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The Need for Policy Coherence
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**The Changing Coordinates of Trade and Development in
Latin America:
Implications for Policy Space and Policy Coherence**

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Abstract

The demise of the Washington consensus, the “turn to the Left,” and the proliferation of non-state actors are altering the classical coordinates of trade and development in Latin America. The complicated cartography of trade regimes that has emerged in the region is a clear manifestation of this changing landscape. This paper attempts to shed light on this new landscape and its implications for development. We begin by analyzing how the shifting frames of reference and changing structural conditions in Latin America are pushing beyond the classical debate concerning trade and development in the region. Referring to the variety of trade regimes that have come to the fore, we then consider how this landscape affects policy space and policy coherence. We do this through case studies of Brazil, Chile and Nicaragua.

Introduction

Scholars in the field of development have long been intrigued by the idiosyncrasies of institutional and ideological change in Latin America. The region has been fertile ground for innovation, trial and error, having experienced dramatic swings from one model or strategy to another – from Import Substitution Industrialization (ISI) to neoliberalism; from authoritarianism to representative democracy or revolution; from dependency to regionalism. It has also been a fertile ground for social movements, for shifts from “old” to “new” movements, and “non-capitalist” paths or “alter-globalization”, manifested, for example, by the Base Ecclesial Communities of liberation theology, the redistributive land reforms of the Cuban and Sandinista Revolutions, the networks of co-operative organizations south of the Bio-Bio, the World Social Forum (WSF), and the ethno-nationalist project of the Ejército Zapatista de Liberación Nacional (EZLN).

More recently, this ideological, institutional and social dynamism has expressed itself in an apparent shift to the Left, the strengthening of the Mercado Común del Sur (MERCOSUR), the emergence of the Bolivarian Alternative for the Americas (ALBA), active anti-free trade and fair trade movements, and calls for greater “policy space” and “policy coherence” as a means to counter conditionalities and the contradictions associated with neoliberalism. As these examples suggest, areas of government policy particularly affected by this situation involve trade and regional integration.

Indeed, the demise of the Washington consensus, the resurgence and reconfiguration of the Left, and the proliferation of non-state actors are altering the classical coordinates of trade and development in Latin America. The complicated cartography of trade regimes that has emerged in the region is a clear manifestation of this changing landscape. In an attempt to shed light on these shifting coordinates, a group of Latin American specialists conducted case studies of Bolivia, Brazil, Chile and Nicaragua under the project Negotiating Alternative Trade Regimes in Latin America.¹ These studies put into sharp relief both the spaces that have opened up for progressive reform and the constraints that limit the scope for change.

¹ The project was co-ordinated by Manuel Mejido Costoya, Department of Sociology, University of Geneva, in collaboration with Peter Utting, United Nations Research Institute for Social Development (UNRISD). Claude Auroi, Graduate Institute of International and Development Studies (IHEID), and Ricardo Meléndez, International Centre for Trade and Sustainable Development (ICTSD) provided additional support. Researchers involved in the country studies included André Souza dos Santos and Claude Auroi (Brazil), Santiago Daroca Oller (Bolivia), Manuel Mejido Costoya and Alicia Gariazzo (Chile), and Gloria Carrión Fonseca and Roberto Fonseca López (Nicaragua). This project was funded by a grant from the Geneva International Academic

Key research questions included the following: How are trade regimes changing in the context of an apparent “shift to the left”, be it in the form of social democracy, populism or socialism? How much policy and negotiating space do developing countries have in regional trade negotiations involving developed countries? Can greater policy coherence – or policies conducive to inclusive and equitable development – be achieved through regional agreements? In countries where an active anti-free trade movement has emerged, how has this influenced public debate, government trade policy and negotiations? What is the relative weight and influence of civil society actors and networks associated with “alter-globalization” and organized business interests in trade negotiations?

This paper focuses primarily on the first three questions.² We begin by analyzing how the shifting frames of reference and changing structural conditions in Latin America are pushing beyond the classical debate concerning trade and development in the region. Referring to the variety of trade regimes that have come to the fore in Latin America, we then consider how this new landscape affects policy space and policy coherence. We do this through case studies of Brazil, Chile and Nicaragua.³

Shifting Frames of Reference and Structural Change

We begin these reflections by examining how ideational and structural changes that emerged in Latin America a decade ago, and which are crystallizing today in and through the transformation of neoliberalism and the resurgence and reconfiguration of the Left, have transformed the coordinates of trade and development in the region. The classical trade liberalization versus protectionism debate has today become a more nuanced debate concerning the new possibilities of the market form and degrees of free trade. Indeed, it appears that market-oriented development and regulated free trade are emerging as the overlapping consensus between transformed neoliberalism and the reconfigured Left.

The fundamental debate today concerns the contested nature of integration, that is, integration towards a common market that share common economic principles and integration towards a community of nations that share common socio-historical values. This debate brings forth a new geopolitical dynamic in the region. This dynamic is taking the form of a confrontation between, on the one hand, the strategic new regionalism of neoliberalism as manifested by the Security and Prosperity Partnership (SPP, also known as “NAFTA Plus”) recently signed in 2005 by the United States, Mexico, Canada, and, on the other hand, the new developmentalist and Bolivarian socialist projects as manifested by the energy alliance between Venezuela, Bolivia, and Argentina, the Bank of the South, and Telesur.

For nearly five decades – from the Great Depression up until the late 1970s – the debate concerning trade and development in Latin America was marked by an antinomy: “free trade” versus “protectionism,” the “market” versus the “state.” Grounding themselves in the foundations provided by David Ricardo’s principle of comparative advantage, one side took as their frame of reference conventional market-oriented economics, arguing that trade

Network (GIAN/RUIG). In relation to this paper, the authors would like to thank Claude Auroi, Manuel Riesco and José Carlos Marques for information and comments, as well as Katrien De Moor for editorial assistance.

² Questions related to the role of non-state actors and relations between social movements and the policy process will be addressed in a subsequent paper prepared by the same authors.

³ The Bolivia study has been left out of this draft due to the length constraint. The authors will allude to this study during the EADI conference and they will also address it in a subsequent paper.

liberalization, exemplified by the reduction of tariff and non-tariff barriers was the high road to development. According to this school of thought there was a direct causality between trade liberalization, economic growth and development. This paradigm would eventually be institutionalized with the creation of the General Agreement on Tariffs and Trade (GATT) in 1947 and the World Economic Forum of 1971. In Latin America this perspective underpinned the Latin American Free Trade Association (ALALC). The emergence of the World Trade Organization (WTO) during the Uruguay Round (1984-1994) would further cement this view.

