.00	1.00	0.55	0.50
Labor	256	0.00	1.00	0.12	0.32
Number of previous agreements	256	1.73	9.27	6.76	1.64
European Union	256	0.00	1.00	0.18	0.38
Bargaining position	256	1.00	4.00	2.28	0.88
North/South partner	256	0.00	1.00	0.52	0.50
Political alliance	256	0.00	1.00	0.59	0.49
Tariff phasing	256	0.00	1.00	0.47	0.28
Intensive margin	256	0.14	2.46	1.18	0.45
Extensive margin	256	0.12	2.96	1.32	0.68

Table E-4 Intensive margin: Collinearity statistics

	Tolerance	VIF
Veto players$_i$	0.05	21.31
Veto players$_j$	0.63	1.58
Concentration$_i$	0.07	14.02
Concentration$_j$	0.60	1.66

	Tolerance	VIF
Concentration and Veto players	0.03	34.49
$Democracy_i$	0.54	1.83
$Democracy_j$	0.56	1.79
Investment	0.33	3.02
Intellectual property	0.40	2.49
Labor	0.31	3.26
Number of previous agreements	0.41	2.46
European Union	0.30	3.34
$Bargaining\ position_i$	0.59	1.70
North/South partner	0.15	6.52
Hegemonic power	0.66	1.51
Political alliance	0.16	6.16
Tariff phasing	0.53	1.87
Extensive margin	0.40	2.48

F Appendix: Robustness checks for the intensive margin

Table F-1 Income level, income fluctuations, and differences in wealth

	GDP difference	Main countries' and partners' GDP	Main countries' GDP	Partners' GDP	Change GDP	Change unemploy-ment	Foreign direct investment
Veto players$_i$	-0.15	-0.16	-0.16	-0.16	-0.14	-0.17	-0.18
	(0.15)	(0.15)	(0.15)	(0.15)	(0.15)	(0.14)	(0.15)
Veto players$_j$	0.14***	0.15***	0.15***	0.16***	0.16***	0.16***	0.16***
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
Concentration$_i$	-0.80*	-0.91*	-0.91*	-0.98*	-0.98*	-1.03*	-1.06*
	(0.60)	(0.64)	(0.64)	(0.59)	(0.58)	(0.58)	(0.58)
Concentration$_j$	0.38*	0.23	0.26*	0.25	0.27*	0.20	0.26*
	(0.20)	(0.26)	(0.19)	(0.25)	(0.18)	(0.19)	(0.18)
Concentration$_i$ and Veto players$_i$	0.57**	0.59**	0.59**	0.60**	0.59**	0.62**	0.64***
	(0.25)	(0.25)	(0.25)	(0.25)	(0.25)	(0.25)	(0.25)
Bargaining position$_i$	0.16***	0.14***	0.14***	0.14***	0.14***	0.14***	0.14***
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
Democracy$_i$	-0.24*	-0.27*	-0.26*	-0.27*	-0.26*	-0.25*	-0.28**
	(0.14)	(0.14)	(0.14)	(0.14)	(0.14)	(0.14)	(0.14)
Democracy$_j$	-0.30**	-0.32**	-0.32**	-0.32**	-0.32**	-0.31**	-0.34***
	(0.13)	(0.13)	(0.13)	(0.13)	(0.13)	(0.13)	(0.13)
European Union	-0.06	-0.08	-0.08	-0.08	-0.06	-0.09	-0.10
	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)	(0.10)

	GDP difference	Main countries' and partners' GDP	Main countries' GDP	Partners' GDP	Change GDP	Change unemploy-ment	Foreign direct investment
Extensive margin	0.12* (0.07)	0.11* (0.07)	0.11* (0.07)	0.11* (0.07)	0.10* (0.07)	0.11* (0.07)	0.10* (0.07)
Hegemonic power	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Intellectual property	-0.13* (0.08)	-0.13* (0.08)	-0.13* (0.08)	-0.13* (0.08)	-0.13* (0.07)	-0.13* (0.07)	-0.12* (0.08)
Investment	0.22** (0.09)	0.23*** (0.09)	0.22*** (0.09)	0.23*** (0.09)	0.24*** (0.09)	0.20** (0.09)	0.24*** (0.09)
Labor	0.19 (0.16)	0.21 (0.16)	0.20 (0.16)	0.21* (0.16)	0.20 (0.15)	0.19 (0.16)	0.19 (0.16)
North/South partner	0.24* (0.16)	0.23* (0.16)	0.23* (0.16)	0.23* (0.16)	0.21* (0.16)	0.21 (0.17)	0.24* (0.16)
Number of previous agreements	-0.09*** (0.03)	-0.10*** (0.03)	-0.10*** (0.03)	-0.10*** (0.03)	-0.11*** (0.03)	-0.10*** (0.03)	-0.11*** (0.03)
Political alliance	-0.48*** (0.15)	-0.52*** (0.16)	-0.51*** (0.15)	-0.54*** (0.15)	-0.53*** (0.15)	-0.49*** (0.16)	-0.53*** (0.15)
Tariff phasing	-0.19 (0.15)	-0.09 (0.15)	-0.10 (0.14)	-0.07 (0.14)	-0.07 (0.13)	-0.11 (0.13)	-0.06 (0.12)
Change GDP_i					-0.07 (0.06)		
Change $unemployment_i$						-0.06 (0.14)	

	GDP difference	Main countries' and partners' GDP	Main countries' GDP	Partners' GDP	Change GDP	Change unemploy-ment	Foreign direct investment
Foreign direct investment							0.06*** (0.02)
GDP_i		0.02 (0.06)	0.02 (0.06)				
GDP_j		-0.01 (0.05)		-0.01 (0.05)			
GDP difference	0.07* (0.04)						
Constant	0.41 (0.72)	1.26 1.16)	1.11 (0.99)	1.57* (0.84)	1.61*** (0.49)	1.71** (0.80)	0.92** (0.45)
Number of observations	218	218	218	218	218	215	218
R-squared	0.38	0.37	0.37	0.37	0.38	0.37	0.38

Notes: Numbers in parentheses are robust standard errors.

