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US Trade Policy: The Emergence of Regional and Bilateral Alternatives to Multilateralism

From the 1940s, when the postwar multilateral trading system was founded around the rump provisions of the General Agreement on Trade and Tariffs (GATT), to the mid-1980s, the United States steadfastly opposed derogations from MFN obligations and, therefore, most regional trading arrangements (Cold War exigencies account for the exception regarding the formation and growth of the European Community). Essentially, the US adhered to a two-track trade policy: (1) multilateralism, embodied in its membership in the GATT and in its leadership in eight rounds of trade-liberalizing GATT negotiations; and (2) unilateralism-bilateralism, dictated by the substantive reality that GATT did not cover key trading sectors and thus powerful domestic interests demanded that US political leaders pursue independent bilateral negotiations – particularly with Japan and the EC – to achieve trade policy goals beyond multilateral disciplines.¹ Unilateralism was linked directly to bilateral negotiations as the US also reserved the right to act on its own by enforcing its will should bilateral negotiations fail.

Broadened Trade Policy Agenda

Change came during the 1980s as the US essentially drifted into regional alternatives through a combination of diverse forces and unlinked events. The seeds of this broadened trade policy agenda could be found

in United States Trade Representative (USTR) William Brock's call in 1982 for a GATT-plus negotiation (conditional MFN) if efforts for a new multilateral trade round failed; but Brock's move was actually a tactical means of forcing action at the multilateral level, not the signal for a change in the fundamental priorities of US trade diplomacy. Similarly, the decision to sign a bilateral FTA with Israel in 1983 was motivated entirely by political and security interests, not trade policy considerations. Finally, the first economically significant FTA initiatives – US-Canada and US-Canada-Mexico (NAFTA) – were proposed by Canada and Mexico respectively, and not by the United States.²

By the late 1980s, however, other forces were coming into play that would induce the United States to introduce bilateral and regional agreements permanently into its portfolio of trade instruments. In Europe, the EC seemed finally to be moving toward significant economic union, with the successful campaign for EC 1992 and later the signing of the Maastricht Treaty. The United States, thus, for the first time in the postwar period faced a trading partner with economic power equal to its own.

¹ Claude E. Barfield: Regionalism and U.S. Trade Policy, in: Jagdish Bhagwati, Arvind Panagariya (eds.): *The Economics of Preferential Free Trade Agreements*, Washington, DC 1996, AEI Press, pp. 136-57; I. M. Destler: *American Trade Politics*, 4th Edition, Washington, DC 2005, Institute of International Economics.

² Claude E. Barfield: Regionalism and U.S. Trade Policy, op. cit.

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Further, beginning with the Bush (I) administration, but continuing in more urgent and vocal fashion in the Clinton administration, voices for a greater priority for regional trade policies obtained greater influence within the US executive. Secretary of State James Baker chafed at the inability to conclude the Uruguay Round and became attracted to the opportunities for smaller bilateral and regional trade deals. Even earlier as Secretary of the Treasury under President Reagan in 1988, he had stated that while the United States hoped that liberalization would occur in the Uruguay Round, “if not, we might be willing to explore a market-liberalizing club approach through multilateral arrangements or a series of bilateral arrangements”.³

In addition, Baker, as the architect of US policy regarding the 1980s Latin American debt crisis, viewed FTAs with Latin American countries as powerful complementary inducements for them to pursue more rational (bitter medicine, in some cases) macroeconomic policies. Thus, Baker was largely responsible for President Bush’s espousal of the Enterprise for the Americas initiative in 1990 to extend NAFTA to all of Latin America.

And in a move that resonates within the current debate over the correct balance in US Asian trade and diplomatic policy, it was Baker who challenged (behind the scenes) the first proposal for an intra-East Asian regional institution in form of an East Asian Economic Caucus, advanced by Malaysia in 1991. Baker made clear to US allies in the region that the United States would oppose any plan that “drew a line down the middle of the Pacific” and placed the United States on the other side of that line.⁴ Baker’s attempt to meld trade policy with broader diplomatic and security goals also has echoes – and personal ties – with a similar effort on the part of the current Bush administration – not the least because the president’s first US Trade Representative, Robert Zoellick, was a Baker protégé at the State Department and brought this same broader vision (unusual for a trade official) to his job.

The Clinton Years

For much of the period of the Clinton presidency, regional policies took on a more narrow economic focus. In explanation of this narrowing, it must be remem-

³ As quoted in Vinod K. Aggarwal, Kun-Chin Lin: APEC as an Institution, in: Richard E. Feinberg, Ye Zhao (eds.): *Assessing APEC’s Progress: Trade, Ecotech, and Institutions*, Singapore 2001, ISEAS, pp. 177-190, here p. 16.