On the other side of the debate, those who took as their point of reference the Marxian and Keynesian critiques of classical and neo-classical paradigms, and grounded themselves on the Singer-Prebisch thesis, took issue with the supposed universality of the “laws” of the free market (Girvan 2006). They argued that in certain contexts development required a more inward-looking approach, according to which the state should intervene by strategically protecting infant industries and substituting imports. From this view emerged the doctrine of ISI and Dependency Theory that would inspire the policy prescriptions of countries such as Mexico, Argentina and Brazil. This perspective would serve as the point of departure for the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), as well as the United Nations Conference on Trade and Development (UNCTAD).

These were thus the terms of the classical debate concerning the role of trade in Latin American development. This antinomy was perpetuated, on the one hand, by the bipolar system of the Cold War, and, on the other, by the intellectual and physical division of labor that existed between the industrialized countries of the North and the underdeveloped countries of the South. The changing socio-historical conditions and the development of economic and social theory would, however, soon transform this back and forth between “free trade” and “protectionism,” the “market” and the “state.”

Already by the 1970s the poor track record of ISI-oriented policies and the recasting of neo-classical economics in the form of the monetarism of the Chicago School had begun to tip the scale of the debate in favor of conventional economics. But it was the politico-ideological “victory” of liberal-democratic capitalism marked by the end of the Cold War that sounded the death knell of dependency theory and inward-looking growth. Facilitated by the information technology revolution and the global restructuring of capitalism, it led to the radicalization of conventional free market economics. Indeed, in the context of the New World Order of the early 1990s, the debate concerning trade and development in Latin America became dominated by a neo-liberal perspective systematized in and through a consensus achieved between the United States and the international financial institutions (IFIs) that continued to claim an automaticity between trade liberalization and development. This so-called “Washington consensus” called for the reduction of tariff and non-tariff barriers to trade; the liberalization of foreign direct investment (FDI); the promotion of exports; the rolling back of both the “developmental” and “welfare” state through the privatization of public enterprises; the curtailing of public spending and fiscal discipline; and the decline of industrial policy. This new climate was exemplified by Menemism in Argentina and Fujimorism in Peru as well as by the launching of negotiations for the multilateral Free Trade Area of the Americas (FTAA) in the Summit of the Americas in Miami in 1994.

Moreover, the Uruguay Round negotiations, which transformed the GATT into the WTO, expanded the scope of international trade governance, thus exemplifying the strength of neoliberalism during the first half of the 1990s. As a result of these negotiations, international trade was for the first time *de jure* linked to issues of intellectual property (Trade Related Intellectual Property Rights Agreement), services (General Agreement on Trade in Services),

and investment (Trade Related Investment Measures). The agreements signed in the context of the Uruguay Round signaled that legislation over biodiversity and public health issues, industrial policies and technological development, access to knowledge, services' competitiveness, and the rights and obligations of foreign investors and host countries had now become subjects of multilaterally-agreed international trade regimes and were thus no longer the exclusive realm of nation states.

Yet although the doctrine of neoliberalism radically changed certain policies and institutions, it confronted various obstacles and limits at the country level. This was apparent in two respects. First, ideas need to be transmitted to and embedded in national settings. While it is common to make regional generalizations, some of the literature on the spread of both economic and legal ideas in Latin America reveals that the extent to which, and the ways in which, ideas accumulate influence and displace others can vary significantly by country. Such variations reflect, in particular, differences in the nature of the so-called "epistemic community" or knowledge and advocacy networks; the worldviews and training of technocrats and economists; path dependency; United States (US) hegemony; donor conditionality; and the correlation of social and political forces at the national level, including intra-elite power struggles or "palace wars" (Dezalay and Garth 2002; Fitzgerald and Thorpe 2005; Ocampo 2006). Not only were other international ideas or discourses, such as human rights and sustainable human development, jockeying for position (Stewart 2005), but alternative economic ideas associated with "desarrollismo" or "popular economics" continued to carry some weight in certain public institutions, such as ministries of agriculture or universities (Fitzgerald 2005). All these factors and conditions meant that neoliberalism assumed different forms and followed different trajectories in different countries, and that the relative strength of the coalitions backing the doctrine also varied.

Second, the idea of neoliberal globalization as the "end of history" was short lived. Symbolized by the 1994 EZLN mobilizations against the North American Free Trade Agreement (NAFTA) and by the 1999 Battle for Seattle against the WTO ministerial conference, signs of a "double movement" in the Polanyian sense, soon emerged. There was a social and political reaction to ongoing mass poverty, rising inequality and the so-called "lost decade" of the 1980s in Latin America (Birdsall and de la Torre 2001). Social contestation, targeting international financial institutions and transnational corporations intensified. Using the interconnectivity of the information technology revolution, an increasing number of "networks of networks," such as the Trade Justice Movement and the WSF, began to mobilize against the free market fundamentalism of neo-liberal globalization "from above." In parallel to this critique "from below," emerged a series of institutional logjams at the heart of the WTO gravitating around the Doha Development Agenda (DDA) of 2001, the so-called "Singapore issues" of 1996, trade distorting effects of developed countries' agricultural subsidies, and the emerging opposition within the WTO to the US and the European Union (EU)'s agricultural subsidies and tariff and non-tariff protectionism. This involved a group of 22 developing countries led by Brazil and India – the G20+ – and another group of 33 developing countries.

Neoliberalism was being challenged not only by contestation and alternative ideas, but also changes occurring at the geo-political level. US hegemony – both economic and discursive – showed signs of weakening with the rise of the so-called BRICs (Brazil, Russia, India and China), as well as changes in the world's energy situation. These developments would have major implications for Latin American economies. We see the emergence of Brazil as a global player and regional giant, the boom in commodity prices favouring Chile and other primary export economies, and the growing regional influence of oil producers like Venezuela.

Such developments also seemed to bode well for the policy space of Latin American governments, that is, their capacity to shape their own development path through policies that are more in tune with national realities and priorities than with the perspectives and conditionality associated with international financial institutions and donor governments. In practice, however, such policy space was often restricted, partly due to ongoing conditionality and the extent of embedding of neoliberal ideas, but also the growing instrumental and structural power of business. Structural Marxism (in particular, Nicos Poulantzas) and a “business as capital” strand of political economy had long pointed out that national states are constrained in their policy choices by the need to cater to the long-term interests of a capitalist class that requires systemic and societal cohesion and equilibrium (Poulantzas 1973; van den Berg and Janoski 2005), and to avoid “exit” or capital strikes (Hirschman 1978, Maxfield and Schneider 1997). This means that in addition to instrumental power or “agency” to influence the policy process, business also possesses significant structural power (Fuchs 2005).