*** $p \leq 0.01$, ** $p \leq 0.05$, * $p \leq 0.1$

Table F-2 Trade openness, trade intensity, and trade complementarity

	Trade openness	Trade intensity	Trade complementarity
Veto players$_i$	-0.17 (0.15)	-0.10 (0.15)	-0.17 (0.16)
Veto players$_j$	0.15*** (0.04)	0.15*** (0.04)	0.15*** (0.04)
Concentration$_i$	-0.97* (0.59)	-0.71 (0.59)	-1.01* (0.61)
Concentration$_j$	0.27* (0.18)	0.24* (0.18)	0.41** (0.20)
Concentration$_i$ and Veto players$_i$	0.60** (0.25)	0.46* (0.26)	0.62** (0.26)
Bargaining position$_i$	0.14*** (0.04)	0.12*** (0.04)	0.12*** (0.04)
Democracy$_i$	-0.25* (0.14)	-0.20 (0.15)	-0.22* (0.14)
Democracy$_j$	-0.31** (0.13)	-0.27** (0.13)	-0.30** (0.14)
European Union	-0.07 (0.10)	0.02 (0.10)	-0.11 (0.11)
Extensive margin	0.11* (0.07)	0.11* (0.07)	0.16** (0.08)

	Trade openness	Trade intensity	Trade complementarity
Hegemonic power	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Intellectual property	-0.13* (0.08)	-0.17** (0.08)	-0.13* (0.09)
Investment	0.23*** (0.09)	0.27*** (0.10)	0.22** (0.09)
Labor	0.20 (0.16)	0.14 (0.17)	0.12 (0.17)
North/South partner	0.22* (0.16)	0.12 (0.18)	0.23* (0.17)
Number of previous agreements	-0.09*** (0.03)	-0.09*** (0.03)	-0.12*** (0.03)
Political alliance	-0.52*** (0.15)	-0.55*** (0.16)	-0.54*** (0.15)
Tariff phasing	-0.11 (0.13)	-0.13 (0.13)	-0.10 (0.13)
Trade complementarity			0.00 (0.17)
Trade openness	-0.13 (0.17)		
Trade intensity		0.13*** (0.05)	

	Trade openness	Trade intensity	Trade complementarity
Constant	1.58*** (0.49)	1.32*** (0.44)	1.48*** (0.52)
Number of observations	218	218	202
R-squared	0.37	0.39	0.39

Notes: Numbers in parentheses are robust standard errors.

*** p ≤ 0.01, ** p ≤ 0.05, * p ≤ 0.1

Table F-3 Number of members, cooperation, and competition

	Number of partners	Competition	Joint membership	Joint membership (without political alliance)
Veto players$_i$	-0.14 (0.15)	-0.15 (0.15)	-0.13 (0.15)	-0.18 (0.15)
Veto players$_j$	0.14*** (0.04)	0.11** (0.05)	0.15*** (0.04)	0.14*** (0.04)
Concentration$_i$	-0.87* (0.59)	-0.72 (0.58)	-0.98* (0.58)	-1.08** (0.55)
Concentration$_j$	0.29* (0.18)	0.30* (0.17)	0.30* (0.18)	0.37** (0.19)
Concentration$_i$ and Veto players$_i$	0.56** (0.25)	0.49** (0.25)	0.56** (0.25)	0.62** (0.26)

	Number of partners	Competition	Joint membership	Joint membership (without political alliance)
Bargaining position$_i$	0.17***	0.14***	0.14***	0.13***
	(0.04)	(0.04)	(0.04)	(0.04)
Democracy$_i$	-0.27**	-0.16	-0.30**	-0.17
	(0.14)	(0.16)	(0.14)	(0.14)
Democracy$_j$	-0.33***	-0.22*	-0.32**	-0.19*
	(0.13)	(0.15)	(0.13)	(0.13)
European Union	0.12	0.07	-0.08	-0.02
	(0.19)	(0.10)	(0.10)	(0.10)
Extensive margin	0.10*	0.10*	0.12*	0.09
	(0.07)	(0.07)	(0.07)	(0.07)
Hegemonic power	0.00	0.00	0.00	0.00
	(0.00)	(0.00)	(0.00)	(0.00)
Intellectual property	-0.13*	-0.09	-0.14*	-0.08
	(0.07)	(0.08)	(0.08)	(0.09)
Investment	0.23***	0.21**	0.24***	0.16*
	(0.09)	(0.09)	(0.09)	(0.11)
Labor	0.23*	0.10	0.26*	-0.05
	(0.17)	(0.16)	(0.17)	(0.12)
North/South partner	0.23*	0.15	0.23*	-0.14
	(0.16)	(0.17)	(0.17)	(0.12)
Number of previous agreements	-0.09***	-0.17***	-0.11***	-0.06**
	(0.03)	(0.04)	(0.03)	(0.03)

	Number of partners	Competition	Joint membership	Joint membership (without political alliance)
Political alliance	-0.49*** (0.15)	-0.38*** (0.15)	-0.54*** (0.16)	
Tariff phasing	-0.12 (0.14)	-0.12 (0.13)	-0.12 (0.14)	-0.28** (0.13)
Competition		0.64*** (0.24)		
GDP difference			-0.25 (0.20)	-0.38* (0.25)
Number of Partners	-0.09 (0.07)			
Constant	1.41*** (0.45)	1.50*** (0.45)	2.65*** 1.07)	3.10*** 1.24)
Number of observations	218	218	213	213
R-squared	0.37	0.40	0.38	0.32

Notes: Numbers in parentheses are robust standard errors.