⁴ James A. Baker III, Thomas M. DeFrank: *The Politics of Diplomacy: Revolution, War and Peace, 1989-1992*, New York 1995, G. P. Putnam’s Sons.

bered that by 1993, when President Clinton entered office, the Cold War was over, China’s startling rise as an economic and potential military power was still over the horizon, and Muslim terrorism, while evident in such incidents as the World Tower plot, was not yet perceived as a large threat to the West. Thus, the mantra of the time was that “economic security” had replaced traditional security policy as the main focus of US diplomatic initiatives. This shift was underlined by the widespread perception (exploited effectively by candidate Clinton in 1992) that US “competitiveness” had declined in the 1980s.⁵

It is not surprising, then, that the trade policy of the first Clinton administration took on a strongly mercantilist flavor – and that Asia emerged as the most important priority for new trade initiatives. Given the inherited challenges from the Bush administration, NAFTA and Latin America first took center stage. Despite deep divisions within his own party (and within the White House itself), President Clinton staked a great deal of presidential authority on the passage of NAFTA in the summer of 1994. And in December 1994, he built upon this success by convening the Summit of the Americas in Miami that produced a major decision to negotiate a hemispheric free trade agreement by 2005.⁶

Although NAFTA and the Miami Declaration (as well as successful completion of the Uruguay Round) were chalked up as major triumphs, Clinton administration officials looked to Asia as the most promising political and economic opportunity to place a Clinton stamp on US trade policy. Politically, Asia and the APEC initiatives were wholly Clinton initiatives, not hand-me-downs from the Republicans. Clinton advisers correctly told the president that Asia was an area he could claim as his own. Second, and of equal importance, because of the rapidly increasing economic growth and power of the nations of East Asia, this region represented the greatest opportunity to increase US exports and to regain symbolically US “competitiveness”.⁷

⁵ Robert Z. Lawrence: *International Trade Policy in the 1990s*, in: Jeffrey A. Frankel, Peter R. Orszag (eds.): *American Economic Policy in the 1990s*, Cambridge, MA 2002, The MIT Press, pp. 277-327.

⁶ Richard Feinberg: *Comparing Regional Integration in Non-Identical Twins: APEC and the FTAA*, in: *Integration and Trade*, Vol. 4, No. 10, 2000, pp. 3-30; Robert Z. Lawrence: *International Trade Policy in the 1990s*, op. cit.

⁷ Claude E. Barfield: *Trade, Investment and Emerging U. S. Policies for Asia*, in: Claude E. Barfield (ed.): *Expanding U.S.-Asian Trade and Investment: New Challenges and Policy Options*, Washington, DC 1997, AEI Press, pp. 17-55; see also Richard Feinberg: *Comparing Regional Integration in Non-Identical Twins: APEC and the FTAA*, op. cit.

With great fanfare, in 1994 the administration launched its “Big Emerging Markets” initiative to target nations where US corporations had the greatest potential to boost exports.

Of the top ten so identified, more than half were from Asia (counting Taiwan and Hong Kong as separate entities).

With the Clinton administration also, for the first time, academic economists in high governmental positions spoke out in favor of giving priority to bilateral and regional free trade agreements. The 1994 and 1995 Economic Reports of the President presented detailed explanations of the Clinton administration goals and priorities for trade policy. They represented a distillation of the strongly held views of two of the administration’s principal economic spokespersons on trade – National Economic Council Chair Laura Tyson and Under Secretary of the Treasury Lawrence Summers. While acknowledging that the “most far reaching of the administration’s market opening efforts has been ... the Uruguay Round of GATT,” the 1995 Economic Report states that the “most distinctive legacy” of the Clinton administration in the trade policy arena will be the “foundation it has laid for the development of overlapping plurilateral trade agreements as stepping stones to global free trade”.⁸

A second important fact that emerged during the Clinton presidency was a deepening partisan division over US trade policy.⁹ Bending to rising demands from key Democratic party constituencies – particularly the labor movement, but also environmental and consumer groups – congressional Democrats increasingly opposed new bilateral and regional trade initiatives. This phenomenon was first graphically illustrated in the NAFTA debates and votes – particularly in the US House of Representatives – where, despite strong support from the White House, the agreement failed to get a majority among House Democrats. And during President Clinton’s second term, sixty to seventy percent of House Democrats were regularly voting against trade initiatives, such as new Fast Track legislation or bilateral trade deals. The partisan divide continued and even deepened during the first six years of the Bush administration, with Republicans increasingly depending solely on partyline votes to advance bilateral FTAs.

⁸ Economic Report of the President, Washington, DC 1994, Government Printing Office; Economic Report of the President, Washington, DC 1995, Government Printing Office; see also Claude E. Barfield: Trade, Investment and Emerging U.S. Policies for Asia.

⁹ I. M. Destler: American Trade Politics, op. cit.

The Trade Policy of the Bush Administration

As with all incoming administrations, the Bush administration inherited and carried forward important elements of international trade policy from the Clinton and earlier administrations. The most significant was a commitment to the multilateral trading system and the World Trade Organization; but it faced two large obstacles to advancing the traditional US multilateral goals in January 2001: the lack of a so-called Fast Track (later labeled Trade Promotion: TPA) Authority, which had lapsed in 1994 and not been renewed; and the skepticism in many capitals around the world regarding the effort to launch a new trade round, after the 1999 disaster in Seattle.

Regarding TPA, US Trade Representative Robert Zoellick stressed from the outset the necessity for the United States to “regain the momentum on trade.” Starting with the April 2001 Quebec Summit of the Americas, at which the president lent support to a new round, and continuing with a whirlwind set of trips during the spring and early summer by Zoellick – to South America, Asia and Europe – the United States took the lead in pressing ahead with a drive to launch a new round at Doha in September. Concomitantly, the administration warned Congress of the negative consequences of a failure to reenact TPA. In June 2001, Zoellick told the Senate Finance Committee: “This is a moment we must seize together.”¹⁰ To jump forward, the Doha Round was successfully launched in November 2001, and as a part of the wave of national unity after 9/11; and the administration was granted TPA in June 2002.