In the context of contemporary Latin America, the issue of the structural business power has become particularly pertinent. This is not only because of the strengthening of private enterprise in contexts of privatization and commodification but particularly because of foreign direct investment (FDI). As Kevin Farnsworth has pointed out, some Latin American governments adopt policies based on assumptions about what business needs and wants. However, those assumptions often relate more to the needs and wants of foreign investors and transnational corporations than the more heterogeneous needs and demands of the wider business community and cooperative sector (Farnsworth 2007). Such biases may be more apparent in countries such as Bolivia and Brazil where historically the national entrepreneurial class has been relatively weak.

In relation to trade policy, instrumental power is of course crucial. An influential school of thought has long argued that industry lobbying – guided by cost-benefit calculations about liberalization or protection – is the key determinant of trade policy decisions (Krueger 1997). Contemporary trade and investment agreements, however, appear to have both reinforced and changed the parameters of lobbying. As Woll and Artigas point out, classic “pressure lobbying” for or against tariff reduction and subsidies, has been joined by “regulatory lobbying”, which is concerned with the large body of regulations and laws related to such aspects as investment, intellectual property and state procurement (Woll and Artigas 2007). Given that the remit of trade agreements has expanded, business must attempt to gain influence not only by providing incentives to parties and politicians, drawing on social capital, or arguing forcefully for or against tariff levels, but also through the provision of expertise. Resource and knowledge-constrained governments from many developing countries, place a high value on such expertise and may seek out and favour those firms or industry associations that provide it (ibid. 132). Questions of who has the knowledge and expertise, and who participates in epistemic communities therefore become essential in trade negotiations (Braithwaite and Drahos 2000).

In Latin America the critique of neoliberal globalization and the new geo-political conjuncture took the form of a series of electoral victories of the Left, most notably: Hugo Chávez in Venezuela (1998), Luis Lula da Silva in Brazil (2003), Néstor Kirchner in Argentina (2003), Evo Morales in Bolivia (2006), Michelle Bachelet in Chile (2006), Daniel Ortega in Nicaragua (2007), and Rafael Correa in Ecuador (2007). By early 2007, 11 governments in the region could be classified as having social democratic, socialist or populist credentials (Castañeda and Morales 2007: 201, 209) This “turn to the Left,” manifested itself regionally in and through various defeats for the Washington consensus,

symbolized by the suspension of the FTAA after the failure of the Mar del Plata summit in 2005; the re-assertion of state policies and institutions associated with the “developmental welfare state” (Riesco and Draibe 2007); and the rise of the ALBA.

This new context has recast the classical debate concerning trade and development in Latin America. The traditional antinomy: “free-trade” versus “protectionism,” the “market” versus the “state” no longer holds. Those who trace their intellectual legacy to Prebisch and Gunder Frank have accepted the basic liberal principle of outward-looking growth, while the avatars of Friedman have come to accept the premise of the social “embeddedness” of the market.

The advocates of free trade in the North and South have turned to “good governance” and “deep integration”. The good governance agenda, with its emphasis on transparency, dialogue, participation, anti-corruption and the rule of law, aims to build and consolidate institutions conducive to investment, a level playing field, social capital and social stability. It is part of a “Post-Washington consensus” that accepts that market liberalization requires a ‘regulatory state’ (Braithwaite 2005) and the regulatory function of non-state – business and civil society – actors that can mitigate negative social effects.

Bilateral and plurilateral regional trade agreements serve as the vehicle for the move from a “shallow integration” that aims to eliminate barriers to trade in commodities to a “deep integration” that involves synchronizing national policies and encouraging internal factor mobility (Burfisher et al. 2003). It is this shift from the logic of the “old regionalism” that gravitated around the trade diversion versus trade creation debate (that is, the debate concerning whether regionalism serves as a “stepping stone or stumbling block” for globalism and multilateral agreements) toward the logic of the “new regionalism” that engages the endogenous growth possibilities of trade-productivity links and technological spillovers made possible by the information technology revolution, the restructuring of capitalism and the new globalized economy. While the “old regionalism” was often characterized by trade agreements between same-size economies, the “new regionalism” has also involved innovative trade agreements between developing and developed countries (Abugattas Majluf 2004). “Deep integration” within the framework of the “new regionalism” brings forth new possibilities and challenges for the countries of Latin America (UNCTAD 2007).

The vehicle for deeper integration is bilateral and regional trade agreements. Advocates of free trade argue that such agreements offer developing countries more stable and transparent market access to developed countries than that granted under short-lived and politically unstable unilateral trade preferential schemes like the US Caribbean Basin Initiative for Central America and the Caribbean, and the EU’s General System of Preferences. For developed countries, these trade agreements ensure ‘policy harmonization’, particularly in areas such as intellectual property rights (IPRs) and investment, which is needed to protect ‘knowledge’ and extend rights to foreign investors in order to develop future comparative advantages and maintain these countries’ status quo.

Yet the advocates of free trade are not so quick to address the fact that bilateral and regional trade agreements involve a fundamental trade-off: they offer developing countries enhanced market access to developed countries in exchange for more stringent commitments in areas like IPRs, investment, services, and government procurement than those agreed upon at the WTO. This has profound implications for developing countries as these agreements reduce key aspects of policy space and render illegal policy tools that played a crucial role in the development of the so-called late industrializers in both the North and East Asia.

Historical economic analysis has shown that both developed countries and newly industrialized developing countries in East Asia, for example, actively used a combination of both demand (trade rules) and supply-side (domestic) policies (Amsden 2001; Chang 2002; Wade 1990) in order to add value to their production, generate economic growth, improve social welfare, and connect to the world economy on better terms. Indeed, these countries promoted the creation of innovation systems and research & development; fostered policy synergies at the national level between, for instance, industrial and trade policies; managed foreign direct investment in order to create backward linkages with the national economy and generate effective technology transfer; and encouraged national financial autonomy from International Financial Institutions. In contrast to Latin America, through this ‘self-financed’ model, East Asia was able to maintain its debt levels quite low, at least until the 1997 financial crisis. Furthermore, social policy and social pacts played a significant role in ensuring more inclusive and cohesive patterns of social development (Kwon 2005; Woo 2007).

Two highly interrelated elements of policy space played a particularly important role in these countries’ development experience: one was the ability to resort to a diverse range of policy instruments, and the other, the ability of the state to orchestrate the development process, i.e. state capacity. Policy space was essential to use both national supply-side policies and international trade frameworks creatively, in order to develop local capacities to absorb and adapt knowledge, as well as to innovate and foster high technology production. The active role of the state proved to be crucial in managing FDI, creating and supporting links between trade and industrial policies, fostering infant industries, social protection and redistributing wealth. The state thus actively “governed” the market (Wade 1990) in order to industrialize and derive substantial benefits from trade liberalization, while also addressing social development issues.

