

**The Political Economy of United States' Free Trade Arrangements<sup>1</sup>**

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*Abstract: Far from being the leader, the US has been a “domino” belatedly falling into line in the global rush toward bilateral and regional free trade arrangements. Often the initiative for negotiations has come from seemingly weaker trading partners. Once in the game, however, and aware of the asymmetries of market power and issue salience that enhance US bargaining leverage, the US has been aggressively pursuing a variety of commercial and diplomatic interests, both tactical and strategic, that include bolstering local democratic institutions and processes of economic reform, strengthening US security ties, accelerating region-wide commercial liberalization by allying with a regional leader, establishing new precedents to use as bench markets in future trade negotiations, and otherwise using free trade accords to advance its comprehensive global trade policy agenda. Bilateralism and regionalism have opened the door to an explicit introduction of political criteria, in contradiction to GATT/WTO a-political universalism. While often reactive to the initiatives of other nations, the US has not been indiscriminate, deflecting the entreaties of suitors where US international political economy interests are not served.*

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United States trade policy has undergone a radical shift. The nation that for decades was the foremost advocate of global multilateralism, that for decades was skeptical and sometimes hostile toward regional arrangements as being discriminatory, less efficient and potentially divisive, has now joined the rush toward bilateral and regional trading arrangements.

In its recent pursuit of free trade arrangements, the US is playing catch-up with the rest of the world. As the US Trade Representative (USTR) lamented in its “2001 International Trade Legislative Agenda” (USTR 2001), “There are over 130 preferential trade agreements in the world today – and the United States is a party to only two of them.” Even in its own region, as President George Bush’s lead trade negotiator, USTR Robert Zoellick, bemoaned, “There are 30 free trade agreements in the Western Hemisphere; the United States belongs to only one” (Zoellick 2001c).

The US has been a follower in the Free Trade Area (FTA) game. The US has been one of the dominoes, one of the many nations succumbing to the “demonstration effect” of the raft of FTA agreements and has rushed to jump onto the bandwagon (Baldwin 1997). Even in those FTAs that the US has entertained, the initiative has most often come not from the world’s remaining superpower but rather from the nominally weaker trading partner.

Still, as the US has engaged in FTA negotiations, it has aggressively pursued a variety of US interests. In justifying publicly – often ex post - its FTAs, US government officials have articulated a series of national interests that fall within four categories:

- “Asymmetric reciprocity” that advantageously opens markets for US traders and investors;
- Establishing precedents, models or serving as catalysts for wider trade agreements (competitive liberalization);
- Rewarding and supporting domestic market-oriented reformers;
- Strengthening strategic partnerships.

Notably, these motivations go well beyond direct, quantitative balances of the costs and benefits of trade liberalization and have distinct international political economy connotations. They recognize international power relations and the dynamics of strategic, sequential bargaining in multiple forums. They appreciate that trade is much more than the mere exchange of goods and services. Rather, trade is an instrument for influencing the balance of power within states and affecting processes of political and economic change. In the 21<sup>st</sup> century, free trade arrangements are important tools of foreign policy that are intended to solidify partnerships, as military pacts did in earlier times.

As we shall see, although these FTAs are not necessarily the optimal choices that the US might have made had it truly been the initiator and strategic thinker, each of the FTAs that the US has undertaken can reasonably be justified on the basis of some, and in some

cases on all, of these four national interest grounds. Taking advantage of a dual asymmetry – of market power and of interest salience – the US has not hesitated to take advantage of its strong bargaining positions to use FTA negotiations to advance its broader international policy agendas.

### The Journey from Globalism to Eclecticism

Throughout the post-World War II period until the 1990s, multilateral trade negotiations were the centerpiece of US trade policy. The United States drove all eight rounds of trade talks under the General Agreement on Tariffs and Trade or GATT (Hufbauer and Schott 1998, 125), and was the chief advocate of the GATT's principals of universalism and non-discrimination. While the US tolerated the preferential trading arrangements as practiced by the Europeans in their own common market and in their modified imperial preference schemes, it did so begrudgingly and in deference to political necessities. For reasons of grand strategy and trading interests, the US was the pillar of multilateralism.

The US exclusive dedication to globalism and the GATT eroded only slowly. The 1980s saw two exceptions to globalism – the free trade accords with Israel (1985) and Canada (1988). Both were quickly and persuasively labeled as special cases – Israel as an isolated strategic ally with a strong domestic political lobby (Rosen 1989), and Canada as a contiguous nation closely tied to the US economy through intra-industry trade and investment patterns. The next exception was Mexico, again justifiable on grounds of geographic contiguity.

The trickle of free trade agreement (FTA) enterprises became a flood in the early years of the Clinton administration. At Bogor, Indonesia, in November 1994, the US joined with the other Asia Pacific Economic Cooperation (APEC) nations to pledge to form what would be the world's largest area free of trade and investment restrictions, by 2010 for the industrial-country members, by 2020 for the developing-country members. Within weeks, at the December, 1994 Summit of the Americas, the US joined with 33 other Western Hemisphere nations to pledge to negotiate a Free Trade Area of the Americas (FTAA) by 2005. The rush to regionalism soon was joined by a gradual slippage into bilateralism. At the Miami Summit, the three NAFTA "amigos" announced their intention to negotiate the admission of Chile, as a first step toward expanding NAFTA into the hemisphere-wide FTAA, negotiations that morphed into bilateral talks. However, this surge of innovations in US trade policy was stalled by domestic opposition within the president's own political party. Congress passed the Uruguay Round legislation, but refused to extend fast-track authority (whereby Congress cannot amend trade legislation and must vote within a fixed timetable) to the President, depriving the administration of the credibility and negotiating authority it needed to drive APEC and the FTAA forward, or to complete the promised NAFTA-Chile accord. In 2000 the Clinton administration negotiated an uncontroversial second Middle East FTA, this time with Israel's neighbor, Jordan. In the closing days of his term, Clinton acceded to a Singaporean demarche to open negotiations on an FTA. Clinton left office bringing just one (Jordan) of his regional or bilateral trade initiatives to fruition.