In addition to a priority commitment to the multilateral trading system and the WTO, two other themes dominated the trade policy of the Bush administration. The first was an explicit linkage between trade policy and overall US foreign and security policy – particularly after 9/11. The second was the doctrine of “competitive liberalization,” a slogan that meant that the administration was committed to negotiations with individual nations, groups of nations and whole regions (as a complement to its multilateral negotiations), on the theory that through the discrete use of the huge US market such negotiations would set off a competitive process toward global free trade.

Trade and Security

Even before 9/11, Zoellick had placed US trade policy in a context of larger US foreign policy goals

¹⁰ Robert B. Zoellick: Statement Before the Committee on Finance of the U.S. Senate, Washington, DC, 21 June 2001.

(such a connection came naturally to Zoellick, who had served in the Bush I State Department, as an acolyte to James Baker; and would go on after his stint at USTR to serve as Deputy Secretary of State under Condi Rice). In September 2002, the administration formally included trade policy in its white paper, "The National Security Strategy of the United States of America." The introduction to the document stated: "(T)he United States will use this moment of opportunity to extend the benefits of democracy, free markets, and free trade to every corner of the world ... Poverty does not make poor people into terrorists and murderers. Yet poverty, weak institutions, and corruption can make weak states vulnerable to terrorist networks and drug cartels within their borders Free trade and free markets have proven their ability to lift whole societies out of poverty – so the United States will work with individual nations, entire regions and the entire global trading community to build a world that trade in freedom and therefore grow in prosperity ... (We) will build on these common interests to promote global security."¹¹

Looking back over the record of the Bush administration, certain FTAs can be explained largely in terms of important US political and security goals. This would certainly be true of the cluster of Middle East and Mediterranean agreements that have been negotiated or are currently in negotiation: Jordan (concluding negotiations began under President Clinton); Morocco; and Bahrain. In addition, there are continuing preliminary discussions with Egypt, and in November 2004, the President notified Congress that the administration planned to pursue FTA negotiations with the United Arab Emirates and Oman. All of these bilateral negotiations are taking place pursuant to a long-range US plan to construct a Middle East FTA by 2013.¹²

It is also clear that foreign policy and security considerations – viz. support on Iraq – played a significant role in moving Australia to the top of the list of FTAs in 2002-2003. Conversely, opposition to US security interests meant that some nations – specifically, New

Zealand – were denied the "right" to begin negotiations for an FTA (USTR Zoellick made this explicit connection in 2003, citing opposition to the war in Iraq and the refusal of NZ to allow nuclear powered ships into its harbors).¹³ In less dramatic fashion, the US briefly held up final ratification of the US-Chile FTA because of Chile's opposition to the United States on Iraq in the United Nations.¹⁴

Competitive Liberalization

The negotiation of bilateral and even regional FTAs preceded the Bush II administration by well over a decade, and had been concluded under both Republican and Democratic presidents. But as is the case with the connection between trade and security, it was the Bush II administration that first attempted to place these agreements within the context of a national trade strategy, under the title of "competitive liberalization." As explained by USTR Zoellick in early congressional testimony, through competitive liberalization – the competition produced by leveraging the huge US market to negotiate multiple bilateral and regional agreements – "the United States adds to its ability to shape the future trading system ... By moving on multiple fronts, (the United States) can create a competition of liberalization that will increase US leverage and promote open markets in our hemisphere and around the world."¹⁵ Thus, as he told a group of business editors and journalists in 2002: "(M)y parting insight for you is to follow the FTAs. We will launch them, negotiate them, pass them and then launch more. Our aim is to use these FTAs – in conjunction with global and regional negotiations – to create a new ongoing momentum for trade policy. We want the march of FTAs to create a force of momentum that lasts far beyond this Administration."¹⁶

FTAs – the Selection Process

Early on, Members of Congress and elements of the US business community raised questions about "competitive liberalization" and the introduction of non-economic factors into the selection process. In response to the questions and skepticism regarding

¹¹ Executive Office of the President: The National Security Strategy of the United States of America, White Paper, 20 September 2002, <http://faculty.washington.edu/nsingh/The%20National%20Security%20Strategy%20of%20the%20United%20States%20of%20America.htm> [accessed 3 July 2007].

¹² For details on these and other proposed FTAs, see Ian Ferguson, Lenore Sek: Trade Negotiations During the 109th Congress: Updated January 19, 2005, Order Code IB 10123, Washington, DC 2005, Congressional Research Service; and Robert Z. Lawrence: Recent US Free Trade Initiatives in the Middle East: Opportunities but no Guarantees, Harvard University – John F. Kennedy School of Government Faculty Research Working Paper Series No. RWP06-050, December 2006, <http://www.iie.com/publications/papers/lawrence1206.pdf> [accessed January 23, 2007].

¹³ Inside US Trade, 23 May, 2003.

¹⁴ Ian Ferguson, Lenore Sek: Trade Negotiations During the 109th Congress, op. cit.; Robert Z. Lawrence: Recent US Free Trade Initiatives in the Middle East: Opportunities but no Guarantees, op. cit.

¹⁵ Robert B. Zoellick: Statement Before the Committee on Finance of the U.S. Senate, op. cit.

¹⁶ Robert B. Zoellick: So What Is There to Cover? Globalization, Politics, and the U.S. Trade Strategy, Address to the Society of American Business Editors and Writers, Phoenix, AZ, 30 April 2002, http://www.ustr.gov/assets/Document_Library/USTR_Speeches/2002/asset_upload_file718_4245.pdf [accessed 3 July 2007].