The recasting of the debate on trade and development has also seen those who trace their intellectual origins to the critique of conventional economics have abandoned the protectionist orthodoxy of ISI and dependency theory. In an attempt to take advantage of the opportunities of economic globalization and the information technology revolution, they have turned toward a new model of export-oriented development grounded in the development of higher value-added primary and manufactured products. Besides attempting to go beyond the limits of the classic division of labor between center and periphery, this “new developmentalism” understands the state as a facilitator of global insertion, competitiveness and co-ordination. In this sense, it asserts the role of the “regulatory state”⁴ (Braithwaite 2005).

The concept of the regulatory state, however, does not capture a number of other changes that are occurring in Latin America. In several countries, social policy and industrial policy are also being reasserted. This has led some observers to talk about the reemergence of the developmental welfare state (Riesco and Draibe 2007). In relation to social policy, there is greater recognition of the limits of narrow approaches to social protection promoted by the World Bank and others, based on “targeting the poor”, and the need to lean more towards universalism, whether through large-scale conditional cash transfer programmes as in Brazil and Mexico; reversing trends associated with the privatization of basic services or pensions, as in Bolivia, Argentina and Chile; or resurrecting the principle of free education for all, as in

⁴ The concept of the regulatory state refers to a post-Keynesian state that intervenes less in the economy, does “less rowing and more steering”, does not simply ‘de-regulate’ but re-regulates to secure the competitive, co-ordination and social conditions needed for effective privatization, commodification, trade and investment, and delegates certain regulatory responsibilities to private actors (Braithwaite 2005).

Nicaragua. In relation to industrial policy, there is greater attention to the needs of micro, small and medium-sized enterprises, as well as cooperatives.

Such shifts in emphasis can be seen partly as a reaction to the hard social realities of the neoliberal experiment and Latin America's way of applying the concepts of both policy space and policy coherence that have gained currency in international development circles, particularly since the turn of the millennium (UNDESA 2005). Policy coherence refers partly to the importance of harmonization, complementarities, synergies and sequencing among policies in order to minimize the gap between policy objectives and outcomes (Oyejide 2007). It also emphasizes the fact that social policy and social development should not be seen as residual categories – as something that happens once economic growth is taken care of, nor as something that can be sacrificed or subordinated to macro-economic policy. Policy coherence, then, is about re-equilibrating the economic and the social, and addressing proactively the perverse social effects of neoliberalism and free-marketization (Utting 2006).

The upshot of this characterization of the trajectories and interplay of ideas, power and economic realities has been what has been called the 'spaghetti' bowl of trade regimes (Abugattas Majluf 2004). The region has experienced a proliferation of bilateral and plurilateral free trade agreements. They include, for example, the Dominican Republic and Central American Free Trade Agreement (DR-CAFTA) and the Chile-US Free Trade Agreement (FTA) which, grounded on free market principles strive for "deep integration"; a strengthening of sub-regional trade areas, such as the Andean Community (CAN) and MERCOSUR, that combine South-South cooperation and free market principles in order to maximize the positive externalities of socio-cultural integration; and the crystallization of an alternative regional integration project, ALBA, grounded on a counter-hegemonic geopolitics and the social economic principle of solidarity. This "spaghetti bowl" of trade regimes was already adumbrated in 1980 when the more flexible and open Latin American Integration Association (ALADI) replaced the rigid and closed ALALC. This general move toward convergence and complementarity that was supposed to push beyond zero-sum scenarios (such as, for example, globalism versus regionalism) was confirmed by ECLAC in the early 1990s with the principle "open regionalism."

What are the developmental implications of such regimes? In the case of some such as ALBA and DR-CAFTA, it is too early to tell. It is possible, however, to reflect on their implications for the two principles of policy making conducive to inclusive development that were introduced above, namely policy space and policy coherence. We now turn to a discussion of this question by considering the cases of Brazil, Chile and Nicaragua.

Brazil

The dominant features of the contemporary trade regime in Brazil centre on the regional trade agreement, MERCOSUR, initiated in 1991, and the expansion of multilateralism as exemplified through diverse trading relations and Brazil's active engagement with the WTO and the Doha Round. This particular mix of approaches is congruent with structural features of the Brazilian economy and a mercantilist tradition which historically has favoured export promotion. Large scale domestic and transnational enterprises actively sought out large markets both within the Southern Cone, notably Argentina, and around the world, including not only North America and Europe but also Asia. The state in general, and Brazilian commercial diplomacy centred in the Foreign Ministry (Lengyel and Ventura-Dias 2004), actively sought to facilitate their task. Somewhat eclectic ideological influences associated with economic liberalism, developmentalism and nationalism carried considerable weight

within the technocracy and political elite. Furthermore, the state was relatively autonomous from the interests of non-state actors, and institutions had not been weakened by the types of crises and discontinuities that affected public institutions in neighbouring countries like Argentina and Chile (Huber 2003).

Such a context would seem to bode well for policy space and policy coherence. Indeed, given the constraints on policy space imposed by both unilateralism and economic stabilization in the early 1990s, as well the Uruguay Round, there has been a significant increase in some aspects of policy space and coherence over more than a decade. While sub-regional integration via MERCOSUR has not developed as originally expected, it symbolizes an attempt not just to liberalize trade but to reassert sub-regional power vis-à-vis powerful industrialized countries, in particular, the United States, as well as to promote a variety of developmental and social aspects. Policy space was also apparent in the fact that various aspects of industrial policy continued to discriminate in favour of domestic firms and some new import-substituting investments were promoted (Lengyel and Ventura-Dias 2004:101-102). Policy space was also apparent at the level of the WTO and the Doha Round, where Brazil has actively used the dispute settlement mechanism and has taken a tough bargaining position in the current negotiations, as it had also done in relation to the FTAA.

Much of this has been possible due to the relative autonomy and capacity of the Brazilian state. Unlike some other Latin American countries, it was less subordinated to organized business interests. While certain large corporations and sectoral associations effectively lobbied government and politicians, or individual business leaders were appointed to high executive office, business interests were quite fragmented, with most business associations representing narrow sectoral interests. In contrast to countries like Chile, Mexico or Nicaragua, so-called encompassing business associations were quite weak and did not enjoy close ties with the state (Schneider 2004). And unlike these other countries, business associations did not have the strong grasp on the sort of technical expertise that the state required. They did not play a prominent role in epistemic communities. This situation allowed the state to design and negotiate MERCOSUR relatively unhindered, and indeed, with support from, and participation of, major trade union organizations like the Central Única de Trabalhadores (CUT).

