INVESTING IN PROTECTION: The Politics of Preferential Trade Agreements between North and South. ***By Mark S. Manger.*** *Cambridge and New York: Cambridge University Press, 2009. xv, 267 pp. (Tables, graphs.) US$80.00, cloth, ISBN 978-0-521-76504-6; US$31.99, paper, ISBN 978-0-521-74870-4.*

The rapid proliferation of preferential trade agreements (PTAs) has generated considerable controversy and debate over the past 10 years or so. While there is no consensus as to whether PTAs are building blocks or stumbling blocks to greater liberalization, they are widely seen as inferior to unilateral or multilateral liberalization through the World Trade Organization (WTO). There is also a mounting body of evidence that shows that many firms do not take advantage of the concessions available in PTAs, due to the high transaction costs associated with proving eligibility for preferential access.

This presents a number of questions for scholars and policy makers: If PTAs are a sub-optimal way to liberalize trade, why do governments pursue them so aggressively? If firms are not making use of tariff preferences for their exports to PTA partner countries, how can we account for business support for these agreements? In particular, how can we explain the growing popularity of PTAs between major advanced economies and developing countries that offer few benefits to developed countries by way of market size or overall welfare gains?

In this excellent study of North-South PTAs, Mark Manger tackles these questions head on. Much of the literature to date on PTAs focuses on trade in goods, but Manger argues that this misses the point; the driving force behind North-South PTAs is not the desire to secure preferential access for the export of goods to developing country markets but rather to open up opportunities for foreign direct investment (FDI) in manufacturing and services. The essence of his argument is that firms in rich countries seek to invest in developing countries where they can take advantage of lower labour costs and produce goods more cheaply for subsequent export to other developed country markets.

But why not pursue this objective on a non-discriminatory basis through the WTO? Manger argues that this preference for PTAs is due precisely to their discriminatory nature, which is attractive to multinational corporations because of the way they raise barriers to outsiders while offering protection to insiders. Insider advantages are created through Rules of Origin (ROOs), an essential feature of PTAs that determine which goods are eligible for preferential access. ROOs can be structured in quite restrictive ways so as to increase the costs of production for firms from countries that are not party to a PTA. Similar advantages are created in the services sector, where market and regulatory structures penalize late entrants. This means that there are considerable "first mover" advantages created by PTAs, thus providing an

additional set of incentives for multinational companies to pursue them. The proliferation of PTAs can then be explained as a domino effect, as outsiders pressure their governments to pursue PTAs in markets where they have been disadvantaged by these deals.

The study adopts a political economy approach and rests on the assumption that the outcomes of PTAs can be explained by pressure from organized societal interests and the public choice behaviour of government officials. Manger tests his arguments through a series of case studies of PTAs between major developed (United States, European Union and Japan) and developing countries. The studies begin with the North American Free Trade Agreement (NAFTA)—the "original sin." Manger argues that the origins of NAFTA were primarily political but the negotiation offered US industries the chance to lobby for ROOs that raised costs considerably for outsiders who wanted to invest in Mexico to serve the US market, especially the automobile manufacturers. The following chapters show how NAFTA prompted the EU and Japan to seek to negotiate similar deals with Mexico, so as to mitigate the disadvantages experienced by their multinational firms in Mexico. A fourth case shows this competitive dynamic at work in the case of Chile, where the US, the EU and Japan all competed to secure PTAs with particular emphasis on foreign investment in the Chilean services sector. A chapter on Japan's PTAs with Malaysia and Thailand shows how regional production networks in the automobile and electronic industries shaped the contours of those PTAs, with rapid liberalization of components and assembled products and blanket exclusions for agricultural products. These PTAs spurred the United States and the European Union to seek similar agreements with Malaysia and Thailand.

This is a terrific study, theoretically informed, empirically rich and well written, accessible to specialists and non-specialists alike. It makes a major and original contribution to the scholarly and policy literature on PTAs. It also makes a major contribution to our understanding of trade policy forum choice, an area that is relatively underdeveloped in the political economy literature on trade liberalization. It will be of interest to economists, political scientists and policy makers and it will become a standard reference in the field. It deserves wide readership.

University of Melbourne, Victoria, Australia Ann Capling