Table 1
US Bilateral and Regional Trade Agreements

Bilateral FTAs	Regional FTAs
Bilateral FTAs in Force	Regional FTAs in Force
1 Israel	1 NAFTA
2 Jordan	2 CAFTA-DR ¹
3 Chile	
4 Singapore	
5 Australia	
6 Morocco	
7 Bahrain	
Bilateral FTAs Pending Implementation	Other Regional FTAs
1 Oman	1 SACU ²
Bilateral FTAs Pending Congressional Approval	Proposed Regional FTAs
1 Peru	1 MEFTA ³
2 Colombia	2 FTAAP ⁴
3 Panama	3 FTAA ⁵
4 Republic of Korea	
Other Bilateral FTAs in Negotiations	
1 Malaysia	
2 Thailand	
3 UAE	

¹ El Salvador, Nicaragua, Honduras, Guatemala and the Dominican Republic.

² South Africa, Botswana, Lesotho, Swaziland, Namibia.

³ Jordan, Lebanon, Israel, Palestine, Egypt, Syria and Iraq.

⁴ Australia, Brunei, Canada, Indonesia, Japan, Malaysia, Philippines, New Zealand, Singapore, Republic of Korea, Thailand, United States, Republic of China(Taiwan), Hong Kong(China), China, Mexico, Papua New Guinea, Chile, Peru, Russia, Vietnam.

⁵ Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, USA, Uruguay and Venezuela.

Source: Office of the United States Representative.

the ultimate benefits for the United States, by 2003 the White House and USTR had instituted a more formal interagency process to establish priorities in the selection of candidates for future FTAs. In May 2003, the National Security Council (actually following directions from USTR) issued guidelines for assessing future FTA partners. In addition to setting forth a consolidated list of substantive factors, the guidelines established a formal interagency decision making process, including responsibilities for four ascending (in terms of rank) interagency groups.

The six criteria included the following:

- *Country readiness*: involves an assessment of the country's political will, capability to assume trade obligations and overall rule of law system.

- *Economic/commercial benefit*: assesses the likely economic benefit to the United States, including potential for increased exports in specific sectors. This analysis also surveys potential increased import competition for particular US sectors.
- *Benefits to broader trade liberalization strategy*: relates to support from the prospective FTA partner for overall US trade goals, including success in meeting its WTO obligations and support for US positions in regional and WTO negotiations.
- *Compatibility with US interests*: FTA partners examined for compatibility with broad US interests, including support for US foreign policy and security interests.
- *Congressional/private sector support*: interagency groups review the extent to which the prospective FTA partner has garnered support (opposition) from Congress, business groups and civil society.
- *US government resource restraints*: factor involves primarily restraints on USTR: staff availability, likely travel and negotiating time, comparable priority with other USTR negotiations and obligations.¹⁷

Administration officials warned that these criteria were not hard and fast and that they would evolve over time. In addition, USTR Zoellick stated that they "carry no coefficients" – that is, the administration has not and will not assign relative weight to individual factors. Other administration officials told the GAO that NSC and USTR views are central but that other agencies could and did weigh in with complementary or conflicting views.¹⁸

The Results: 2001-2007

When the Bush administration came into office, the only FTA in place was the 1983 US-Israeli agreement. Since 2001, under the aegis of the new Trade Promotion Authority, the administration has negotiated and placed in force six bilateral agreements, spanning the globe from the Middle East to Latin America and East Asia (see Table 1). In addition, there is one FTA (with Oman) pending implementation, and four FTAs (Peru, Columbia, Panama, and South Korea) that have been completed but await congressional approval. Finally, bilateral FTA negotiations are in various states of progress with three other countries (Malaysia, Thailand and the UAE).

¹⁷ U.S. Government Accountability Office (GAO): International Trade: Intensifying Free Trade Negotiating Agenda Calls for Better Allocation of Staff and Resources, GAO-04-233, Washington, DC 2004, <http://www.gao.gov/highlights/d04233high.pdf> [accessed April 18, 2006].

¹⁸ Ibid.

In regards to plurilateral and regional agreements, the Bush administration's only success thus far is the CAFTA agreement with Central American countries (El Salvador, Nicaragua, Honduras, Guatemala, and the Dominican Republic). Over the longer term, the Bush administration plans to continue to pursue FTAA negotiations that began under President Clinton; and to these negotiations, it has announced plans for more distant negotiations in the Middle East (MEFTA), southern Africa (SACU), and East Asia (FTAAP).¹⁹

Regional vs. Bilateral Agreements

With the future uncertain, there are still lessons that have emerged from the first seven years of Bush administration trade policy. Under USTR Zoellick's original vision of competitive liberalization, bilateral agreements were to be linked ultimately to regional agreements (a kind of "open" bilateralism), which in turn would coalesce into global free trade. The real challenge – and potential flaw – in Zoellick's strategy was and is that while a large economy like the United States will find it easy to entice and cajole many small countries around the world to link up with its huge market through bilateral FTAs, when it comes to negotiating sizable regional agreements (such as the 34-nation FTAA) many of the same political and economic barriers and conflicts that plague multilateral negotiations in the WTO inevitably come into play. Thus, there is the danger that at the end of the day, the result could be the worst of all possible worlds – as warned by international trade economists Jagdish Bhagwati and others – that is, a "spaghetti bowl" of multiple, market-distorting bilaterals.²⁰ At least thus far, that seems to be what is happening with US trade policy in Latin America and East Asia.