*** $p \leq 0.01$, ** $p \leq 0.05$, * $p \leq 0.1$

Table F-4 Distance, language, and time elapsed

	Distance	Distance (without political alliance)	Language	Main countries' and partners' population	Main countries' population	Partners' population	Year count	Year count (without previous agreements)
Veto players$_i$	-0.17 (0.14)	-0.20* (0.15)	-0.15 (0.15)	-0.16 (0.15)	-0.16 (0.15)	-0.16 (0.15)	-0.07 (0.14)	-0.12 (0.15)
Veto players$_j$	0.16*** (0.04)	0.14*** (0.04)	0.16*** (0.04)	0.16*** (0.04)	0.16*** (0.04)	0.16*** (0.04)	0.17*** (0.03)	0.17*** (0.04)
Concentration$_i$	-1.00* (0.58)	-1.03* (0.59)	-0.95* (0.59)	-0.90* (0.65)	-0.90* (0.65)	-0.99* (0.59)	-0.53 (0.57)	-0.83* (0.59)
Concentration$_j$	0.31* (0.18)	0.31* (0.19)	0.30* (0.18)	0.25 (0.24)	0.27* (0.18)	0.26 (0.24)	0.42** (0.19)	0.33* (0.18)
Concentration$_i$ and Veto players$_i$	0.62*** (0.25)	0.64*** (0.26)	0.60** (0.25)	0.59** (0.26)	0.59** (0.26)	0.60** (0.25)	0.46* (0.24)	0.55** (0.25)
Bargaining position$_i$	0.12*** (0.04)	0.15*** (0.04)	0.14*** (0.04)	0.14*** (0.04)	0.14*** (0.04)	0.14*** (0.04)	0.11*** (0.03)	0.11*** (0.04)
Democracy$_i$	-0.27** (0.14)	-0.15 (0.14)	-0.25* (0.15)	-0.28* (0.15)	-0.28** (0.14)	-0.27* (0.14)	-0.42*** (0.12)	-0.36*** (0.13)
Democracy$_j$	-0.31** (0.13)	-0.22* (0.13)	-0.30** (0.14)	-0.31** (0.14)	-0.31** (0.13)	-0.32** (0.14)	-0.46*** (0.12)	-0.40*** (0.13)
European Union	-0.06 (0.10)	-0.04 (0.10)	-0.07 (0.10)	-0.08 (0.10)	-0.08 (0.10)	-0.08 (0.10)	-0.03 (0.11)	-0.06 (0.10)

	Distance	Distance (without political alliance)	Language	Main countries' and partners' population	Main countries' population	Partners' population	Year count	Year count (without previous agreements)
Extensive margin	0.10*	0.09	0.12*	0.11*	0.11*	0.11*	0.17***	0.12*
	(0.07)	(0.07)	(0.07)	(0.07)	(0.07)	(0.07)	(0.06)	(0.07)
Hegemonic power	0.00	0.00	0.00	0.00	0.00	0.00	0.00***	0.00*
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Intellectual property	-0.14*	-0.07	-0.12*	-0.13*	-0.13*	-0.13*	-0.05	-0.12*
	(0.08)	(0.09)	(0.08)	(0.08)	(0.08)	(0.08)	(0.07)	(0.07)
Investment	0.24***	0.15*	0.23***	0.23***	0.22***	0.23***	0.22**	0.26***
	(0.09)	(0.11)	(0.09)	(0.09)	(0.09)	(0.09)	(0.09)	(0.09)
Labor	0.21	-0.05	0.19	0.20	0.20	0.21	0.26*	0.24*
	(0.16)	(0.13)	(0.16)	(0.16)	(0.16)	(0.16)	(0.17)	(0.16)
North/South partner	0.20	-0.05	0.24*	0.23*	0.22*	0.23*	0.27*	0.28*
	(0.16)	(0.15)	(0.16)	(0.16)	(0.16)	(0.16)	(0.16)	(0.16)
Number of previous agreements	-0.10***	-0.07**	-0.10***	-0.10***	-0.10***	-0.10***	0.40***	
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.08)	
Political alliance	-0.63***		-0.50***	-0.52***	-0.51***	-0.53***	-0.54***	-0.60***
	(0.17)		(0.16)	(0.16)	(0.15)	(0.16)	(0.16)	(0.15)
Tariff phasing	-0.09	-0.19*	-0.07	-0.10	-0.10	-0.07	0.06	0.01
	(0.13)	(0.12)	(0.13)	(0.15)	(0.14)	(0.14)	(0.12)	(0.12)
Distance	-0.18	0.17						
	(0.14)	(0.14)						

	Distance	Distance (without political alliance)	Language	Main countries' and partners' population	Main countries' population	Partners' population	Year count	Year count (without previous agreements)
Language			-0.06 (0.10)					
$Population_i$				0.03 (0.08)	0.03 (0.08)			
$Population_j$				-0.01 (0.07)		-0.01 (0.07)		
Year count							-3.14*** (0.50)	-0.83*** (0.18)
Constant	2.18*** (0.72)	0.50 (0.74)	1.33*** (0.47)	1.20 (0.98)	1.11 (0.91)	1.50** (0.73)	0.66* (0.43)	1.39*** (0.43)
Number of observations	218	218	218	218	218	218	218	218
R-squared	0.37	0.32	0.37	0.37	0.37	0.37	0.37	0.41

Notes: Numbers in parentheses are robust standard errors.

