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sure they can bring to bear on the regime for fear that it will provoke a backlash and the very challenge to the American imperium that they hope to avoid. The international balance hangs on the domestic balance between the forces of resistance in China currently vested in the state and popular forces of reform calling for greater rule of law. Without significant private authorities able to help the masses overcome their collective action problems, the vested interests are likely to prevail and the challenge to the American imperium is likely to be serious.

What is to be done? Increased trade and investment by the West with China is incentive compatible, and may eventually "tip" the political balance in China in a more liberal direction or at least mitigate the interests now vested in a more politically based system. Confrontation with China will only reinforce those who would seek a Chinese Asian Co-prosperity Sphere. The United States and others should do everything possible to encourage the rule of law and price-led market incentives in China. At the same time, the optimal strategy toward China—no matter its internal fissures—is to maintain the power and resilience of the American imperium, including strengthening relations with other members. Maintaining a strong and open international economy that China wants to be part of—and maintaining a unified front in enforcing the rules of that economy—will maximize leverage for all over China's future and the fate of its possible challenge.

To Fear or Not to Fear? BRICs and the Developing World[7]

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Are the BRICs driving a fundamental transformation of the world economy? Journalists, investors, policymakers, and academics alike prognosticate about the global impact of these large emerging economies. One camp deems the rise of the BRICs a challenge to America's hegemonic power, increasing global politico-economic instability as a result. Another camp defends the continuation of the American (and thereby, global) status quo with equal fervor. The BRICs, they argue, are mired in their own domestic challenges, mistrust one another, have little interest in leading global affairs, and have yet to command true followership by the rest of the developing world.

This debate is far from resolved, and systematic studies on the rise of the BRICs are surprisingly scarce. Current contributions are replete with descriptive data, some historical references, and broad predictions based on grand theory, but advance no specific testable propositions. We take up the challenge offered

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by Edward Mansfield in this symposium, namely, to address "how rising power in the international arena interacts with concerns about domestic political stability to shape foreign economic policy." We explore the impact of the BRICs on the developing world and the consequences of this for the global economy writ large. Driven by both domestic political and international economic concerns, we anticipate that the rise of the BRICs—and China in particular—increases the incentives of developing country governments to form South–South preferential trade agreements (SSPTAs). Drawing from the theories of embedded liberalism and intra-industry trade, we suggest that SSPTAs are promoting human development and thereby helping to ensure greater political and economic stability. We therefore offer a novel account of the formation of SSPTAs and argue that their growth has more far-reaching implications than previously thought by those who view them as weak and ineffective. Moreover, by uncovering the link between the BRICs and South–South trade agreements, our theory finds a common ground in the ongoing debate over the BRICs' rise. In our view, the BRICs are fundamentally changing the shape of the world economy *and* paving a path toward greater global politico-economic stability, albeit in ways that may be inadvertent and unexpected.

BRICs: To Fear or Not to Fear?

A driving concern among observers of the international economy is whether the BRICs, and China in particular, are threatening the United States economic power. According to hegemonic stability theory, the stability of the (neoliberal) international economy requires the leadership of a dominant power (currently, the United States) (Kindleberger 1973). From this perspective, it is understandable that the rise of the BRICs—along with the purported decline of US hegemony—might be seen as precipitating the unraveling of global economic (and thereby political) stability. Those who espouse this view point out (i) that the economies of the BRICs are driven by heavy dependence on the state, rather than by neoliberal market principles; (ii) that they tend to embrace authoritarian regimes domestically and/or internationally; and (iii) that they create international institutions that challenge the "Washington Consensus" (Gu, Humphrey, and Messner 2008; Dauvergne and Farias 2012). This position is contested, however, by those who counter that the BRICs still show little capacity or interest in challenging the United States and changing the status quo in global affairs (for example, Huang 2011; Kastner and Saunders 2012; Nye 2012). We have, as yet, few clues with which to resolve this debate, in large part because of the scarcity of systematic research on how the BRICs affect developing countries —which constitute the large majority in the international system.[8]