The Bush administration made FTAs a formal and explicit centerpiece of US trade policy. With a more homogenous free-trade administration, Bush's chief trade policymaker, USTR Robert Zoellick, articulated a trade policy orchestrated around "competitive liberalization," in which global, regional and bilateral trade negotiations would complement and reinforce each other (Zoellick 2001a, 2001b, 2002) (Table 1). In 2002, Bush extracted fast-track authority (renamed trade promotion authority or TPA) from the Congress, and in 2003 proceeded to complete the FTAs with Chile and Singapore. In 2002-2003, Zoellick announced intentions to negotiate a rapidly expanding list of FTAs, with Australia and Central America (as a step toward completing the FTAA) in the Asia Pacific region, as well as with Morocco and the South African Customs Union. The administration also announced its intention to design a framework agreement with the Association of Southeast Asian Nations (ASEAN) that would facilitate future bilateral FTAs.

So US trade policy is now operating on all engines. The US is pursuing bilateral, regional and global trade agreements, to be negotiated simultaneously and to be seen as potentially complementary and mutually reinforcing. In phrases that echo military tactics and international political economy, Zoellick has stated with candor, "By moving on multiple fronts, we can create a competition in liberalization that will promote open markets around the world." (Zoellick 2001b). As Table 1 illustrates, the scope of US activities include unilateralism (Generalized System of Preferences or GSP, the Caribbean Basin Initiative or CBI, the Andean Trade Preference Act of ATPA, as well as the African Growth and Opportunity Act or AGOA); geographically concentrated bilateral regionalism (NAFTA and Central America) and geographically dispersed bilateral transregionalism (FTAs with Chile, Singapore and Australia, as well as with Israel, Jordan, Morocco and the South American Customs Union or SACU); unilateral geographically concentrated regionalism (FTAA) and geographically dispersed interregionalism (APEC) and multilateral globalism (GATT/WTO).

Because the US is so powerful, it is generally assumed that the US is the initiator and driver of most international trade negotiations, and certainly of its own trade policies. US presidents and chief trade negotiators also prefer to leave the impression that they are in charge. But these assumptions and presumptions are belied by the reality that most of these FTAs have been initiated not by the United States but rather by the smaller trading partners. The US has entered into FTA discussions on an ad hoc basis, generally in response to an insistent external request, not as the considered unfolding of a carefully designed internally-generated strategic plan approved in cabinet and by the president. Indeed, as far as can be determined, no such long-term, step-by-step, country-by-country strategic trade policy plan exists in the Bush administration, and it certainly did not exist in the Clinton years. More often than not, the US has been a reluctant participant even in its own FTAs. Certainly, its FTA partners have taken much greater interest and have had much more at stake, than has the United States.

#### Ad Hoc Reactivism in US Trade Policy

## Canada and Mexico

In its seminal report issued in 1919, the US Tariff Commission advocated a policy of nondiscrimination and equal treatment of all trading partners, but allowed for exceptions where there were “special political ties” and “where one country has a long line in common with another (US Tariff Commission 1919).” But it wasn’t until the mid-1980s and an initiative by Canada that a US-Canadian FTA was placed on the bilateral agenda. In 1985 a Royal Commission report strongly recommended that Canada negotiate a bilateral FTA with the United States, and Prime Minister Brian Mulroney took advantage of his ideological affinity and friendship with President Ronald Reagan to transform the Commission recommendation into policy action. Why did Canada initiate a bilateral trade negotiation with the US at that time (Winham 1988, Morici 1991)? First, and in support of the Royal Commission’s main policy thrust, an FTA with the US would serve as a stimulus for domestic reform, including reducing the scope of government and revitalizing the private sector. Second, an FTA would enhance security of access to the market of overwhelming importance to the Canadian economy. Third, the FTA would reduce certain barriers to Canadian products and stimulate the growth of new, competitive industries. The US acceded to the Canadian initiative and Mulroney and Reagan signed the US-Canadian FTA in 1988.

The Reagan administration had its own reasons for accommodating Mulroney (Morici 1991, 63-81). An accord with Canada at that time served as a useful lever in the ongoing GATT negotiations, as a warning to Japan and the European Community that the US might pursue alternative approaches if multilateralism failed to deliver tangible benefits. The Canadians were willing to agree to practices regarding intellectual property rights, trade-related investment policies and government procurement that the US hoped would serve as models for the GATT. The US also welcomed reductions in Canadian tariffs and disincentives to foreign investment.

Initially, Mexico rejected the Canadian view that geography was destiny, that in light of the inevitability of their economic dependence on the mighty US economy, it was better to secure that dependency with a bilateral political agreement. Ascending to the presidency in 1988, Carlos Salinas de Gortari harbored the hope of many of his compatriots that Mexico could lessen its dependency on the US market by diversifying its economic relations by strengthening commercial ties with East Asia and Western Europe. But his travels to these regions proved to be disappointing. The tepid intentions of private-sector traders and investors did not match the lofty rhetoric of their diplomats and politicians. Always the realist, Salinas decided to reverse course – and following in the footsteps of Mulroney telephoned the White House and proposed FTA talks.