*** $p \leq 0.01$, ** $p \leq 0.05$, * $p \leq 0.1$

Table F-5 Alternative model specification and measurements of concentration of export sector, veto players, and access points without veto

	Veto players and access points without veto	Access points without veto power (without veto power players)	Veto players (without interaction)	Concentration II	Residual veto players	Veto players II
Veto players$_i$	-0.14 (0.14)		0.18*** (0.04)	-0.115 (0.182)		
Veto players$_j$	0.15*** (0.04)		0.16*** (0.04)	0.150*** (0.040)		
Concentration$_i$	-0.54 (0.76)	0.72* (0.48)	0.41** (0.18)		0.461** (0.197)	-0.471 (0.431)
Concentration$_j$	0.22 (0.18)	0.08 (0.19)	0.31* (0.18)		0.403** (0.197)	0.296 (0.208)
Concentration$_i$ and Veto players$_i$	0.57** (0.25)					
Bargaining position$_i$	0.13*** (0.04)	0.16*** (0.04)	0.13*** (0.04)	0.155*** (0.036)	0.133*** (0.035)	0.145*** (0.035)
Democracy$_i$	-0.25* (0.13)	-0.21* (0.13)	-0.28** (0.14)	-0.292** (0.115)		-0.287** (0.116)
Democracy$_j$	-0.29** (0.13)	-0.28** (0.13)	-0.32** (0.13)	-0.338*** (0.111)		-0.338*** (0.114)
European Union	-0.02 (0.10)	0.01 (0.10)	-0.02 (0.09)	-0.054 (0.118)	-0.069 (0.115)	-0.053 (0.115)

	Veto players and access points without veto	Access points without veto power (without veto power players)	Veto players (without interaction)	Concentration II	Residual veto players	Veto players II
Extensive margin	0.13* (0.07)	0.20*** (0.07)	0.11* (0.07)	0.132** (0.062)	0.093 (0.061)	0.098 (0.062)
Hegemonic power	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)
Intellectual property	-0.16** (0.08)	-0.23*** (0.07)	-0.13* (0.07)	-0.138 (0.085)	-0.114 (0.081)	-0.149* (0.081)
Investment	0.25*** (0.09)	0.23** (0.10)	0.21** (0.09)	0.203** (0.091)	0.211** (0.088)	0.234*** (0.088)
Labor	0.18 (0.16)	0.18 (0.15)	0.20 (0.16)	0.228 (0.136)	0.170 (0.130)	0.161 (0.132)
North/South partner	0.23* (0.16)	0.33** (0.17)	0.22* (0.16)	0.289** (0.125)	0.096 (0.106)	0.158 (0.131)
Number of previous agreements	-0.11*** (0.03)	-0.09*** (0.03)	-0.10*** (0.03)	-0.092*** (0.026)	-0.091*** (0.022)	-0.098*** (0.023)
Political alliance	-0.52*** (0.15)	-0.45*** (0.15)	-0.55*** (0.15)	-0.567*** (0.129)	-0.449*** (0.122)	-0.536*** (0.127)
Tariff phasing	-0.09 (0.13)	-0.08 (0.13)	-0.03 (0.12)	-0.056 (0.135)	-0.151 (0.124)	-0.121 (0.131)
Access points without veto$_i$	0.83* (0.52)	0.92* (0.53)				

	Veto players and access points without veto	Access points without veto power (without veto power players)	Veto players (without interaction)	Concentration II	Residual veto players	Veto players II
Access points without veto$_j$	0.16 (0.17)	0.22 (0.18)				
Concentrationi and Access points without veto$_i$	-0.94 (0.80)	-1.11* (0.81)				
Concentration$_i$II				-0.459 (0.890)		
Concentration$_j$II				0.322 (0.323)		
Revealed comparative advantage				-0.050 (0.047)		
Concentration$_i$II and Veto players$_i$				0.526* (0.387)		
Revealed comparative advantage and Veto players$_i$				0.024 (0.021)		
Trade openness				-0.202 (0.143)		
Residual veto players$_i$					-0.172 (0.156)	
Residual veto players$_j$					0.170*** (0.039)	

	Veto players and access points without veto	Access points without veto power (without veto power players)	Veto players (without interaction)	Concentration II	Residual veto players	Veto players II
Concentration$_i$ and Residual veto players$_i$					0.639** (0.266)	
Log$_{10}$veto players$_i$						-0.440 (0.660)
Log$_{10}$veto players$_j$						0.864*** (0.203)
Concentration$_i$ and Log$_{10}$veto players$_j$						2.600*** (1.123)
Constant	1.00* (0.54)	0.72* (0.41)	0.61* (0.32)	1.640*** (0.534)	1.076*** (0.251)	1.326*** (0.358)
Number of observations	218	218	218	218	218	218
R-squared	0.39	0.28	0.35	0.362	0.35	0.35

Notes: Numbers in parentheses are robust standard errors.