Business has, however, long enjoyed significant structural power in Brazil. In a context where technocrats were not only increasingly influenced by neoliberal thinking but, historically, had promoted a liberal investment regime, it was to be expected that the preferences of big business and foreign investors would often guide policy decisions. Threats of so-called “exit” or “capital strikes” by foreign capital were also prevalent. This reinforced the priority of macro-economic stability in a country that emerged as one of the world’s largest recipients of FDI in the latter half of the 1990s. Such a priority, of course, was problematic from the perspective of aspects of policy coherence, mentioned above, that concern social development.

Indeed on the social front Brazil remains one of the most unequal countries in the world (9th in terms of the Gini index), with the richest 20% accounting for 61% of income and the poorest 20% accounting for 2.8% (UNDP 2007). Despite the turn to democracy in the mid 1980s, Brazil followed the path of many other new democracies that did not dare stray from the path of structural adjustment and economic stabilization (Mkandawire 2006).

Various developments in Brazil’s political economy appear to be altering the scope for policy space and policy coherence, albeit perhaps in contradictory ways. Democratization re-

energized civil society. Social movements like the Landless Workers's Movement (MST), several large union federations, and a civil society that has found voice through the World Social Forum, NGOization and networking, have gradually pushed recent administrations to broaden the scope of social policy that historically had been skewed towards urban formal sector workers. Through programmes such as "bolsa familia" and *Fome Zero* social protection has been extended to rural populations and the urban informal sector. With the election of Lula, a former trade union leader, in 2002, civil society had a national champion holding the highest office. But civil society remained fairly fragmented and lacked instrumental power to significantly alter policy. There was considerable continuity in economic policy, with some strengthening of social policy (Draibe 2007).

The maturation of electoral democracy and the re-emergence of poverty reduction as a priority issue on the international agenda, have introduced what has been called a market for ideas concerning national poverty programmes and policy competition involving the two leading political parties (Workers' Party (PT) and Brazilian Social Democracy Party (PSDB)) (Melo 2007). There are signs that elements of a "developmental welfare state" are reasserting themselves (Riesco and Draibe 2007). As Brazil distances itself from traumas of the so-called "lost decade" of the 1980s and high inflation, plays out its new geo-political role as a "BRIC", and crafts institutions that are more responsive to citizens concerns and votes, the spaces for developmentalism and a more universal social policy have widened to some extent.

Such a context may also be conducive not only to balancing economic and social dimensions of development nationally, but also reinforcing aspects of MERCOSUR that have to do not simply with market access and investment but also other social, institutional and developmental dimensions of south-south cooperation. The notion of social dialogue or tripartite pacts that has been a component of MERCOSUR since its origin but not given much priority, appears to be gathering some momentum (Riesco and Draibe 2007:68).

Another development in Brazil's political economy is more problematic from the perspective of policy space and policy coherence. This relates to the increasing instrumental power of organized business during the past decade. The fragmentation of organized business and its lobbying efforts appears to have waned as business associations have mobilized and united around common goals. Particularly important in this regard has been lobbying for policy reforms and legislation that would reduce the so-called "Brazil cost" of doing business, in an attempt to enhance the competitiveness of domestic firms (Mancuso 2007). This mobilization had been prompted by the shock that many firms and industries experienced with unilateralism in the early 1990s. The analysis of lobbying "successes" and "failures", as seen from the perspective of business, suggests that organized business has been quite effective either in promoting legislative reforms that may be conducive to competitiveness but which, in some instances are regressive from a social perspective, or in blocking socially progressive reforms that might increase the "Brazil cost" (Mancuso 2007). Through the Brazilian Business Coalition, business also sought to overcome its historic exclusion from trade negotiations by coming together to engage proactively in the negotiations associated with the FTAA (Lengyel and Ventura-Dias 2004:115).

What remains to be seen is whether the emergence of a more cohesive business sector results in encompassing business associations that are cognizant of the need for social dialogue and social pacts, and whose positions on policy issues are more conducive to inclusive development, or whether it enhances the capacity of business to engage in rent-seeking and institutional capture.

Chile

In order to understand Chile's current trade and development strategy we need to consider the relationship that exists between the following three elements⁵. First, the Chilean economic "success story" that crystallized with the democratic transition and which was orchestrated by the center-left coalition – *Concertación* – in an ambiguous continuity with the legacy of economic liberalization inherited from the Pinochet regime. Second, a trade policy exceptionalism in and through which Chile has followed a unique strategy of bilateral and plurilateral trade agreements that has resulted in a fundamental tension between the pursuit of potential export markets and regional integration projects. And, third, the asymmetrical role of business actors which, institutionalized in the form of private-public formulation and coordination of trade policy, has over-determined the country's trade strategy and has brought forth the limits of the "social pact" which has been essential to the democratic transition (Castells 2005). In order to glean how Chile's policy space and policy coherence have been affected by the new landscape of trade regimes sketched above, we briefly consider the main contours of the first two of these elements.⁶

Concerning the Chilean economic "success story," Manuel Castells has convincingly argued that the "democratic liberal inclusive model" (1990-2008) that characterized the return to democracy has not only enjoyed more political legitimacy than the "authoritarian liberal exclusionary model" (1974-1989) of the military regime, but, with its lower inflation and unemployment, higher average growth and greater macroeconomic stability, it has also been more economically sustainable and efficient (Castells 2004). This thesis brings forth an important debate concerning the relationship that exists between the economic legacy of the military regime and the general economic orientation of the center-left coalition. If the *Concertación* has tended to understand Chile's trade and development strategy as an important corrective to the neo-liberalism of the Pinochet regime, the center-right coalition – *Alianza por Chile* –, has understood it rather as the direct result, natural continuity, or even radicalization of what Milton Friedman referred to as the "economic miracle of Chile" under the military regime.

Following this debate, it can be said that for nearly two decades Chile has experienced unprecedented growth and stability: For example, the country's gross domestic product (GDP) per capita increased almost 90% during the 1990s. In terms of purchasing power parity (PPP), Chile's GDP per capita is among the highest in Latin America, although substantially behind the GDP per capita of Europe and even most of the "Asian tigers". Moreover, the fact that during the democratic period, economic growth derived from the productivity of multiple factors (and not just capital and labor), suggests that Chile is approaching the model of intensive growth that is typical of information societies. Poverty levels declined sharply from 48% of the population in 1987 to 18.8% in 2003⁷ Yet with one of the highest Gini coefficients in Latin America (54.9 in 2003⁸), the country is paradigmatic of the classical trade-off between growth and inequality. This is a reminder that there is an underside to the Chilean "success story" – even among the most developed of the Latin American countries economic liberalization has its limits.

⁵ This analysis draws to a large extent on in-depth and semi-structured interviews of twelve Chilean trade policy specialists proportionally representing the private, public and third sector; and the systematic study of official trade documents from these respective sectors.