Salinas’ objectives mirrored those of Mulroney. In the midst of an historic process of introducing more market-oriented incentives and scaling back the role of the powerful Mexican state, Salinas saw an international trade accord as an instrument for legitimizing and locking in these domestic reforms. Salinas wanted guarantees against ever-present US protectionist impulses and easier access to the US market for Mexican exporters.

Perhaps most important, Salinas saw these advantages of an FTA as a means of creating a business climate more conducive to foreign investors from the US and other countries who would use Mexico as a platform from which to export into the US market.

The Bush administration shared Salinas' strategic objective – a more market-oriented, outward-looking and competitive Mexican economy. A more prosperous and modern Mexico would make a more stable and friendly partner, a better southern neighbor. As the negotiations proceeded, the US recognized that since Mexico was at once the demandeur and the weaker partner, the US had tremendous negotiating leverage. Both the Bush and Clinton administrations did not hesitate to use that asymmetric power to insert into the NAFTA and related accords their “wish lists” in international trade policy, particularly in the areas of investment and services, as well as on labor rights and environmental protection. As the US repeatedly upped the ante, Mexican negotiators balked, but so great was their determination to sign the North American Free Trade Area (NAFTA) accord, that each time the Mexicans returned to the table and acceded to the latest US demand. Thereafter the US would point to the NAFTA as a model for other prospective trade accords.

#### The Free Trade Area of the Americas (FTAA)

Subsequent to the NAFTA and as the process of Western Hemisphere trade integration has unfolded, the key initiatives have come from Latin America (Feinberg 1997). Even prior to the NAFTA, it was the leaders of the Andean countries, at a mini-summit in Cartagena, Colombia, who first urged George Bush to consider a post-Cold War economic policy toward the region that yielded the Enterprise for the Americas Initiative (EAI), a forerunner of the FTAA. It was the Chileans who have pressed three successive US administrations (Bush 41, Clinton, Bush 43) for an FTA. It was Latin Americans who proposed to the Clinton White House that the US convene a post-NAFTA meeting of hemispheric leaders to diffuse the spirit of NAFTA southward, who insisted that the centerpiece of the subsequent 1994 Miami Summit be a free trade pact, and who cornered the United States into accepting a firm end date for negotiations (Feinberg 1997, 76).

The United States acceded to Latin American pressures only at the last moment, when the credibility of the Clinton summit hinged on the announcement of a certain date (Feinberg 1997, 77-78). Without the Miami Summit, region-wide free trade would probably have remained a vague aspiration, not a hemispheric consensus. More recently, in early 2002, it was Central America's turn to twist the US arm to open negotiations for a plurilateral FTA, as a building bloc toward Central America's final goal, the Free Trade Area of the Americas. In explaining the US decision, a senior USTR official said, “First of all, we were responding to continual expressions of interest by Central America” (USTR 2002), as most recently reaffirmed to Bush administration officials at the April 2001 Quebec Summit of the Americas. The USTR official added, “Secondly, following a recent cycle of elections, there are new governments in Central America particularly interested in reform and we want to enhance that.”

The Latin Americans have had good reasons to pursue hemispheric commercial integration (Feinberg 2002). As a consequence of the 1980s debt crisis, among other factors, Latin American economies have adopted a more outward-oriented growth strategy, and their own regional integration models have shifted from inward-looking and protective to forms that couple domestic liberalization with an opening to global markets (“open regionalism”). By enlarging their markets, Latin Americans have hoped to attract more international investment and, with it, technology transfer – as Latin America has increasingly turned away from viewing a North-South division of the world toward perceiving its future as tied to global capital and technology flows. Entering into an FTA with the United States would signal to investors a more stable policy climate and a warmer and more predictable business climate. And as Salinas expected, an FTAA with the world’s greatest capitalist democracy would help to lock in market-oriented macroeconomic reforms and focus national policy debates on the next stage of reforms required to achieve international competitiveness, including further market liberalization, effective regulation and competition policies and modern infrastructure in, for example, telecommunications, energy and transportation (Salazar-Xirinachs and Tavares de Araujo 1999).

Latin American trade strategists saw another specific advantage in an FTAA: the opportunity to gain the secure access to the world’s largest and most dynamic market that they had never really extracted from GATT negotiations (Tussie 1998).

#### US Interests in Western Hemisphere Regionalism

Historically, this Latin American push for hemispheric integration has not been entirely well received in the United States. Indeed, the US body politic has become sorely divided, as a “blue-green” coalition – labor unions, environmentalists and other critics of globalization – have joined with traditional industrial and agricultural protectionists to raise questions about North-South trade alliances, weakening US competitiveness in the face of low wages in developing countries, and alleged races to the bottom in social policy. These contentious views were first evident in the harsh NAFTA debates and then in the repeated inability of the Clinton administration to gain fast-track authority and to actively pursue the ambitious trade agenda it had set out in the beginning of its tenure.