In our view, the BRICs' increasing success in the global economy poses a distinct challenge to the domestic political-economic security of labor-abundant developing economies. This is so, most basically, because the BRICs possess vast reserves of low-skilled labor. China, in particular, continues to dominate global markets for labor-intensive goods, despite rising wages (see Figure 1). Smaller liberalizing developing economies with similar factor endowments—such as Egypt, Guatemala, Vietnam, Ghana, and Bangladesh—therefore face increasingly stiff competition for access to export markets. Moreover, the BRICs' huge domestic markets put them at an advantage in trade negotiations and render them a more desirable destination for foreign investment.

[8]A few studies focus on how the BRICs influence the advanced industrialized nations vis-à-vis their impact on other regions, such as East Asia (Ross 2006). Another exception is the strand of research focusing on China's impact on African development (cf. Gu 2009).

Fig 1. Major Exporters of Textiles and Clothing

Source: WTO (2012).

For labor-abundant developing countries, the challenges posed by this increased competition extend beyond the economic realm, as large segments of restive unemployed laborers can pose a serious threat to the domestic political order. Indeed, inequality has been increasing in these countries after most began liberalizing in the 1980s (Acemoglu 2003). The theory of embedded liberalism (EL) highlights that countries must temper market expansion with government-led efforts to maintain stability and compensate those adversely affected by liberalization (Ruggie 1982). Thus, for poor labor-abundant countries, the incentives to increase trade—especially in sectors that employ low-skilled workers—are high, but the BRICs' dominance in the global economy hampers their ability to do so.

South–South Trade Agreements as a Response to the BRICs

South–South PTAs are one tool to address this dilemma. At the international level, they provide a means for smaller developing countries to attempt to balance the international bargaining power of the BRICs. At the domestic level, EL theory provides additional reasons why governments and surplus labor populations are likely to find SSPTAs desirable: by introducing new international economic opportunities and increasing employment growth for low and unskilled labor, SSPTAs can help maintain domestic stability and citizen support. We therefore contend that developing economies are taking a unique path of EL by joining SSPTAs, contrasting with traditional conceptions of EL, and that proposed by Mukherji (this issue).

How can South–South agreements achieve these goals? We highlight several mechanisms. SSPTAs signal a commitment to free trade—useful for attracting foreign capital (Büthe and Milner 2008)—with the advantage of being easier to negotiate than "North–South" (NS) PTAs with developed countries. Negotiations over SSPTAs permit governments to design provisions that will *economically* benefit poor unskilled and low-skilled laborers. For example, unlike NS agreements, SSPTAs involve significantly less (or no) pressure to sign onto human rights standards, helping to keep national labor costs low so that their members can better compete in export markets involving low-skilled manufactured goods. SSPTAs also provide developing economies better control over the pace of openness, in contrast to NSPTAs which demand more comprehensive liberalization at a faster timetable (Wignaraja and Lazaro 2010). This can help governments avoid—or at least find time to compensate—the large number of "losers" that often results from a rapid restructuring process.

Finally, SSPTAs are well-suited for fostering trade in those sectors which benefit poor unskilled laborers, such as light manufacturing and agriculture. By highlighting the benefits of intra-industry trade, new trade theory helps identify how SSPTAs—which are composed of countries with similar factor endowments—promote trade (Krugman 1979). Many SSPTAs are regional, rendering transportation costs low and making it easier for economies of scale to develop. Intra-industry trade offers consumers, who may share similar tastes and preferences for goods as consumers in other developing countries, greater product variety at lower prices. One recent study shows that intra-industry trade among LDCs (which now comprises approximately 47% of their total trade) is increasing more rapidly than inter-industry trade and has the highest *change* since the 1970s (Sawyer and Sprinkle 2012).