*** $p \leq 0.01$, ** $p \leq 0.05$, * $p \leq 0.1$

G Appendix: Robustness checks for the extensive margin

Table G-1 Income level, income fluctuations, and differences in wealth

	GDP difference	Main countries' and partners' GDP	Main countries' GDP	Partners' GDP	Change GDP	Change unemploy-ment	Foreign direct investment
Access points without veto$_i$	1.42**	1.38**	1.34**	1.40**	1.27**	1.28**	1.28**
	(0.66)	(0.66)	(0.65)	(0.63)	(0.65)	(0.66)	(0.66)
Access points without veto$_j$	-0.54***	-0.51***	-0.54***	-0.49***	-0.50***	-0.49***	-0.52***
	(0.18)	(0.17)	(0.18)	(0.16)	(0.17)	(0.17)	(0.17)
Concentration$_i$	1.84***	1.81***	1.89***	1.81***	1.82***	1.83***	1.88***
	(0.60)	(0.59)	(0.60)	(0.59)	(0.60)	(0.60)	(0.60)
Concentration$_j$	0.79***	0.63***	0.78***	0.51**	0.60**	0.64***	0.61***
	(0.29)	(0.25)	(0.30)	(0.26)	(0.25)	(0.25)	(0.25)
Concentration$_i$ and Access points without veto$_i$	-2.92***	-2.85***	-2.82***	-2.88***	-2.69***	-2.71***	-2.74***
	1.08)	1.07)	1.08)	1.05)	1.07)	1.08)	1.09)
Bargaining position$_i$	-0.14***	-0.15***	-0.13***	-0.15***	-0.14***	-0.14***	-0.14***
	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)
Democracy$_i$	0.22*	0.20*	0.23*	0.19*	0.22*	0.20*	0.19*
	(0.13)	(0.13)	(0.13)	(0.13)	(0.12)	(0.13)	(0.13)
Democracy$_j$	0.24*	0.23*	0.25**	0.22*	0.23*	0.22*	0.21*
	(0.13)	(0.13)	(0.13)	(0.13)	(0.13)	(0.13)	(0.13)
European Union	0.29*	0.30*	0.28*	0.28*	0.30*	0.29*	0.27*
	(0.16)	(0.16)	(0.16)	(0.16)	(0.16)	(0.16)	(0.16)

	GDP difference	Main countries' and partners' GDP	Main countries' GDP	Partners' GDP	Change GDP	Change unemploy-ment	Foreign direct investment
Intensive margin	0.22*** (0.08)	0.22*** (0.08)	0.22*** (0.07)	0.23*** (0.08)	0.22*** (0.07)	0.22*** (0.08)	0.21*** (0.08)
Hegemonic power	0.00** (0.00)	0.00** (0.00)	0.00*** (0.00)	0.00** (0.00)	0.00** (0.00)	0.00** (0.00)	0.00*** (0.00)
Intellectual property	0.59*** (0.12)	0.57*** (0.12)	0.59*** (0.12)	0.57*** (0.11)	0.58*** (0.12)	0.58*** (0.12)	0.58*** (0.11)
Investment	0.21* (0.13)	0.22* (0.13)	0.20* (0.13)	0.22* (0.12)	0.22* (0.12)	0.22* (0.12)	0.22* (0.12)
Labor	0.25* (0.14)	0.26* (0.13)	0.25* (0.13)	0.26** (0.13)	0.25* (0.13)	0.26** (0.13)	0.25* (0.14)
North/South partner	-0.45*** (0.14)	-0.45*** (0.14)	-0.45*** (0.14)	-0.45*** (0.14)	-0.45*** (0.14)	-0.43*** (0.14)	-0.44*** (0.14)
Number of previous agreements	0.05* (0.03)	0.04 (0.03)	0.06* (0.03)	0.04 (0.03)	0.05* (0.03)	0.05* (0.03)	0.04* (0.03)
Political alliance	0.44*** (0.15)	0.39*** (0.14)	0.46*** (0.14)	0.38*** (0.13)	0.42*** (0.14)	0.40*** (0.14)	0.40*** (0.13)
Tariff phasing	0.12 (0.15)	0.17 (0.14)	0.09 (0.13)	0.22* (0.14)	0.14 (0.13)	0.16 (0.13)	0.15 (0.13)
Change GDP_i					-0.04 (0.06)		
Change $Unemployment_i$						0.03 (0.14)	

	GDP difference	Main countries' and partners' GDP	Main countries' GDP	Partners' GDP	Change GDP	Change unemploy-ment	Foreign direct investment
Foreign direct investment							0.05** (0.02)
GDP_i	-0.04 (0.05)	-0.04 (0.05)					
GDP_j	0.05 (0.05)		0.05 (0.05)				
GDP difference				-0.06* (0.03)			
Constant	-1.13 (1.09)	-0.37 (0.80)	-1.58** (0.82)	-0.06 (0.64)	-0.65* (0.49)	-0.94 (0.80)	-1.24*** (0.43)
Number of observations	218	218	218	218	218	215	218
R-squared	0.63	0.63	0.63	0.63	0.63	0.63	0.63

Notes: Numbers in parentheses are robust standard errors.