The Bush administration’s team policy team is more homogeneous than the fractious Clinton administration, and after a difficult Congressional battle, won fast-track negotiating authority in 2002 (by the slimmest of margins in the House of Representatives), and is now seeking to complete the FTAA by the 2005 deadline. Those in the Clinton and Bush administrations in favor of pursuing the FTAA have had several motives:

- ✍ Latin America’s weight in US exports rose during the 1990s, from 17 percent in 1992 to nearly 21 percent in 1998. US direct investment in Latin America increased from \$71 billion in 1990 to \$172 billion in 1997, or 20 percent of US overseas holdings. For such market participants, an FTAA could lower tariff and

- other trade barriers, eliminate or reduce some bothersome regulations, and enhance predictability and transparency.
- ✍ According to one calculation, an FTAA could result in the doubling of US trade with Brazil in the short term alone (Schott and Hufbauer 1999; Hufbauer et al.1999). What's more, the density of merchandise trade flows within a country is estimated to be at least ten times greater than trade flows that cross international borders, holding constant the economic size and distance between the source and destination (Schott and Hufbauer 1999). Seen from this perspective, US-Brazilian trade – only \$25 billion in 1997 – is far below its potential.
  - ✍ An FTAA would level the playing field, or even gain preferential treatment, for US firms. In reaction to NAFTA, the European Union had signed an FTA with Mexico and now was seeking to negotiate an FTA with Brazil and Mercosur (Brazil, Argentina, Paraguay and Uruguay). Latin American nations were negotiating FTAs among themselves at a furious pace. For the US, an FTAA was at once an offensive and defensive measure.
  - ✍ Successive US administrations have recognized an interest in supporting the internationalized sectors in Latin American economies and polities. Many US policy makers have understood that free trade pacts could enhance the legitimacy and leverage of those sectors, help to lock in their macroeconomic reforms and accelerate further steps toward market liberalization.
  - ✍ The standard US rhetoric linking free markets and free societies takes on concrete form in Latin America, where democracies are struggling to gain hold. The overriding US policy goal in Latin America today is to help stabilize these fragile representative political institutions.
  - ✍ In return, the US expects that an integrated Western Hemisphere will generate positive externalities or spillover effects on a range of cross-border issues of common concern, from counterterrorism to counternarcotics, environmental protection to energy cooperation.
  - ✍ Regionalism can be a positive spur to global freer trade. As seen from a trade-bargaining perspective, regionalism can strengthen the hand of US negotiators engaged in other regional forums or WTO talks. The US also hoped to set precedents within the FTAA that it could then take, in coordination with its FTAA partners, to the Doha Round.

In sum, while the FTAA and various bilateral and plurilateral negotiations were initiatives pushed harder by Latin American nations than by a divided and often distracted United States, US diplomats and firms did perceive a plethora of advantages in hemispheric commercial integration, in the economic, political and foreign policy realms, advantages that were both instrumental and strategic in nature (Table 2). And recognizing the asymmetries in market power and interest salience, the US did not

hesitate to use its leverage to advance its broad trade policy agendas in the various FTA negotiations.

### APEC and ASEAN

Despite the vast differences between the two regions, a somewhat similar story can be told for US trade policy in the Asia Pacific. APEC was not a US initiative, the US was ambivalent toward the ambitious Bogor free trade goals, and the proposed bilateral and subregional trade deals (Singapore, ASEAN, Australia) were of more urgent interest to the Asian trading partners than to a reluctant United States, even as the US saw potential gains for US commercial and diplomatic interests.

APEC was an idea floated in 1989 by the Japanese and Australians, but once it got wind of the initiative the US feared being excluded from a new regional institution (Baker 1995, 609). The US perceived strategic, economic and hegemonic interests at stake: it wanted to participate in APEC to reaffirm its presence in Asia, to gain from any economic liberalization, and perhaps to preempt any Japanese bid for a separate leadership. If there was to be an Asian prosperity sphere, this time the US wanted to be on the inside.

The decision taken in 1994 by APEC to pursue free and open trade was not a foregone conclusion. The actual decision was heavily influenced by the recommendations of its appointed Eminent Persons Group (EPG). Led by a highly effective policy entrepreneur, C. Fred Bergsten (who had been appointed by the first Bush administration) the EPG issued strongly worded policy reports advocating free and open trade in the Asia Pacific. APEC was a forum in search of an agenda, and the EPG filled that vacuum and helped to coalesce opinion around a bold vision. Yet many APEC governments, and certainly some in the Clinton administration (among the Europeanists, trade globalists and those with strong ties to liberal Democrats and the trade unions), were hesitant to accept the EPG's very ambitious goals. However, the free trade targets were distant enough in the future (the years 2010, 2020) and the process was sufficiently couched in consensual and voluntary terms, such that governments relaxed their reservations.

Within the US government, one argument in favor of a bold vision for APEC was to spur the Europeans into making enough concessions to conclude the Uruguay Round. Through APEC – as through NAFTA - the US signaled to the Europeans that it harbored an alternative trade strategy should they block progress in the GATT/WTO. In their formative moments, APEC and Western Hemisphere integration positively reinforced each other in various strategic ways. Some Asian nations were alarmed by NAFTA and by its potential expansion into an FTAA, and saw APEC as a strategic response that could open markets and perhaps bargain with NAFTA/FTAA. APEC also kept the US looking toward Asia and promised enhanced access to the world's biggest single market. For its part, the Summit of the Americas and its FTAA offspring were directly inspired by APEC. The decision by APEC leaders at Bogor (November 1994) to realize their free trade vision by a date certain made possible the consensus among leaders at Miami (December 1994) to set a date certain for their own integration project.

But whereas the FTAA appears to be moving forward (albeit with difficulties), few observers now believe that APEC will reach its Bogor goals by the established deadlines. APEC's internal heterogeneity, its "concerted voluntarism," and its very weak institutionalization militate against rapid progress on trade liberalization (Feinberg 2000, APIAN 2002). Nevertheless, US officials assert that APEC continues to serve US interests in a number of ways. The many specialized APEC forums facilitate the sharing of best practices on a wide range of trade and investment-related issues (developing countries sometimes see these forums as channels for influencing industrial-country decisions, but the US views them as capacity-building mechanisms for diffusing US practices among Asia Pacific bureaucrats). APEC has also implemented a series of trade facilitation measures aimed at cutting costs in cross-border transactions. Post 9-11-01, APEC has accelerated the implementation of a series of anti-terrorism measures in trade-related areas such as customs, container shipping, air travel and seaports, and served as an annual opportunity for heads of state to confer in person on cooperative anti-terrorism strategies.