⁶ The question concerning the asymmetrical role of business actors and the marginal role of civil society actors in the formulation of Chile's trade policy will be analyzed in a subsequent paper.

⁷ See Illanes and Riesco 2007 : 399.

⁸ See UNDP 2007: 281.

The second element we need to consider is Chile's exceptional strategy of bilateral and plurilateral trade agreements. Chile's trade exceptionalism has been guided by an economic reductionism that has made the country systematically choose economic integration with APEC over economic and socio-cultural integration with CAN and MERCOSUR. Consequently, Chile is one of the most isolated Latin American countries from the point of view of regional integration. This trade-off between economic and socio-cultural integration brings us back to the continuity-rupture debate we alluded to above.

The 1973 coup d'état marked a break with the trade and development strategies of the Allende government. The protectionist ISI model was replaced by a unilateral economic liberalization exemplified by sharp tariff reductions, an unprecedented opening toward FDI, and the dismantling of the developmentalist state. But perhaps the most significant change during this period occurred in 1976 when Chile withdrew from the Andean Pact (the predecessor of CAN) which it had co-founded in 1969. This isolationism would not only plague the Pinochet regime; it would also set the tone for what would become Chile's trade policy exceptionalism with the return to democracy.

In order to overcome this isolationism, Chile attempted to reestablish economic ties with its regional partners and insert itself in what had become the strategically important global economy in and through a unique strategy of weaving together plurilateral and bilateral trade agreements. ECLAC's principle of "open regionalism" which, together with the flexible ALADI framework defined the Latin American trade horizon in the 1990s, allowed Chile to cast its trade exceptionalism as being complementary with the unilateral economic liberalization that had been inspired by the "Chicago Boys" and carried over to the multilateral track of the GATT/WTO Uruguay Round. In the context of the "new economy," this trade strategy aimed at export diversification and market access in order to achieve the so-called "second export phase," that is, the development of a higher valued added export industry (Silva 2001).

Under the Aylwin administration (1990-1994), Chile reestablished relations via bilateral agreements with Latin American countries through the ALADI framework.⁹ Yet, Chile's distance vis-à-vis MERCOSUR and the sub-regional group that would become CAN was a harbinger of a trade logic that would soon crystallize. The presidency of Frei Ruiz-Tagle (1994-2000) marked the consolidation of Chile's trade strategy during the first decade of the democratic transition. Establishing an Economic Complementation Agreement (ACE) with MERCOSUR (1996), making it only an associate member of the group, Chile preferred the prospect of full integration into NAFTA, which at the time was viewed as a stepping stone for the nascent ALCA. Yet, due to a logjam in the NAFTA negotiations, the Frei administration opted to establish separate FTAs with Canada (1996) and Mexico (1998) and to begin to negotiate an FTA with the US. These two FTAs were seen as a "second best" path to ALCA.¹⁰

The election of the former economics professor, Ricardo Lagos (2000-2006), marks the radicalization of Chile's trade exceptionalism. Although an important trade agreement was signed with the EU (2002), two events would become emblematic of Chile's trade strategy during the Lagos presidency: the signing of the highly polemic FTA with the US (2003) and

⁹ Toward this end Chile signed a series of economic complementation agreements (ACE) with countries such as Mexico (1991), Argentina (1991) Venezuela (1993), Bolivia (1993), Colombia (1993), and Ecuador (1994).

¹⁰ During the Frei administration, moreover, Chile also established FTAs with Peru (1998) and with Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua under the Chile-Central America FTA (1999).

the aperture toward the Pacific Rim countries under the framework of the Asia-Pacific Economic Cooperation Forum (APEC).¹¹ Consistent with the trade logic of the period, Lagos would bring his presidency to closure by signing a partial trade agreement with one of the BRICS, namely, India (2006).

Whether the current Bachelet presidency (2006-2010) will follow the general trajectory of Chile's trade exceptionalism and continue to weave deterritorialized FTAs around the world, or whether it will attempt to recast the regionalism of the earlier Aylwin administration, or whether it will attempt to tread a *via media* between these two tendencies, it is still too early to tell. Perhaps only a second Bachelet term could provide an answer to this question. There are currently mixed signs: On the one hand, Chile has continued its aperture toward APEC by signing an important FTA with Japan (2007); on the other hand, the country has gestured toward the region by establishing FTAs with Peru (2006) and Panama (2006) and by becoming an associate member of CAN (2006).

But perhaps a longer term indication of Chile's future trade strategy will be its role in the Union of South American Nations (UNASUR), the regional integration project that gravitates around the eventual fusion of CAN and MERCOSUR. The national security question concerning Chile's energy dependence is no doubt a strategic reason to turn toward the region; a *fortiori*, given the fact that the South American Energy Ring project is increasingly being linked to UNASUR. But there is also the new regional context of the "turn to the left" and the correlated growing power of domestic civil society groups that are critical of Chile's isolationism. Thus UNASUR might not only improve Chile's energy problems, it might also be the Chilean left's compromise with the ALBA countries as well as a way of appeasing the domestic regionalists.

Chile was a point of reference, "a success story," a model of development, during the 1990s when the "victory" of liberal-democratic capitalism and the Washington Consensus set the tone and when ALCA was on the horizon. Chile was in a way the proof that southern countries could benefit from the new economy and globalization. The Chilean left was the example to follow: It had concerned itself more with export-oriented development, achieving a "second export phase," and consolidating a social pact, rather than with populism, confrontation, and socialistic utopias.

The crystallization of the anti-globalization movement, the demise of the Washington consensus, the suspension of ALCA, and the shift to the left in the region has complicated the picture. Chile is one possible model to follow. Others have emerged: for example, the "new developmentalism" and Bolivarian socialism. In comparison to this "new Left," the *Concertación* appears exceptionally moderate; and its development strategy, a subtle form of neoliberalism that has manifested itself in projects of "deep integration." From the point of view of ALBA and even to CAN and MERCOSUR, Chile's economic success has been realized at the cost of socio-cultural solidarity that is a feature of Latin American integration. In this context, moreover, the more progressive elements of Chile's civil society are increasingly challenging the weight of business actors and redefining the "social pact" that came to the fore with the democratic transition. This is the current situation which the Bachelet administration must face.

¹¹ Under the APEC framework FTAs were established with Korea (2003), China (2005) and New Zealand, Singapore and Brunei Darussalam under the Trans-Pacific Strategic Economic Partnership (SEP or P4, 2005).