*** $p \leq 0.01$, ** $p \leq 0.05$, * $p \leq 0.1$

Table G-2 Trade openness, trade intensity, and trade complementarity

	Trade openness	Trade intensity	Trade complementarity
Access points without veto$_i$	1.39** (0.64)	1.32** (0.65)	1.01* (0.70)
Access points without veto$_j$	-0.51*** (0.17)	-0.49*** (0.17)	-0.56*** (0.16)
Concentration$_i$	1.88*** (0.59)	1.90*** (0.60)	1.76*** (0.64)
Concentration$_j$	0.60** (0.25)	0.62*** (0.25)	0.65*** (0.24)
Concentration$_i$ and Access points without veto$_i$	-2.85*** 1.05)	-2.81*** 1.08)	-2.37** 1.13)
Bargaining position$_i$	-0.15*** (0.05)	-0.14*** (0.04)	-0.10** (0.05)
Democracy$_i$	0.19* (0.13)	0.20* (0.13)	0.10 (0.12)
Democracy$_j$	0.22* (0.13)	0.22* (0.13)	0.28** (0.13)
European Union	0.29* (0.16)	0.27* (0.17)	0.24* (0.16)
Intensive margin	0.22*** (0.08)	0.23*** (0.08)	0.25*** (0.07)

	Trade openness	Trade intensity	Trade complementarity
Hegemonic power	0.00** (0.00)	0.00*** (0.00)	0.00*** (0.00)
Intellectual property	0.58*** (0.12)	0.59*** (0.12)	0.62*** (0.11)
Investment	0.21* (0.12)	0.20* (0.13)	0.15 (0.12)
Labor	0.26** (0.14)	0.27* (0.14)	0.34** (0.14)
North/South partner	-0.43*** (0.14)	-0.42*** (0.15)	-0.41*** (0.14)
Number of previous agreements	0.04 (0.03)	0.05* (0.03)	0.07** (0.03)
Political alliance	0.41*** (0.14)	0.42*** (0.13)	0.35*** (0.14)
Tariff phasing	0.18* (0.13)	0.15 (0.13)	0.06 (0.13)
Trade complementarity			0.31 (0.18)
Trade openness	0.16 (0.14)		
Trade intensity		-0.03 (0.06)	

	Trade openness	Trade intensity	Trade complementarity
Constant	-1.05** (0.45)	-0.87** (0.44)	-1.45*** (0.56)
Number of observations	218	218	218
R-squared	0.63	0.63	0.65

Notes: Numbers in parentheses are robust standard errors.

*** p ≤ 0.01, ** p ≤ 0.05, * p ≤ 0.1

Table G-3 Number of members, previous cooperation, and competition

	Number of partners	Competition	Joint membership	Joint membership (without political alliance)
Access points without $veto_i$	1.26** (0.63)	1.31** (0.64)	1.41** (0.64)	1.30** (0.66)
Access points without $veto_j$	-0.50*** (0.17)	-0.50*** (0.16)	-0.52*** (0.17)	-0.52*** (0.17)
$Concentration_i$	1.89*** (0.58)	1.89*** (0.59)	2.00*** (0.58)	1.90*** (0.59)
$Concentration_j$	0.64*** (0.24)	0.63*** (0.25)	0.58** (0.25)	0.53** (0.25)
$Concentration_i$ and Access points without $veto_i$	-2.68*** 1.03)	-2.76*** 1.06)	-2.93*** 1.06)	-2.77*** 1.07)

	Number of partners	Competition	Joint membership	Joint membership (without political alliance)
Bargaining position$_i$	-0.08* (0.05)	-0.13*** (0.05)	-0.14*** (0.05)	-0.13*** (0.05)
Democracy$_i$	0.19* (0.13)	0.23* (0.13)	0.23* (0.13)	0.13 (0.12)
Democracy$_j$	0.19* (0.13)	0.26* (0.13)	0.24* (0.13)	0.13 (0.12)
European Union	0.63*** (0.20)	0.34** (0.15)	0.25* (0.16)	0.21* (0.16)
Intensive margin	0.19** (0.08)	0.19** (0.09)	0.24*** (0.08)	0.20*** (0.08)
Hegemonic power	0.00*** (0.00)	0.00*** (0.00)	0.00*** (0.00)	0.00*** (0.00)
Intellectual property	0.57*** (0.11)	0.59*** (0.11)	0.60*** (0.11)	0.55*** (0.12)
Investment	0.21* (0.12)	0.21* (0.12)	0.20* (0.13)	0.28** (0.13)
Labor	0.30** (0.13)	0.22* (0.14)	0.15 (0.15)	0.42*** (0.12)
North/South partner	-0.44*** (0.14)	-0.47*** (0.15)	-0.48*** (0.15)	-0.17* (0.11)
Number of previous agreements	0.07* (0.04)	0.02 (0.04)	0.05* (0.03)	0.01 (0.03)

	Number of partners	Competition	Joint membership	Joint membership (without political alliance)
Political alliance	0.46*** (0.14)	0.44*** (0.14)	0.43*** (0.14)	
Tariff phasing	0.05 (0.12)	0.12 (0.13)	0.20* (0.13)	0.32*** (0.13)
Competition		0.20 (0.23)		
Joint membership			0.18 (0.22)	0.28 (0.21)
Number of Partners	-0.16** (0.07)			
Constant	-0.73* (0.43)	-0.77* (0.44)	-1.75* 1.20)	-1.86* 1.23)
Number of observations	218	218	213	213
R-squared	0.64	0.63	0.63	0.62

Notes: Numbers in parentheses are robust standard errors.