The US is not alone in being frustrated at slow progress in APEC (and the WTO) in trade and investment liberalization. A trading nation par excellence, Singapore pressed the US for a bilateral trade pact. For Singapore and Prime Minister Goh, a trade pact with the US would be part of a broader strategy of pursuing FTAs with its Pacific Rim trading partners, to assure that the island state retained its attraction as a hub for the regional operations of transnational firms. Seizing a leadership role, Goh also saw Singapore's FTAs as addressing such non-traditional trade issues as e-commerce, human resources development, regulation and investment, to spur domestic economic reform and to serve as a model for ASEAN liberalization (Lee 2003).

Initially, the Clinton administration deflected Singapore's overtures, but at Clinton's last APEC leader's meeting, and after the November 2002 presidential elections that left Clinton a lame duck, the Singaporean Prime Minister took advantage of the goodwill generated by a midnight golf game to extract a pledge from Clinton to open FTA talks. Again, while not a US initiative, the US saw advantages in cutting an early deal with Singapore, and the Bush administration quickly wrapped up the talks, once it had trade promotion authority in hand. From the US perspective, the negotiations were not difficult, as Singapore was already a very open economy and this island of 3 million people, however dynamic, posed little economic threat to the US mainland. The US could also use its overwhelming leverage to gain Singaporean ascent to certain precedents that could be advanced elsewhere. Precedents were claimed in financial services and capital-account openness, travel by business professionals, e-commerce and protection of intellectual property rights (USTR web page). As in the US-Chile FTA, new procedures were established for protecting labor rights and the environment. A US-Singapore accord might also serve as a catalyst to trade liberalization among other APEC members.

Indeed, other ASEAN nations, notably Thailand, promptly began to knock on USTR's door. In response to these inquiries, as well as to initiatives by China and Japan to

establish free trade pacts with ASEAN, in October 2002 the US offered to negotiate an “Enterprise for ASEAN Initiative (EAI)” that could serve as a framework for the negotiation of bilateral FTAs. According to USTR, “The EAI initiative will encourage both bilateral and regional liberalization, and help APEC reach the Bogor goals for achieving free and open trade and investment in the Asia Pacific region” (USTR Press Release, October 26, 2002). The USTR asserted that any future FTAs with ASEAN countries will be based on the high standards set in the U.S.-Singapore FTA. Thailand might be in the front of the line: it is aggressively pursuing FTAs with its major trading partners and might well meet US criteria (as formalized in 2).

At least since NAFTA negotiations began, some leading Australian politicians and business leaders had been angling for an FTA with the United States, even as other Australians preferred globalism or a more Asian focus, or questioned whether the US was really prepared to open its market to competitive Australian agricultural exports (Capling 2001, 184-190). By 2001 the Australian government had moved definitively in favor of an Australian – US bilateral FTA (AUSFTA). A report prepared for the Australian Department of Foreign Affairs and Trade explained overwhelming Australian interests in an AUSFTA with great clarity, noting the multi-dimensional motivations behind the Australian initiative intended “not only to improve access to the world’s largest consumer market, but also to secure the attention and gain the confidence of the world’s largest source of investment capital” (Australian APEC Study Center, Monash University 2001). From the Australian perspective, arguments in favor of the AUSFTA included:

- ✍ Expanded investment and trade linkages with the economy that will likely “remain very strong and will lead the world economy.” An AUSFTA would enhance Australia’s direct access to the world’s best practices in the Information Economy. A process of economic integration between the two nations can generate a “policy reform effect.”
- ✍ Conclusion of an FTA is seen by the US business community as an endorsement of the partner country’s long-term prospects as a good place to do business. “While the negotiation is under way, the FTA commands as much attention as a very highly priced investment promotion campaign.”
- ✍ An AUSFTA could encourage US firms to use Australia as a base of operations for the entire Asia Pacific region.
- ✍ In response to the FTAA, an AUSFTA would create a level playing field for Australian firms in the US market. In light of the US strategy of negotiating more FTAs with more of Australia’s competitors, the Monash report argues that an AUSFTA would constitute a “vital piece of trade negotiating insurance.” An AUSFTA would help to counter “the growing Latin influence in the United States through migration.”

✍ Such sub-regional agreements could spur liberalization in APEC and contribute to the achievement of the Bogor Goals.

✍ An AUSFTA would significantly strengthen the overall bilateral relationship with the United States. Australia has an interest in maintaining a strong US presence globally and within the Asia Pacific region. An FTA would “modernize and revitalize” the bilateral relationship, and would “reinforce public awareness in both countries, and particularly amongst younger generations,” of the relevance of the Australia-US relationship.

These are a compelling set of vital national interests. While some are interests shared by the US, the asymmetry of interests screams out. Few US citizens would even be aware of a trade accord with Australia, it is US economic practices that may influence Australian domestic reform, and it is Australia that wants to attract US investment. But the US finally acceded to the persistent Australian drive for a bilateral FTA for various reasons of its own. The US does want to reward Australia for its repeated foreign policy loyalty, and for its economic and political liberalism. Together with the FTA with Singapore and perhaps other ASEAN nations, an FTA with Australia might prod other Asia Pacific nations, and APEC as an institution, toward competitive liberalization. And US trade negotiators also have some specific issues, including treatment of genetically modified food imports and restrictions on foreign investment, to advance in the bilateral trade talks.