How, then, have Chile's policy space and policy coherence been affected by this shift? The strategy of weaving plurilateral and bilateral trade agreements has been an attempt to maximize its policy space given, on the one hand, the country's subordinate position as a developing country in multilateral negotiations, and, on the other, its position as one of the most developed countries in Latin America. In light of the Chilean interpretation of "open regionalism," this trade strategy has been understood simultaneously as a "second best" alternative to multilateral trade liberalization and as an attempt to construct competitive advantages that push beyond the comparative advantages within the region. It can be argued that Chile has enjoyed substantial policy space since the return of democracy, to the extent that the path of economic liberalization and export orientation was the strategy of a broad-based social pact. Such a consensus, maintained over several administrations, as well as close public-private cooperation between government agencies and various business associations, facilitated trade policy implementation¹². Furthermore, various policies cohered to pursue this path in a manner that attempted to minimize economic and social contradictions. Such policies included, for example, controls on short-term capital flows and the reassertion of elements of a developmental welfare state, reflected in significant increases in public and, in particular, social spending, as well as infrastructural projects.¹³

With regard to other aspects of policy coherence, the situation appears less sanguine. Concerning the balance between social and economic policy and the regulatory environment, the normative and regulatory role of the social pact that has underpinned the restoration of democracy has been constrained by the instrumental power of large foreign and national corporations and business associations, as well as the effective veto power that rightist parties in Parliament enjoy under the 1980 Constitution.¹⁴ In relation to trade policy itself, key civil society actors such as trade unions, have had relatively little influence, and for much of the post-Pinochet era, congressional participation was limited.¹⁵

The question also arises, as to whether the radicalization of Chile's trade exceptionalism, that is, its increasing pursuit of deterritorialized FTAs, will not eventually begin to adversely affect its policy coherence. Is there a critical point where the plurality of trade regimes undercuts the development possibilities generated by the dynamic of complementarity and compatibility related to regional integration?

From another angle, the changing regional context we have alluded to has destabilized the frame of reference against which policy coherence was understood throughout the democratic transition. With the "turn to the left" and the emergence of projects such as ALBA and UNASUR, the coordination of policies to achieve sustainable development are increasingly implying regional cooperation. Here there would seem to emerge a tension between larger policy space gained through flexible deterritorialized FTAs and policy coherence gained through regional integration projects. Chile's energy predicament could be understood in this perspective. These changing coordinates of Chile's policy space and policy coherence, as well as the more assertive role of congressional bodies and critical public debate¹⁶, would explain why the Bachelet administration seems to be gesturing toward the region. Perhaps today it is making increasingly more sense for Chile to sacrifice potential policy space in order to ensure policy coherence? Stated in other words, perhaps today it is making more sense for Chile to

¹² See Silva 2004: 43.

¹³ See Illanes and Riesco 2007 :399

¹⁴ See Illanes and Riesco 2007 .

¹⁵ See Silva 2004 : 36.

¹⁶ See Silva 2004 and Illanes and Riesco 2007.

sacrifice potential economic gains with APEC countries or the BRICS in order to establish stronger socio-cultural, geopolitical and embedded economic ties with MERCOSUR, CAN and UNASUR?

Nicaragua

Nicaragua today finds itself in a seemingly bipolar situation, having signed the DR-CAFTA in 2006 with the United States, led by George W. Bush, and shortly after, the ALBA promoted by Venezuela, led by Hugo Chavez. Such a *mélange* of ideological and developmental approaches speaks volumes to the reality of low-income aid and trade dependent economies that are prone to accept whatever is on offer. What are the implications of DR-CAFTA and ALBA for policy space and policy coherence?

The case of DR-CAFTA shows that even small, low-income and dependent countries can and do use their negotiating space in the formation of international trade regimes. However, power differentials deeply dictate the boundaries of this negotiating space. This is apparent in two respects. First, the government's negotiating position was heavily influenced by neoliberal ideology and by private sector associations. Their participation was crucial to the creation of a national negotiating agenda and strategy based on knowledge sharing with the negotiating team. In exchange, private sector associations exerted direct influence in the negotiations through formal and informal mechanisms. The extent of their influence, however, varied according to their ability to mobilize financial resources and level of access to technical knowledge and the negotiators, but in general, it far outweighed that of civil society actors who were also engaged in the process. The latter had proposed a "complementary agenda" that aimed to secure certain benefits for small producers and protect traditional knowledge and access to generic drugs. But divisions within civil society, lack of expertise and lobbying capacity, limited the influence of civil society actors and the anti-CAFTA movement. At the end of the day, only a very watered-down version of these proposals made it into the final text. Formal political backing for civil society demands was also weak, even from an apparent natural ally like the Sandinista party, which adopted a "pragmatic" stance on DR-CAFTA. Such pragmatism derived partly from a desire to lock in trading arrangements that could not be destabilized so easily for ideological reasons, should the Sandinistas return to power, as indeed they did a few months later. But pragmatism also related to the fact that DR-CAFTA became part of a political game where support for or against the agreement became entangled with the issue of political alliances and divisions in the run-up to elections. It was also facilitated by the considerable property and other business interests that some party officials or their families had developed in the previous decade (Rodgers 2008), precisely in areas that stood to benefit from DR-CAFTA, such as *maquilas* and agro-industry.

Second, power imbalances vis-à-vis the US severely limited policy autonomy. In these negotiations, Nicaragua's and other Central American countries' negotiating space was essentially restricted to the Market Access pillar. The other pillars were out of the reach of the Central American players for agenda-setting purposes. Instead, they were central to the political-economic bargain of DR-CAFTA: enhanced market access in exchange for more stringent commitments in IPRs and investment rules, as well as in areas like services and government procurement.

In the case of IPRs, DR-CAFTA further limited the definition of what constitutes a 'national health threat' in relation to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), potentially curtailing the autonomy of Central American governments to allow parallel imports of generic drugs in case of need. Likewise, it allows for the patenting of

plant and animal varieties as well as crucial genetic material. The latter could in the future lead to the ‘privatization’ of Central America’s rich biodiversity resources and traditional knowledge, which have until now being a ‘common good’.

In the case of investment, DR-CAFTA illegalizes the very tools that have been central to East Asian countries’ development such as local content (ability of host governments to demand a certain percentage of locally produced inputs in the production process of foreign investors), performance requirements of FDI in order to receive incentives and tax breaks granted to national economic actors, and technology transfer and the creation of backward linkages with other productive sectors in the economy. This will thus bear clear implications for the ability of Central American governments and policy-makers to foster in the future creative ‘statecraft’ and the use of policy space to generate the synergies from industrial and other supply-side policies responsible for the growth levels that developed and more advanced developing countries have experienced.

Moreover, even within the Market Access pillar, space for negotiation shrank in the midst of powerful lobbying groups in the US. Hence, Nicaragua’s major outcome in the negotiations (the 10-year special and differentiated rules of origin regime for textiles) was eroded when DR-CAFTA entered the US Congress for approval. Extra-official DR-CAFTA negotiations took place in which the two textile associations were in charge of striking the ‘new’ deal’. Similarly, DR-CAFTA was signed and negotiators and private sector actors even began to celebrate its completion without an actual agreement on sugar quotas. The agreement was finally reached in the offices of the Office of the US Trade Representative (USTR), clearly showing the ability of the US to dictate the rules of the game.