*** $p \leq 0.01$, ** $p \leq 0.05$, * $p \leq 0.1$

Table G-4 Distance, language, and time elapsed

	Distance	Distance (without political alliance)	Language	Main countries' and partners' population	Main countries' population	Partners' population	Year count	Year count (without previous agreements)
Access points without veto$_i$	1.37**	1.35**	1.29**	1.45**	1.42**	1.33**	1.10*	1.26**
	(0.64)	(0.64)	(0.62)	(0.65)	(0.65)	(0.65)	(0.60)	(0.64)
Access points without veto$_j$	-0.53***	-0.53***	-0.45***	-0.53***	-0.50***	-0.53***	-0.56***	-0.52***
	(0.16)	(0.16)	(0.16)	(0.18)	(0.17)	(0.18)	(0.15)	(0.16)
Concentration$_i$	1.98***	1.98***	1.69***	1.83***	1.79***	1.90***	1.61***	1.81***
	(0.60)	(0.59)	(0.59)	(0.60)	(0.59)	(0.60)	(0.57)	(0.59)
Concentration$_j$	0.67***	0.68***	0.53**	0.71***	0.62***	0.70**	0.47**	0.58**
	(0.25)	(0.25)	(0.25)	(0.28)	(0.24)	(0.29)	(0.24)	(0.24)
Concentration$_i$ and Access points without veto$_i$	-2.90***	-2.89***	-2.63***	-2.94***	-2.88***	-2.81***	-2.50***	-2.71***
	1.06)	1.05)	1.03)	1.07)	1.06)	1.08)	(0.99)	1.05)
Bargaining position$_i$	-0.17***	-0.18***	-0.14***	-0.15***	-0.15***	-0.14***	-0.12***	-0.13***
	(0.05)	(0.05)	(0.04)	(0.05)	(0.05)	(0.05)	(0.04)	(0.05)
Democracy$_i$	0.20*	0.16*	0.13	0.26**	0.24*	0.23*	0.34***	0.27**
	(0.13)	(0.12)	(0.13)	(0.13)	(0.13)	(0.13)	(0.12)	(0.12)
Democracy$_j$	0.24**	0.21*	0.17*	0.20*	0.22*	0.21*	0.36***	0.29**
	(0.13)	(0.12)	(0.13)	(0.13)	(0.13)	(0.13)	(0.12)	(0.12)
European Union	0.31**	0.31*	0.28*	0.30*	0.31*	0.29*	0.23*	0.28*
	(0.16)	(0.16)	(0.15)	(0.16)	(0.16)	(0.16)	(0.15)	(0.15)
Intensive margin	0.21***	0.19***	0.21***	0.22***	0.22***	0.22***	0.34***	0.25***
	(0.08)	(0.07)	(0.08)	(0.08)	(0.08)	(0.07)	(0.07)	(0.08)

	Distance	Distance (without political alliance)	Language	Main countries' and partners' population	Main countries' population	Partners' population	Year count	Year count (without previous agreements)
Hegemonic power	0.00**	0.00***	0.00**	0.00**	0.00**	0.00***	0.00	0.00**
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Intellectual property	0.56***	0.53***	0.53***	0.58***	0.57***	0.58***	0.51***	0.58***
	(0.12)	(0.12)	(0.12)	(0.12)	(0.12)	(0.12)	(0.12)	(0.11)
Investment	0.24*	0.28**	0.22*	0.21*	0.22*	0.21*	0.16*	0.17*
	(0.13)	(0.12)	(0.12)	(0.13)	(0.13)	(0.12)	(0.12)	(0.12)
Labor	0.26**	0.37***	0.31**	0.26*	0.27**	0.24*	0.17	0.22*
	(0.13)	(0.12)	(0.13)	(0.14)	(0.14)	(0.14)	(0.16)	(0.14)
North/South partner	-0.48***	-0.38***	-0.46***	-0.44***	-0.43***	-0.46***	-0.49***	-0.49***
	(0.14)	(0.13)	(0.13)	(0.14)	(0.14)	(0.14)	(0.14)	(0.14)
Number of previous agreements	0.05*	0.03	0.04	0.04*	0.04	0.05*	-0.35***	
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)	(0.10)	
Political alliance	0.25*		0.29**	0.42***	0.39***	0.44***	0.45***	0.48***
	(0.16)		(0.15)	(0.15)	(0.14)	(0.14)	(0.14)	(0.13)
Tariff phasing	0.12	0.16	0.12	0.15	0.19*	0.10	0.03	0.08
	(0.13)	(0.12)	(0.12)	(0.14)	(0.14)	(0.13)	(0.14)	(0.13)
Distance	-0.29*	-0.43***						
	(0.15)	(0.13)						
Language			0.19**					
			(0.09)					
Population_i				-0.07	-0.07			
				(0.06)	(0.06)			

	Distance	Distance (without political alliance)	Language	Main countries' and partners' population	Main countries' population	Partners' population	Year count	Year count (without previous agreements)
$Population_j$				0.05 (0.07)		0.05 (0.07)		
Year count							2.53*** (0.59)	0.46** (0.19)
Constant	0.37 (0.80)	1.09* (0.61)	-0.55 (0.47)	-0.66 (0.93)	-0.24 (0.73)	-1.24* (0.73)	-0.44 (0.47)	-0.94** (0.41)
Number of observations	218	218	218	218	218	218	218	218
R-squared	0.63	0.63	0.64	0.63	0.63	0.63	0.65	0.64

Notes: Numbers in parentheses are robust standard errors.