#### A Typology of US Political Economy Interests in FTAs

Even if other countries set the ball rolling, FTAs still serve various US interests. Table 2 looks at a number of frequently cited US international political economy interests in pursuing FTAs beyond the obvious market access goals. These interests include rewarding or further advancing local democratic institutions and processes of economic reform (columns 1 and 2); reaffirming and strengthening US security ties (column 3); establishing new precedents or models to use as benchmarks in future trade negotiations (column 4); and accelerating region-wide commercial liberalization by allying with a regional leader (5). Four and five are indicators of a “competitive liberalization” strategy.

Some FTAs arguably serve all five US interests. For example, the NAFTA rewarded and helped to lock in Mexico’s economic reforms, probably helped to accelerate its democratic transition, advanced a range of US security interests (the Pentagon now includes Mexico inside the Northern Command security perimeter), established a template for the FTAA, and is a critical building block for the promised regional trade accord. Other FTAs meet some but not all of the conditions. For example, some Asian (Singapore) and Middle Eastern (Jordan, Morocco) partners are not democracies, although it could be argued that these three countries are undergoing processes of gradual liberalization that an FTA might spur forward. Several countries are not regional leaders,

suggesting that the “competitive liberalization” strategy does not necessarily apply to all FTAs.

Because they encompass so many nations, the broader regional FTAs are harder to evaluate. Nevertheless, the Free Trade Area of the Americas does measure up well: it meets the democracy condition (it only includes democratically-elected governments and purposefully excludes Cuba); is construed as both a reward for most of the region having made progress in implementing the “Washington consensus” and as an inducement for further liberalization; and serves US security interests in potentially increasing cooperation on inter-American affairs. In APEC, however, the link to domestic reform is weaker: some APEC members are not democracies and others have a spotty record at economic reform. APEC serves US security interests as a forum for US engagement in Asia, and nowadays more specifically for the coordination of anti-terrorism measures. APEC has faltered with regard to acting as a leader in regional or global trade or in setting precedents, although APEC did add momentum to the Information Technology Agreement (ITA) negotiations.

All told, the FTAs that the US is pursuing do advance a number of important US interests, although to varying degrees of consistency and completeness. Across countries, the salience of any particular factor will vary case-by-case, and may change with time. All of the bilateral FTAs serve at least two US international political economy interests beyond the more tangible market access goals, and most serve at least three interests. In some cases, security interests have prevailed; preferential FTAs allow for political concerns in ways that the universalist rules of the GATT/WTO have sought to exclude.

In US choices, timing has mattered. At times, FTAs have been useful as part of a bargaining strategy designed to augment US leverage in global negotiations, as with the Canadian and Mexican accords. Decisions to initiate negotiations have sometimes been taken to fit into a sequence of regional talks, as when the US told eager Andean nations that they would have to wait the conclusion of negotiations with the Central Americans. At times, the pace of a nation’s domestic reforms has mattered.

While the US has been reactive to the proposals of its trading partners, it has not been indiscriminate. The US has deflected overtures from New Zealand, preferring to give preference to Australia, a more loyal ally on foreign policy. The US turned aside a Taiwanese request for an FTA, because such an accord would antagonize China and therefore not serve US security interests. The US has also declined a demarche by Uruguay, in order not to split Mercosur and antagonize Brazil. Moreover, New Zealand, Taiwan and Uruguay are not regional leaders. Trial balloons launched by Japanese have also been popped, as US commentators questioned whether Japan is ready for a comprehensive, WTO-consistent agreement that would include such sensitive sectors as agriculture. Similar concerns have deflated talk about a US-South Korean accord. When ASEAN broached the idea of an FTA, the US responded by offering to first negotiate a framework agreement, signaling that it would not accept a least-common-denominator approach to accommodate ASEAN laggards, rather it would maintain high standards in its FTAs.

### The Economic Scope of US FTAs

To date, the economic impact on the US economy of FTAs has been small. But the US has used FTAs to promote its comprehensive trade agenda, including the contentious social issues of labor rights and environmental protection. The US has resisted efforts to transform trade agreements into resource-transfer exercises, although it has contributed modestly to trade capacity-building programs.

The \$11 trillion US economy is immense and relatively closed. So far, the US has not attempted FTAs with its major commercial partners in Europe or East Asia (in this context treating APEC as an aspirational rather than an actual FTA). An FTA with Japan or the European Union would be immensely difficult to negotiate, might more directly threaten the WTO, and would raise major geo-political questions. In contrast, a number of the FTAs are with small, distant economies where US trade and investment flows are tiny in relation to total flows (Table 3). Canada and Mexico are important commercial partners, but even the NAFTA accord has barely made a dent in overall US macroeconomic performance (Hinojosa-Ojeda, Robinson and de Paolis 1999). When measured in proportion to US GDP, so far the FTA experiment has been marginal to the US economy. Quantitative studies typically find or predict small but positive gains to the US economy from the various FTAs, somewhat larger gains if long-term, dynamic effects are taken into account (Scollay and Gilbert 2001). This is not to conclude, however, that particular sectors and firms have not been significantly affected, positively or negatively. US exports to Mexico have exploded, bringing prosperity to many competitive US firms, just as some US growers of fruits and vegetables have suffered from Mexican competition. It is also worth noting that econometric models based upon the current structures of trading partners typically fail to capture the potential introduction of new products and services not yet in the pipeline or even in our imagination. FTAs are long-term, inter-generational, over-the-horizon propositions.