FTAA

For this paper, a brief review of the history and current state of play with regard to the Free Trade Area of the Americas (FTAA) will serve as an illustration. Agreed to in 1994, official negotiations for an FTAA were launched in 1998, with the original goal of completing the agreement by January 2005. After initial meetings, nine areas were targeted for the agreement.

Some duplicated groups later formed in the Doha Round of WTO negotiations (market access, agriculture, services, subsidies, trade remedies) and some went beyond (TRIPS plus, competition policy, government procurement). Originally, it was agreed that all decisions would be taken by consensus and that at the end there would be a single undertaking.²¹

In April 2001, after an initial series of meetings and negotiations, the first draft text was produced, basically containing a compilation and consolidation of proposals tabled by FTAA member states. It was counted as a solid first step, but it also demonstrated large gaps and bracketed disagreements. Meanwhile, the Doha Round was launched in 2001, and US trade negotiators were given new instructions and objectives in the TPA that also passed Congress in August 2002.²²

In November 2002, after it became clear that major differences continued over the scope and depth of proposed obligations, the United States and Brazil – the two main antagonists – agreed to jointly chair the negotiations. Throughout 2003, however, the differences widened and at a ministerial meeting in November at Miami, FTAA negotiators bowed to the inevitable and agreed to a scaled-down negotiating agenda. The basic problems and issues went right back to the issues central to the Doha Round. The United States maintained that negotiations on agricultural subsidies and trade remedy measures (antidumping, safeguards, CVDs) could only be handled at the multilateral level. Since these areas constituted the most important demands for Brazil and other Latin American countries, they in turn refused to advance proposals on services, TRIPs, investment and government procurement. At the Miami ministerial, the result was what has been labeled "FTAA lite": that is, an agreement to establish several tracks or "tiers" for the negotiations. There would first be a common set of obligations for all 34 nations; but in addition, there would be a second set of obligations based upon a voluntary plurilateral agreement. Since 2003, two things have happened: (1) continuous fighting over just which issues are part of the common set of obligations and which are voluntary; (2) both the United States and Brazil have stepped up efforts to go around the FTAA negotiations, attempting to enlist other Latin American countries through bilat-

¹⁹ Because TPA authority lapsed at the end of June 2007, and is unlikely to be renewed for FTAs before the end of the Bush administration, forward motion on bilateral and regional FTAs will not take place at least until a new president and new Congress are in place in January 2009.

²⁰ Jagdish Bhagwati: U.S. Trade Policy: The Infatuation with Free Trade Areas, in: Jagdish Bhagwati, Anne O. Krueger: *The Dangerous Drift to Preferential Trade Agreements*, Washington, DC 1995, AEI Press, pp. 1-18; Jagdish Bhagwati: *A Stream of Windows: Unsettling Reflections on Trade, Immigration, and Democracy*, Cambridge, MA 1998, MIT Press.

²¹ For details, see Richard Feinberg: *Comparing Regional Integration in Non-Identical Twins: APEC and the FTAA*, op. cit.

²² U.S. Government Accountability Office (GAO): *Free Trade Area of the Americas: Missed Deadlines Prompt Efforts to Restart Stalled Hemispheric Trade Negotiations*, GAO-05-166, Washington, DC 2005, <http://www.gao.gov/new.items/d05166.pdf> [accessed 18 April 2006].

eral agreements or signing on to the Mercosur Agreement.²³

As stated above, the lesson here for the US doctrine of “competitive liberalization” is that even with the best of wills and a strong commitment of resources it may not be possible to create regional “building blocks” on the path to global free trade.

East Asia

The geographic area that poses the greatest challenge – thus far unmet – to the central tenet of the Bush administration’s policy of an explicit linkage of trade policy with larger diplomatic and security goals is East Asia. In retrospect, it is clear that two phenomena caught the Bush administration (and the rest of the world) by surprise. These were the speed of the rise of Asian regionalism (or, at least, the sense of an East Asian community), and both the adroitness and the speed with which China assumed a position of leadership, with the clear, if unstated, goal of replacing the United States as the dominant hegemon in the area.²⁴

Interestingly, the first premonitions of the rise of East Asian regionalism stemmed initially from the ashes of a proposal put forward in 1991-1992 by Malaysian Prime Minister Mahathir Mohamad for an East Asian Economic Group (EAEG), consisting of the ASEAN countries plus Japan, China and Korea – but conspicuously excluding the United States. This proposal foundered through the force of US objections, but at the same time a less hostile (to the United States) effort by Australia and Japan to create an Asia Pacific Economic Cooperation (APEC) forum gained impetus when the newly installed Clinton administration adopted and upgraded the concept as the major vehicle for its trade policy for East Asia.