*** $p \leq 0.01$, ** $p \leq 0.05$, * $p \leq 0.1$

Table G-5 Alternative model specification and measurements of concentration of export sector, veto players, and access points without veto

	Veto players and access points without veto	Access points without veto$_i$ (without veto power players)	Concentration$_i$ and access points without veto$_i$ (no interaction)	Concentration$_i$II	Residual access points without veto	Access points without veto$_i$II
Access points without veto$_i$	1.33** (0.63)		-0.39** (0.18)	-0.267 (0.746)		
Access points without veto$_j$	-0.47*** (0.16)		-0.45*** (0.17)	-0.392** (0.163)		
Concentration$_i$	2.18** (0.92)	0.54 (0.75)	0.51** (0.24)		0.337 (0.219)	-0.867 (0.627)
Concentration$_j$	0.69*** (0.25)	0.53** (0.25)	0.57** (0.25)		0.466** (0.219)	0.359 (0.238)
Concentration$_i$ and Access points without veto$_i$	-2.79*** 1.05)					
Bargaining position$_i$	-0.15*** (0.04)	-0.17*** (0.05)	-0.14*** (0.05)	-0.132*** (0.040)	-0.128*** (0.038)	-0.196*** (0.041)
Democracy$_i$	0.18* (0.13)	0.17* (0.13)	0.19* (0.13)	0.055 (0.124)		0.234* (0.131)
Democracy$_j$	0.19* (0.13)	0.21* (0.13)	0.22* (0.13)	0.106 (0.123)		0.294** (0.131)
European Union	0.31** (0.15)	0.40*** (0.15)	0.28* (0.16)	0.282** (0.131)	0.295** (0.126)	0.292** (0.131)

	Veto players and access points without veto	Access points without veto$_i$ (without veto power players)	Concentration$_i$ and access points without veto$_i$ (no interaction)	Concentration$_i$II	Residual access points without veto	Access points without veto$_i$II
Intensive margin	0.16*	0.14*	0.24***	0.230***	0.196**	0.203***
	(0.09)	(0.09)	(0.07)	(0.074)	(0.071)	(0.073)
Hegemonic power	0.00***	0.00**	0.00***	0.001**	0.001**	0.001
	(0.00)	(0.00)	(0.00)	(0.001)	(0.001)	(0.000)
Intellectual property	0.59***	0.54***	0.56***	0.528***	0.555**	0.587***
	(0.12)	(0.12)	(0.11)	(0.088)	(0.084)	(0.088)
Investment	0.22*	0.29**	0.23*	0.273***	0.250**	0.287***
	(0.12)	(0.13)	(0.12)	(0.101)	(0.098)	(0.099)
Labor	0.26**	0.24**	0.27**	0.263*	0.330**	0.346**
	(0.13)	(0.12)	(0.13)	(0.150)	(0.143)	(0.154)
North/South partner	-0.47***	-0.48***	-0.44***	-0.328**	-0.279**	-0.340**
	(0.13)	(0.14)	(0.14)	(0.138)	(0.116)	(0.147)
Number of previous agreements	0.03	0.02	0.05*	0.047*	0.029	0.016
	(0.03)	(0.04)	(0.03)	(0.028)	(0.024)	(0.027)
Political alliance	0.34***	0.31**	0.39***	0.345**	0.311**	0.251
	(0.13)	(0.13)	(0.14)	(0.143)	(0.133)	(0.152)
Tariff phasing	0.15	0.15	0.14	0.279**	0.252*	0.159
	(0.13)	(0.13)	(0.13)	(0.144)	(0.135)	(0.147)
Veto players$_i$	0.12	0.09				
	(0.16)	(0.17)				
Veto players$_j$	0.10**	0.11**				
	(0.05)	(0.05)				

	Veto players and access points without veto	Access points without veto$_i$ (without veto power players)	Concentration$_i$ and access points without veto$_i$ (no interaction)	Concentration$_i$II	Residual access points without veto	Access points without veto$_i$II
Concentrationi and Veto playersi	-0.09 (0.28)	-0.03 (0.30)				
Concentration$_i$II				2.034** (0.848)		
Concentration$_j$II				0.227 (0.357)		
Revealed comparative advantage				-0.063 (0.048)		
ConcentrationII and Access points without veto				-3.978*** (1.571)		
Revealed comparative advantage and Access points without veto				0.134 (0.087)		
Trade openness				0.176 (0.161)		
Residual access points without veto power $_i$					1.153* (0.687)	
Residual access points without veto power $_j$					-0.493*** (0.164)	
Concentration$_i$ and Residual access points without veto$_i$					-2.543** (1.090)	

	Veto players and access points without veto	Access points without veto$_i$ (without veto power players)	Concentration$_i$ and access points without veto$_i$ (no interaction)	Concentration$_i$II	Residual access points without veto	Access points without veto$_i$II
Access points without veto$_i$ II						-2.127** (0.931)
Access points without veto$_j$ II						-0.537** (0.245)
Concentration and Access points without veto power II						3.037*** (1.583)
Constant	-1.15* (0.61)	-0.38 (0.60)	-0.01 (0.37)	0.129 (0.537)	-0.071 (0.289)	1.172** (0.543)
Number of observations	218	218	218	218	218	218
R-squared	0.64	0.60	0.62	0.62	0.61	0.61

Notes: Numbers in parentheses are robust standard errors.

*** $p \leq 0.01$, ** $p \leq 0.05$, * $p \leq 0.1$