One reason that the actual and even potential impact of these FTAs on the US economy is small is that US barriers to trade and investment flows were already low in most sectors. Asymmetric reciprocity has characterized US FTAs: trading partners have had to make more “concessions” (in mercantilist terms) and remove more trade barriers and investment restrictions. Presumably, US leverage is also greater in bilateral or plurilateral negotiations than in larger forums where other major economic powers are present. It would be unfair, however, to accuse the US of advancing a hub-and-spoke trade strategy. The US is one of the chief proponents of the Doha Round, is a major proponent of the FTAA and remains active in APEC. The US is using the bilateral accords to spur forward these wider negotiations; in the Western Hemisphere, the accords with Chile and Central America are clearly building blocks toward the FTAA, and will place pressure on Brazil to engage actively in the final negotiations. Progress in APEC is being blocked not by the United States but by Japan and some of the ASEAN countries. Nor should it be forgotten that it has been the smaller nations, not the United States, that have initiated the FTA accords.

In FTA negotiations, the US has definitely used its leverage to set the agenda. The US has been a champion of comprehensive FTAs, going beyond industrial market access to include agriculture as well as a broad range of services, issues of investment protection, regulatory regimes and intellectual property, and e-commerce and digital piracy. The US has sought GATT/WTO – plus, and as noted above, has used FTAs as staging grounds for launching new trade or trade-related initiatives that the US will then try to market in other forums. But the US has deflected pressures to negotiate some issues that are domestically sensitive, such as anti-dumping regimes and agricultural subsidies, with the argument that market realities make these issues more suitable for the global Doha Round.

The US has also sought to incorporate its domestic social agenda – particularly labor rights and environmental protection – into FTAs. The Clinton administration forced the Mexicans to accept labor and environment “side agreements” linked to the NAFTA, and in 2002 Congressional Democrats inserted into trade promotion authority requirements that US trade negotiators address the domestic labor and environmental standards of its trading partners to avoid a “race to the bottom.” Zoellick has accepted this linkage politics. In a retreat from USTR purism, which had held that trade policy should be kept neat and separate from other issues, Zoellick agreed that trade cannot be quarantined from other variables in the international political economy. “We need to align the global trading system with our values,” he has said (2001b). Zoellick has proposed a “toolkit” of measures to advance labor and environmental objectives, consisting primarily of technical and financial assistance that can be extended to the relevant ministries in developing countries. More specifically, the Chile FTA requires signatories to enforce their own domestic labor and environmental standards and not to encourage trade or investment by weakening domestic laws (no race to the bottom). In the event that a dispute settlement panel finds non-compliance with labor laws, it could impose monetary fines not to exceed \$15 million annually, with the prevailing party having the option of imposing trade sanctions – suspension of FTA benefits – if the penalties are not paid. The US hopes that this formula, emphasizing the enforcement of domestic laws and preference for monetary penalties rather than trade sanctions, will serve as a benchmark for the FTAA.

The US has resisted the European Union model of linking trade accords with large-scale public resource transfers from richer to poorer countries and regions. The US has maintained that a comprehensive FTA will catalyze private investment flows and technology transfers, as the NAFTA has done. Certainly, the private flows to Mexico have been much larger than any imaginable contribution the US public sector might have made, in the current political climate. However, USAID does provide modest amounts of financial and technical resources for trade capacity-building, including support for the training of trade negotiators, assistance in implementing the reforms required by trade accords, and help in taking advantage of the trade opportunities offered by the new agreements. At the November 2002 FTAA ministerial in Quito, Ecuador, Zoellick pledged \$140 million toward a multilateral Hemispheric Cooperation Program (HCP) targeted at capacity-building for FTAA participants. In support of the Central America

Free Trade Agreement (CAFTA) negotiations, the President's 2003 budget includes \$47 million in such funds for Central America, a 74 percent increase over 2002.

### Conclusions

A unitary actor model cannot explain contemporary US trade policy. One should not talk of "US" policy toward FTAs as though the US body politic, or the US bureaucracy, or the US Congress, were unified in their perceptions of the national interest. While this may be obvious to students of US trade policy (Destler 1995), the pluralistic reality of US trade policymaking is often lost sight of in discussions among international relations specialists where unitary state models are still in use. Yet, only a pluralist model can explain the lack of unified vision, the swings between passive postures and active internationalism, the frequent policy incoherence and, most of all, the reactive nature of US trade policy. Savvy foreigners, recognizing the pluralistic and porous nature of the US "state," have learned how to penetrate the US decision making process and to persuade enough of the machinery to advance their interests, including when those interests have been to negotiate a bilateral or regional free trade accord.

Despite the vast differences between the two regions, US trade policy in East Asia and the Western Hemisphere bare striking similarities. Neither the FTAA nor APEC was a US initiative. Many in the US government and trade policy community were ambivalent toward such ambitious free trade goals. The proposed trade deals were of more urgent interest to the Asian and Latin American trading partners than to a reluctant United States, and a fractious US Congress delayed full US engagement while it withheld trade negotiating authority from the Executive Branch for six years during the 1990s.

Under the aggressive leadership of USTR Robert Zoellick, who enjoys the backing of a relatively more homogeneous, pro-free trade administration, and who succeeded in extracting trade negotiating authority from the Congress, the US now embraces FTAs and has elevated them into the center of US trade strategy. Should the Doha Round continue to falter, FTAs may become the central instrument in the arsenal of US trade negotiators. FTAs are now understood as advancing a wide variety of commercial and diplomatic interests, both tactical and strategic, that include bolstering local democratic institutions and processes of economic reform, strengthening US security ties, establishing new precedents to use as benchmarks in future trade negotiations, and accelerating region-wide commercial liberalization by allying with a regional leader. This range of interests appeals not only to USTR and the Commerce Department, but also to the US departments of State and Defense, as well as to the international offices in the departments of Labor and the Environmental Protection Agency. When such a broad-based coalition of bureaucratic interests gets behind a policy thrust, it is likely to endure.