If our intuitions are correct, the rise of the BRICs and the growth in SSPTAs should be closely related. Figure 2a and b reveal, interestingly, that it is China's rise in particular (measured in terms of its share of world exports) which tracks the spike in SSPTAs beginning in the 1990s. Brazil, India, and Russia's world export shares have increased more gradually (with Russia experiencing a decline in the early 1990s). In short, these patterns are consistent with our claim that developing countries are using PTAs to address the challenges posed by an increasingly competitive global economy. But they further suggest that the growth in SSPTAs is occurring in response to China's rise, more so than the other members of the BRICs. Notably, the number of NSPTAs has not increased nearly as rapidly as SSPTAs, consistent with our point that these are more difficult to negotiate and may not be as well-suited as SS agreements for addressing the broader needs of labor-abundant countries.

We also see some promising trends supporting governments' pursuit of EL as motivation for joining SSPTAs. The socioeconomic condition of low-skilled workers has been improving in countries that have joined the highest number of SSPTAs. Figure 3 shows that poverty rates, surplus labor, and infant mortality rates have declined and female labor force participation has increased as these countries have joined more trade agreements.[9] In contrast, countries that are members of fewer SSPTAs have witnessed a smaller and less rapid decline in poverty since 1990. While more sophisticated methods are required to establish causality, these trends are consistent with the idea that SSPTAs provide some solutions for countries with large populations of poor and unskilled workers.

Next Steps

We have outlined the broad strokes of a larger research project on how developing countries are responding to the challenges posed by the rise of the BRICs. We observe trends that suggest China's persistent global dominance in low-skill export markets might be prompting developing nations to join SSPTAs. Our emphasis on China as the most influential BRIC is interestingly at odds with Rudra Sil (this issue) and more consistent with David Lake (this issue). Unlike previous accounts, we emphasize that the impact of SSPTAs is not necessarily through international mechanisms (for example, by better representing developing countries in interna-

[9]The graph includes countries in the top quartile of SSPTA membership, using 2000 as the base year for evaluation. Countries simultaneously in the top quartile of NSPTA membership are excluded.