Thus began what might be called an APEC phase of East Asian integration, when the United States led a region wide trade liberalization movement, anchored by the first high-level meetings of chiefs of state in Seattle in 1993 and followed by the Bogor declaration in 1994, whereby APEC countries pledged to achieve free trade in the region by 2010 for developed countries and 2020 for developing countries. Ultimately, APEC proved far too ambitious,

not the least because the various leading parties had very different goals for the negotiating forum. For the East Asian members, APEC represented a means possibly of curbing US unilateral trade sanctions, while keeping Asian trade a top priority for US trade policy. Instead, the US made it clear that its trade remedy actions were not on the negotiating table; and with the conclusion of NAFTA in 1994 and the Miami declaration the same year pledging free trade in the Americas by 2005, the United States seemed to veer back toward a hemisphere-first trade policy. The drift of US policy away from APEC was hastened by the failure of its strong drive for APEC-based trade liberalization in the Early Voluntary Sectoral Liberalization (EVSL) initiative in 1997. (This effort, pushed by the United States, would have instituted reciprocity-based trade negotiations for a group of key sectors, including forestry and fisheries, chemicals, forest products, medical equipment, and environmental goods.)²⁵

Meanwhile, APEC also did not satisfy the desire of Asian countries for a regional forum of economic cooperation, short of drastic trade liberalization. The onset of the Asian financial crisis in 1997 changed all of the calculations of the major players, both inside and outside the region. It marked the end of the APEC phase of East Asian integration. To the dismay and anger of Asian APEC members, the United States continued to press for the EVSL even as the crisis deepened in 1997-98. In turn, disappointment with the lack of momentum for APEC liberalization caused the United States to shift its focus to China’s WTO accession as the top priority within the region and to place more resources in the FTAA process in the Americas.

Recent Trends in East Asian Regionalism

Since the late 1990s, East Asian regionalism has witnessed the emergence of three different phenomena in tandem: the decline of the importance and influence of APEC and trans-Pacific regionalism; the rise of alternative intra-East Asian regional organizations and processes – ASEAN Plus Three (APT) and East Asian Summit – that are duplicating, and may well replace, the activities associated with APEC; and an explosion of bilateral FTAs (both among East Asian nations and with nations outside the region). Distracted by the war on terror after 9/11 and the subsequent invasion of Iraq, the Bush administration has failed – at least until

²³ Ibid.; see also Richard Feinberg: Regionalism and Domestic Politics: U.S.-Latin American Trade Policy in the Bush Era, in: *Integration and Trade*, Vol. 4, No. 10, 2002, pp. 3-30.

²⁴ Claude E. Barfield: The United States, China and the Rise of Asian Regionalism, Paper delivered at the Western Economics Association Annual Conference, Vancouver, British Columbia, Canada, 29 June 2004, http://www.aei.org/docLib/20040902_CHINAP~1.pdf [accessed 23 January 2007].

²⁵ John Ravenhill: *APEC and the Construction of Pacific Rim Regionalism*, Cambridge 2002, Cambridge University Press; Naoko Munakata: Whither East Asian Economic Integration?, RIETI Discussion Paper Series, 02-E-007, June 2002, <http://www.rieti.go.jp/jp/publications/dp/02e007.pdf> [accessed 20 April 2006].

recently – to react to these changes and to develop and sustain new strategic US economic and diplomatic policies to meet those challenges.

APEC Adrift: With little exaggeration, it can be said that since 1998, APEC has drifted, increasingly bereft of momentum and, as time passed, influence. After the failure of the EVSL effort in 1998, the Clinton administration lost interest in APEC as a vehicle for trade liberalization.

After 9/11, pushed strongly by the United States, global security issues and the war on terrorism took center stage at APEC leaders' meetings. In 2003, the official APEC leaders' declaration raised security issues to equal priority with trade and other economic issues, a change that administration officials candidly admitted caused some friction among other APEC members.

Meanwhile, from 2001 to 2005, the US position toward further APEC regional liberalization was either negative or non-committal. In 2003, USTR Zoellick rebuffed a proposal by Thailand to move up the Bogor Goals from 2020 to 2015, arguing that the "best way to move forward" was to use bilateral FTAs "to create models" for future liberalization.²⁶

Still, there were those who wanted to revive the trans-Pacific vision of regional integration. In 2004, the influential international trade economist and policy entrepreneur C. Fred Bergsten persuaded the APEC Business Advisory Council (ABAC) to put forward a proposal for a Free Trade Area of the Asia-Pacific (FTAAP). At the Santiago leaders' meeting, although Australia, Singapore and New Zealand supported the idea, the US was noncommittal. Zoellick labeled the proposal a "valuable discussion topic," but he also stated that most ministers were mainly interested in more "practical steps".²⁷ It was not until 2006, two years later, that President Bush endorsed a study group to assess the possibilities of FTAAP, and even at that point, he only stated that the idea deserved "serious consideration".²⁸ And it was not until the recent 2007 APEC leaders summit in Sydney, Australia, that Bush administration officials really attempted to exert leadership in advancing the FTAAP proposal – to

mutated and even lukewarm response from other APEC leaders.²⁹

ASEAN Plus Three: Meanwhile, the APT increasingly moved to center stage as the chief vehicle for East Asian integration. In 2002, leaders of the APT established an East Asian Study Group, composed entirely of government officials, which subsequently recommended a "step-by-step" approach to trade and financial liberalization in East Asia and suggested that formal negotiations for an intra-East Asian FTA be put off well into the future.³⁰

Despite this cautious approach, the APT has steadily moved to duplicate and overtake many of the functions of APEC. There are now annual meetings of trade ministers, and in recent years, the APT has taken on additional activities, with accompanying ministerial meetings, such as the environment, energy, tourism, health and safety, financial services – and recently, regional security.