As the FTA policy takes hold and becomes better understood, it may become more strategic. For example, if Brazil continues to balk in the FTAA negotiations, the US may well follow the CAFTA by entertaining an offer by Andean Pact nations to enter into FTA talks, as a way to place pressure on Brazil as well as to reinforce US friends in that

politically troubled region. If Doha and APEC fail to show progress, an FTA with South Korea might serve a variety of US political economy interests, and help to spur liberalization in APEC as well. Conclusion of the current negotiations for a Bilateral Investment Treaty (BIT) could pave the way for such talks.

Already the US is moving toward a policy of “sequential liberalization,” in which bilateral regionalism is a transitional tool to spur a broader regionalism (whether geographically concentrated or dispersed, Table 1). Thus, Chile and CAFTA spur the FTAA, and Singapore and an ASEAN framework agreement could spur APEC liberalization. There is now a logical ordering in the sequencing of trade pacts, as the US negotiates with economies already more open and liberal-minded (Chile, Singapore).

The US has also come to embrace FTAs because the asymmetries of market power and of policy salience enhance US bargaining leverage.

Bilateralism has opened the door to an explicit introduction of political criteria, in contradiction to GATT/WTO a-political universalism. The US sees FTAs as instruments for influencing the domestic political economy of states and for advancing US security interests. Where suitors have not fit such purposes, the US has deflected their entreaties.

To date, the economic impact on the US economy of FTAs has been small. But the US has used FTAs to promote its comprehensive trade agenda in a number of interesting ways that benefit a growing list of US firms and that could help to reconstitute a free-trade majority in the US Congress. It remains to be seen whether the innovative clauses in the US-Chile FTA regarding the contentious social issues of labor rights and environmental protection garner domestic support. It also remains to be seen whether the heightened willingness of the US to contribute to trade capacity-building programs evolves into a strategy that links more closely US trade policy to US bilateral and multilateral foreign assistance programs.

## **Tables**

Table 1. Modes of Governance in Trade: US Case

Table 2. The International Political Economy of US FTAs

Table 3. US Trade and Investment Interests in FTAs

**Table 1. Categorizing Modes of Governance in Trade: The US Case**

<b>ACTOR SCOPE</b>						
<b>TRADE LIBERAL- IZATION MEASURES</b>	<i>Unilateral</i>	<i>Bilateral</i>		<i>Minilateral</i>		<i>Multilateral</i>
		<i>GEOGRAPHICALLY CONCENTRATED</i>	<i>GEOGRAPHICALLY DISPERSED</i>	<i>GEOGRAPHICALLY CONCENTRATED</i>	<i>GEOGRAPHICALLY DISPERSED</i>	
	GSP, CBI, ATCA; also AGOA	NAFTA, US- CAFTA	FTAs with Chile, Singapore, Australia; also with Israel, Jordan, Morocco, SACU; Framework Accord with ASEAN	FTAA	APEC	GATT/WTO
<b>Unilateralism</b>	<b>Bilateral Regionalism</b>	<b>Bilateral Transregionalism</b>	<b>Regionalism</b>	<b>Transregionalism</b>	<b>Globalism</b>	

Source: Adapted from Aggarwal (2001), Table 6.1, p.238.

**Table 2. The International Political Economy of US FTAs**

<b>Country/Region</b>	<b>Democratic Regime (1)</b>	<b>Economic Reform (2)</b>	<b>Security Interests (3)</b>	<b>Trade Policy Precedents (4)</b>	<b>Regional Leader (5)</b>
Canada	Yes	Yes	Yes	Yes	No
Mexico	Transitional	Yes	Yes	Yes	Yes
Chile	Yes	Yes	No	Yes	Yes
Singapore	No	Yes	Yes	Yes	Yes
CenAm	Yes	Mixed	Yes	TBD	No
Australia	Yes	Yes	Yes	TBD	No
FTAA	Yes	Yes	Yes	TBD	NA
APEC	Mixed	Mixed	Yes	Yes	NA
Israel	Yes	Yes	Yes	No	No
Jordan	No	Mixed	Yes	Yes	No
SACU	Yes	Mixed	Yes	TBD	Yes
Morocco	No	Yes	Yes	TBD	No

1. Democratic political institutions in place or in progress at time of trade accord.
2. Significant market-oriented economic reforms in place or in progress at time of trade accord.
3. Long-standing US security interests.
4. Whether the trade accord established precedents, in such areas as services, investment, labor and the environment that the US could use as templates for future trade negotiations.
5. Whether the country carried weight, because of its prestige or economic size, in its region.

Notes: TBD = To Be Determined; NA = Not Applicable

**Table 3. US Exports to FTA Countries and Regions (2001)**

<i>Country/ Region</i>	<i>Value (US\$ Millions)</i>	<i>% Total US Exports</i>
Canada	163,724	22.40
Mexico	101,509	13.89
Singapore	17,692	2.42
Australia	10,945	1.50
Central America	10,530	1.44
Israel	7,482	1.02
SACU	3,273	0.45
Chile	3,131	0.43
Jordan	343	0.05
Morocco	286	0.04
APEC	442,696	60.57
FTAA	321,527	43.99

Source: International Monetary Fund (IMF), Department of Trade Statistics.

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