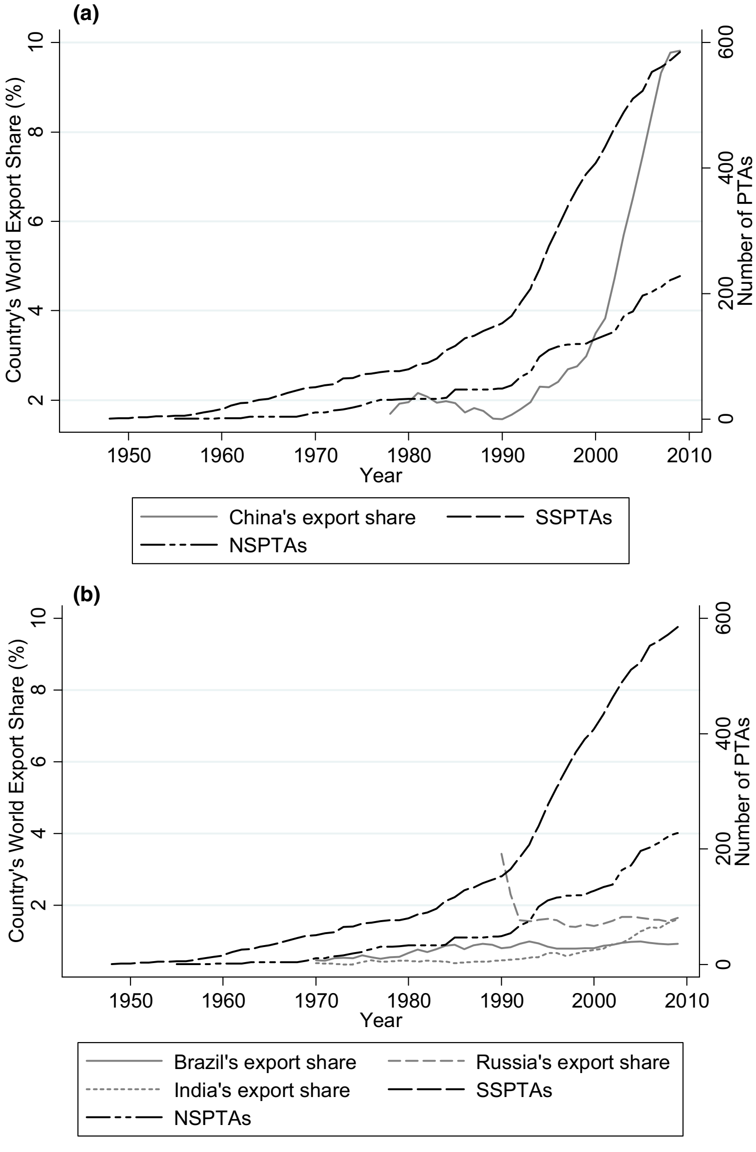

Fig 2. (a) China's Export Share and Growth in Preferential Trade Agreements (PTAs) and (b) Brazil, Russia, and India's Export Shares and Growth in PTAs

tional forums), but rather through encouraging a unique path of integration in the global economy, which may be having positive distributional consequences for the majority in those nations. In this way, South–South institutions are contributing to both domestic and global stability.

The trends demonstrated here suggest possible correlations, but more advanced econometric work is required to confirm causality. A more rigorous test of the "unique" aspect of EL proposed here would assess whether SSPTAs are having an impact on trade involving low-skilled and unskilled labor, as well as whether SSPTAs enhance the welfare (via improved employment and poverty levels) of these groups. Initial evidence indicates that this is indeed the case. Chong-Sup Kim and Kyung-Eun Lee (2003) find that MERCOSUR countries

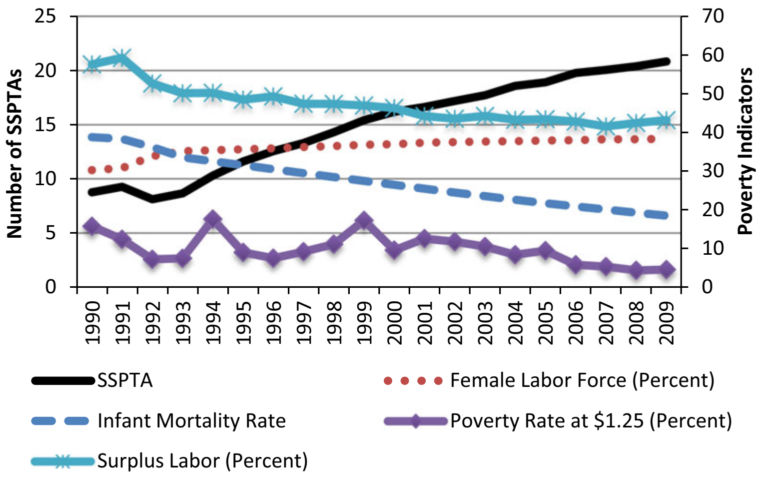

Fig 3. Development Indicators in Countries with High Numbers of SSPTAs

have increased intra-industry trade, while Anna Maria Mayda and Chad Steinberg (2007) find that COMESA has had a small, but positive impact on overall trade levels among its members. Our preliminary analysis (not presented here) indicates that among COMESA countries, this increase in trade is indeed driven by low-skilled manufacturing and agriculture—both sectors which employ poor or low-skilled workers. All in all, we anticipate that BRICs may be having unintended positive consequences on the global political economy.

Rising Powers and the Regime for Development Finance[10]

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The 2013 BRICS summit in Durban, South Africa, attended by the leaders of Brazil, Russia, India, China, and South Africa, produced a joint declaration that simultaneously heralded a new "BRICS Development Bank" and demanded the reform of existing "international financial institutions to make them more representative and to reflect the growing weight of BRICS and other developing countries" (eThekwini Declaration 2013). As they had at previous summits, the BRICS demanded reform of "the prevailing global governance architecture" that was conceived over six decades ago.

As Edward Mansfield (this issue) explains, international relations theory suggests that rising powers may seek to reform existing institutions or create new ones to challenge the prevailing system (Gilpin 1987; Hawkins, Lake, Nielson,

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