The case of Nicaragua illustrates clearly the problem of policy incoherence associated with the liberalization of trade regimes, namely that such liberalization allows transnational corporations and regionalized business groups to reap immediate “demand side” benefits by exporting to and investing in developing countries, while supply side constraints restrict the capacity of some sectors in developing countries to benefit. For most Nicaraguan small and medium-sized enterprises (SMEs), access to roads, technology and innovation, credit, and productive inputs are a profound challenge to their participation in national and international markets. Likewise, the lack of productive structure that inhibit the creation of economies of scales among SMEs, clearly limits their ability to compete with other regional and international players and respond to potential product and quality demands from international partners and importers. It is thus essential to deal with supply-side constraints at the national and regional level to enhance the competitiveness of Central American SMEs. A *Macro Complementary Agenda* geared to address these structural limitations and strengthen the potential ‘losers’ from trade liberalization is hence key to ensure a more equal distribution of costs and benefits among economic and civil society actors and, subsequently, a better insertion of Nicaragua in the world economy.

Discursively and conceptually, alternative trade regimes like ALBA embody issues of regional and national asymmetries, fair trade, solidarity, support and finance for small producers and enterprises, and sovereignty among its members. It would seem, therefore, that such a regime could be used to support a *Macro Complementary Agenda* in Nicaragua. It is critical to analyze more closely, however, how ALBA is being implemented at the national level. Early indications are that ALBA’s implementation needs to become more encompassing and transparent if it is to become an instrument for inclusive development. It will thus be essential to establish participation and accountability mechanisms that ensure both inclusive consultation processes with the different sectors of Nicaraguan society and the

levels of legitimacy that an instrument of this nature requires. Serious questions also arise about the sustainability of an initiative that is so political in nature and may last as long as the current presidential incumbents remain in office. ALBA's potential to tackle structural limitations of the Nicaraguan economy should thus be assessed in the short, medium, and long terms. While it is possible that there may be a reaction on the part of the United States to closer ties between Ortega and Chávez, at the time of writing, there is a fairly broad consensus among societal actors and observers in Nicaragua that DR-CAFTA and ALBA are potentially complementary.

Aid from donor countries can also facilitate or undermine policy coherence via conditionality and the scale and distribution of flows. Here the picture seems quite mixed. Venezuela has suddenly emerged as a major donor, with aid being channelled towards economic and social projects and programmes associated with small producers, cooperatives and energy infrastructure. While not tied in the traditional sense, Venezuelan aid is part and parcel of a geopolitical project that runs the risk of antagonizing Nicaragua's other major donor and trading partner, the United States. In the meantime, USAID is following through with aid programmes agreed with the former "neoliberal" government, which are geared towards export promotion and eliminating certain supply side constraints. Another major donor, Sweden, which has long played a crucial role in supporting social development in Nicaragua, has announced its intention to stop giving aid. Ironically, it was Sweden that championed the concept policy coherence and encouraged other donors to do the same.

Conclusion

The preceding case studies confirm the observations made earlier about significant variations in the application of neoliberalism at the country level. These cases further illustrate the ideological decline of the Washington consensus in Latin America, the emerging comeback of the state in economic planning, and an increasing demand for redistributive policies that can translate economic growth into tangible development and poverty eradication benefits.

While such developments are consistent with the so-called "turn to the Left", the case studies also suggest the need to nuance such a characterization. Contemporary strategies combine market and developmentalist approaches that challenge classical antinomies in matters of trade and development. Moreover, the characterization of "two Lefts" (exemplified by the moderate Chilean Concertación and the Bolivarian socialism of Venezuela), which has been used as way of conceptualizing the reconfiguration and resurgence of the Latin American Left, is losing its heuristic power in relation to trade regimes. By weaving together FTAs and regional projects Latin American countries are pushing beyond the bi-polar trade logic implicit in this characterization.

Democratization has fostered hybrid models whereby countries in the region accept the reality of economic liberalization, which is enshrined in trade agreements, but look to alternative institutional and policy arrangements to minimize contradictory effects and to promote more inclusive patterns of development. Such complementarities are apparent in various policy arenas, including the strengthening of at least some features of the developmental welfare state, as well as specific economic policies. These include, for example, the use of industrial policy (Brazil), capital controls (Chile) and support services for small and cooperative enterprises (Nicaragua). They are also apparent in the particular mix of trade regimes that countries are now pursuing.

Brazil combines multilateralism with an attempt to pursue regionalism through MERCOSUR, which is not only an economic but also a political and social project. In the case of Chile, we saw that the strategy of simply expanding the number of free trade agreements worldwide may be reaching its limits and that the country will have to attempt to secure conditions for economic and social development via regional integration. Nicaragua, for its part, is pursuing an unusual hybrid – “CAFTALBA“ –, seeking complementarity by combining a conventional free trade agreement with the United States with integration in ALBA.

Such arrangements appear to bode well for policy space and policy coherence, although various actual or potential tensions and limits are apparent. In Brazil, we saw that a relatively autonomous technocracy, a resurgent Parliament and electoral competition have played an important role in relation to policy space and coherence. But organized business interests, historically quite fragmented, are also mobilizing, uniting and lobbying to greater effect. Such a development may serve to moderate rent-seeking demands but it also suggests certain limits to the strengthening of the normative and regulatory framework for inclusive development, particularly in a context where those sectors of civil society that are supportive of more inclusive patterns of development remain fragmented.

Chile confronts the challenge of not only having to manage constraints on policy space that are locked in via numerous free trade agreements, but also those that give the political allies of neoliberalism and big business undue weight in the legal and policy process. In Nicaragua, we saw that DR-CAFTA also locks in certain constraints on policy space that may be difficult to overcome through complementary arrangements in the future. ALBA not only emphasizes principles of solidarity and equity, but also challenges the geo-political hegemony of the United States. This may eventually generate another set of tensions related, for example, to overseas development assistance. Another question mark surrounding ALBA concerns issues of transparency and participation.

Latin America seems, then, to be immersed, yet again, in a transition that could have major implications for economic and social development. The so-called spaghetti bowl of multiple trade agreements and regimes appears to be settling into a more coherent strategy from the perspective of inclusive development. Taking as indicators the concepts of policy space and policy coherence, which have emerged within international and national activist, academic and policy circles as key for inclusive development, such developments give cause for optimism. However, tensions that may perpetuate the region’s historical syndrome of institutional discontinuity are never far from the surface.

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