Originally behind the scenes, but in recent years more openly, the PRC has pushed to increase the stature and activities of the APT. For China, there are three virtues associated with the organization and the process: neither the United States nor Taiwan is a member, and the overriding vision foresees intra-Asian regionalism as the wave of the future. Recently, Chinese scholars, if not Chinese officials, have become quite candid in their view of the future of Asian regionalism and the role of the United States. Chu Shulong, a scholar close to the Beijing government (and a 2006–2007 visiting scholar at the Brookings Institution) recently wrote bluntly: "Americans ... have to realize, soon(er) or later, that a regional economic and security arrangement in Asia without direct US involvement is inevitable in the long run ... simply because ... Asia needs its own economic and security mechanism to (take) care (of) itself."³¹

²⁹ U.S. Department of State: Strengthening Regional Economic Integration: A report on economic integration, including a possible Free Trade Area of the Asia-Pacific as a long-term prospect, Washington, DC 2007; Inside US Trade, 14 September 2007.

³⁰ Youngmin Kwon: Regional Community-Building in East Asia, Seoul 2002, Yonsei University Press; Davie Capie: Rival Regions? East Asian Regionalism and its Challenge to the Asia-Pacific, in: James Rolfé (ed.): Asia-Pacific: A Region in Transition, Honolulu 2004, Asia-Pacific Center for Security Studies, pp. 149–65.

³¹ Shulong Chu: Regionalism and China's Peaceful Rise: Local Neighbors and Global Strategy, Washington, DC 2006, Brookings Institution, pp. 4, 10. Uncharacteristically for Chinese commentators, Chu also took a direct shot at US policies toward Asia, arguing that: "(The) 1997 Asian financial crisis indicates clearly that Americans do not care (about) Asians too much, for it did not act to the crisis as it had done (in the) Mexican financial crisis ... when the US offered about \$30 billion to help ... Mexico. Therefore, since Americans do not care much about Asia, why (should) Asians always care about American concerns about East Asia grouping." (Ibid., p. 10.)

²⁶ International Trade Reporter, 23 October 2003.

²⁷ International Trade Reporter, 25 November 2004; see also C. Fred Bergsten: A New Strategy for APEC, Speech at the 16th General Meeting of the Pacific Economic Cooperation Council (PECC), Seoul, South Korea, 6 September 2005, <http://www.iie.com/publications/papers/bergsten0905apecc.pdf> [accessed 11 July 2006].

²⁸ International Trade Reporter, 23 November 2006.

Bilateral FTAs: The greatest activity in East Asia on the trade front over the last eight years has been the burst of bilateral FTAs that have been negotiated among East Asian countries and between East Asian countries and nations outside of the region. In 1999, except for the loose ASEAN grouping, no nation in East Asia was negotiating or had concluded a bilateral FTA. In 2007, by some counts (it is hard to keep up as more FTAs are being announced every month), East Asian nations are planning, negotiating or have concluded over 100 FTAs.³² Singapore is the champion in this area, with the PRC, Australia, Korea and Thailand (until the coup) following in its footsteps, and Japan and South Korea catching up.

As noted above, at this point the United States has concluded FTAs with Australia and Singapore, and it is negotiating FTAs with Thailand, Korea and Malaysia. In addition, it has a TIFA with ASEAN, and New Zealand and Taiwan have both requested negotiations of an FTA, thus far without success.

US Trade Policy Options in East Asia

What follows is a series of trade policy options for the United States in East Asia over the next few years and, in some instances, over the next decade. The order builds from the current bilateral course up to several possible regional frameworks.

1. *Bilateral FTAs: Continue Along the Current Path.* The United States could over the next several years continue on the bilateral path it started down after the disappointment with APEC as a vehicle for East Asian trade liberalization. If the US-Korea FTA agreement is ratified, international trade economist Richard Baldwin has predicted that his long-discussed "domino effect" will finally take hold. In that instance, the prediction would be that Japan would have to take action to counter the trade diversion effects of a US-Korea FTA. Japan potentially would have three options: it could approach either the United States or Korea separately (it could also approach both nations separately, but this is less likely); it could also suggest a three-nation FTA (à la NAFTA). In turn, should a US-Korea-Japan FTA be concluded (or even if negotiations began), other East Asian nations would likely line up quickly to join. A major question then would concern whether the ASEAN nations would negotiate as a group, or whether individual nations would ask to join the new agreement. The wild cards in this expanding FTA scenario would be China and Taiwan. It is not

clear whether the United States, for either political or economic reasons, could agree to negotiating an FTA with the PR China. On the other hand, the US would undoubtedly insist that Taiwan be included, setting up the possibility of a compromise that could be sold on the US political scene: that is, as with APEC and the WTO, the PR China and Taiwan would negotiate FTAs simultaneously. It is, finally, unclear what role India would play in this scenario; but that is true with all Asian scenarios at this point.

2. *APEC: Coalition of the Willing.* Utilizing APEC as the negotiating forum, the United States could attempt to negotiate with those nations in APEC that were ready to move beyond bilateral FTAs and negotiate a subregional agreement. In order to avoid anger and resentment over future discrimination, the APEC-minus FTA would need to provide a clear docking arrangement so that when ready other APEC nations could more easily join the agreement. This option also would finesse the problem of Taiwan, as it is already a member of APEC. There are also interim steps that the US might take to build toward consolidation. First, it could convene all off the APEC members with which it has bilateral FTAs and start a process of integrating the disparate FTA provisions, moving toward a unified text at some point in the future. As all US FTAs derive from the same basic template, this should not present insuperable obstacles. Further (even though this would likely perpetuate protectionist rules), US negotiators could also begin to discuss melding rules-of-origin provisions. The US could to some degree emulate the EU and attempt to develop a pan-US system of rules of origin that permits diagonal cumulation.³³
3. *FTAAP.* A bolder approach would entail the US getting behind the Bergsten/FTAAP effort and pushing for an APEC-wide FTA within some time certain – possibly ten years – as a goal. This would build upon an already established process in APEC – the formation of a study group. As with proposal #2, there are a variety of ways the execution of the plan could be structured. One possibility, already a tradition in APEC, would be to set different timetables for the more developed versus the developing country members of APEC.

Given the still raw memories of the EVSL disaster in 1997-98, where the US overplayed its hand and caused a backlash against reciprocal sectoral lib-

³² Asian Development Bank: ADB FTA Database, Asian Regional Development Center 2007, www.aric.adb.org.

³³ See Robert Z. Lawrence: Recent US Free Trade Initiatives in the Middle East: Opportunities but no Guarantees, op. cit., for an analysis of EU plans along these lines in the Middle East.

eralization in APEC, at this point US trade negotiators will have to tread carefully if they hope to revive APEC as a regional vehicle for trade liberalization.

There are, however, certain signs that, if the US does act with greater finesse, the prospects for APEC revival may be brightening. Regarding reciprocity-based trade liberalization, two important new factors have been introduced since 1998: first, the wave of bilateral reciprocity-based FTAs among East Asian nations and between East Asian nations and nations outside the region; and second, a gradual change in ASEAN's strict "non-interference" and "concerted unilateralism" stances. In both cases a learning process has occurred that may already be exerting an impact on views regarding regional priorities and realities.

With regard to bilaterals, as noted above, there are over 100 in place or under negotiation. All of these FTAs are based upon reciprocal concessions that include some provisions for enforcement. Thus, each nation (all members of APEC) has on one level moved beyond the mantras of the "ASEAN way" that dominated the debate in the 1990s and precluded formally binding obligations. An important sign of the impact of this change came in January 2007 at the ASEAN summit in Cebu, the Philippines. For the first time since its founding, ASEAN leaders agreed to consider stricter rules to implement policies and monitor compliance – including penalties for breaching agreements such as temporary suspension or even expulsion in extreme cases. The rationale behind the proposals was explained by S. Jayakumar, deputy Singapore prime minister and a member of the EPG: "The only option for ASEAN is to take some hard-nosed decisions on reinventing itself so as to stay an effective organization."³⁴ It would be a mistake to make too much of these tentative decisions; but for the United States, it does signal that quiet diplomacy may find more fertile ground for advancing trade liberalization measures into APEC.

4. *Stand Back and Come in Later.* Finally, the United States could stand back, allowing the current bilaterals to proceed, but not pressing at this point for any consolidation of subregional arrangements or for a regionwide FTA. The United States would thus signal that it did not oppose the new forms of intra-East Asian regionalism as embodied in the APT or the East Asian Summit. At the same time, it

³⁴ John Burton: Asean discusses tightening rules to enforce group decisions, *Financial Times*, 10 January 2007.

could and should quietly inform its closest allies in the region – Japan, Singapore, and (possibly) Korea – that at any point that the nations of the APT or East Asian Summit decide to commit to formal FTA negotiations, the United States wants to be at the table.

Conclusions

As previously stated, it is likely that US trade policy will go "on hold" until after the 2008 presidential and congressional elections. In the November 2006 mid-term congressional elections, Democrats wrested control of both houses of Congress from the Republicans – and a key factor in their triumph was the aggressive anti-global, anti-trade campaigns of a number of their novice candidates. In May, 2007 the Democrats in Congress (specifically the new Democratic majority in the House) raised the stakes by demanding – and getting – new mandatory provisions that must be included in all US FTAs. Henceforth, so long as the Democrats control Congress, US FTA partners will have to agree to adopt and enforce five so-called "core labor standards" listed in a 1998 International Labor Organization "Declaration of Fundamental Principles and Rights at Work" (freedom of association, right to collective bargaining, elimination of discrimination in employment, elimination of child labor and elimination of all forms of forced labor). In addition, they must sign a group of multilateral environmental agreements (MEAs), including the conventions on endangered species, marine pollution, whaling, tropical tunas, and wetlands. While small economies such as Peru and Panama will acquiesce to such demands, future regional negotiations will certainly be stymied by the perceived encroachment on national sovereignty that is inherent in the US position.³⁵

Against these new US domestic political realities, the diplomatic and security imperatives, particularly in Asia as a result of China's seemingly inexorable advance, will pose a huge challenge for the next US president and Congress, as they attempt to advance US national interests. At this juncture, it is impossible to predict whether domestic political concerns relating to labor and environmental conditions will triumph over the daunting political and security implications of a failure to engage in Asia through deeper trade and investment agreements.

³⁵ For analysis of the "grand trade bargain" see Claude Barfield: The Grand Bipartisan Trade Deal, *TheAmerican.com*, 16 May 2007, www.american.com/archive/2007/may-0507/the-grand-bipartisan-trade-deal; and Gary Hufbauer, Theodore Moran: Why a 'grand deal' on labour could end trade talks, *Financial Times*, 13 May 2007; and *Inside US Trade*, 25 May 2007.