
LOOK WEST:

THE EVOLUTION OF U.S. TRADE POLICY TOWARD ASIA

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Agenda

- 1) CLASSIFYING TRADE ARRANGEMENTS
- 2) MULTIPRODUCT MULTILATERALISM: EARLY POST WORLD WAR II TRADE POLICY
- 3) LIBERAL PROTECTIONISM: COPING WITH PROTECTIONIST DEMANDS, MID-1950s TO EARLY 1980s
- 4) BUILDING BLOCS? REGIONALISM, MID-1980s TO MID-1990s
- 5) COMPETITIVE LIBERALIZATION, MID-1990s TO 2008
- 6) AN FTAAP AND CURRENT DYNAMICS

Categorizing Modes of Trade Arrangements

		ACTOR SCOPE						
		Unilateral	Bilateral		Minilateral			Multilateral
			<i>GEOGRAPHICALLY CONCENTRATED</i>	<i>GEOGRAPHICALLY DISPERSED</i>	<i>GEOGRAPHICALLY CONCENTRATED</i>	<i>GEOGRAPHICALLY DISPERSED</i>		
PRODUCT SCOPE	Few products <i>(sectoralism)</i> ----->	(1) UK Corn Laws (1815) Removal of Corn Laws (1846)	(3) U.S.-Canada auto agreement <i>(regionalism)</i>	(5) US-Japan VERs (1980s-1990s)	(7) European Coal and Steel Community <i>(regionalism)</i>	(9) Early Voluntary Sectoral Liberalization (EVSL)	(11) LTA and MFA, ITA, BTA, FSA	
	Many products	(2) UK 1860s Smoot Hawley	(4) Australia-New Zealand CER <i>(regionalism)</i>	(6) U.S.-Israel FTA (1985; US-Singapore FTA (2004)	(8) AFTA, NAFTA, EU <i>(regionalism)</i>	(10) APEC, ASEM, EU-Mercosur <i>(interregionalism & transregionalism)</i>	(12) GATT and WTO <i>(globalism)</i>	

U.S. Trade Policy: 1940s to mid 1950s

		<i>NUMBER OF PARTICIPANTS</i>					Multilateral
		Unilateral	Bilateral		Minilateral		
			<i>Geographically Concentrated</i>	<i>Geographically Dispersed</i>	<i>Geographically Concentrated</i>	<i>Geographically Dispersed</i>	
PRODUCT SCOPE	Few Products	(1)	(2)	(3)	(4)	(5)	(6)
	Many Products	(7)	(8)	(9)	(10)	(11)	(12) GATT (1947)

Multiproduct Multilateralism: Early Post WW Policy

- **Systemic**
 - **Cold War bipolarity demanded cooperation on economic and military fronts (San Francisco system)**
 - **As the hegemon, US desired free trade**
 - **Multilateralism was dominant - US initiated GATT rounds**

- **Domestic**
 - **Strong coalition for free trade**

- **Ideology and Leadership**
 - **US policy reflected beliefs in desirability of free trade (among non-communist countries) and multilateralism**

U.S. Trade Policy: 1950s to early 1980s

		NUMBER OF PARTICIPANTS					Multilateral
		Unilateral	Bilateral		Minilateral		
			<i>Geographically Concentrated</i>	<i>Geographically Dispersed</i>	<i>Geographically Concentrated</i>	<i>Geographically Dispersed</i>	
PRODUCT SCOPE	Few Products	(1)	(2) U.S.-Canada Auto Agreement (1965)	(3) U.S.-Japan, S. Korea, Taiwan, HK, EC VERs (1960s-1980s)	(4)	(5)	(6) Long Term Agreement on Cotton Textiles (1962) Multi-Fiber Arrangement (1974)
	Many Products	(7)	(8)	(9)	(10)	(11)	(12) GATT (1947)

Liberal Protectionism: 1950s to early 1980s

- **Systemic**

- Cold War bipolarity helps bolster free trade
- Multilateralism was dominant - US initiated all GATT rounds and worried about undermining the GATT (hence the LTA and MFA)

- **Domestic**

- Politically important economic sectors (automobiles, textiles) prompted the US to negotiate market-protecting agreements

- **Ideology and Leadership**

- “Embedded liberalism” – John Ruggie view
- Pragmatic limited protectionism

U.S. Trade Policy: Mid-1980s to Mid-1990s

		<i>NUMBER OF PARTICIPANTS</i>					
		Unilateral	Bilateral		Minilateral		Multilateral
			<i>Geographically Concentrated</i>	<i>Geographically Dispersed</i>	<i>Geographically Concentrated</i>	<i>Geographically Dispersed</i>	
PRODUCT SCOPE	Few Products	(1) Super 301 (1990s)	(2)	(3) U.S.-Japan VIEs & SII (1980s-1990s)	(4)	(5)	(6) MFA
	Many Products	(7) Generalized System of Preferences (1976, 2002) Caribbean Basin Initiative (1984, 2000)	(8) Canada-U.S. FTA (1989)	(9) Israel FTA (1985)	(10) NAFTA (1993)	(11) APEC (1989) EAI (1990), ongoing	(12) GATT/WTO (1947/1995)

Frustration with the Uruguay Round

“If possible we hope that this ... liberalization will occur in the Uruguay Round. If not, we might be willing to explore a market liberalizing club approach through minilateral arrangements or a series of bilateral agreements. While we associate a liberal trading system with multilateralism, bilateral or minilateral regimes may also help move the world toward a more open system.

James Baker, US Treasury Secretary, January 1988

Building Blocs? Mid-1980s to mid 1990s

- **Systemic**

- EU challenger to the US, followed by end of Cold War
- Decline in institutional nesting concerns? Uruguay round problems

- **Domestic**

- Growing partisanship in trade
- High tech sectors face challenge from Japan

- **Ideology and Leadership**

- Multilateralism challenged

U.S. Trade Policy: Mid-1990s to 2008

		<i>NUMBER OF PARTICIPANTS</i>					
		Unilateral	Bilateral		Minilateral		Multilateral
			<i>Geographically Concentrated</i>	<i>Geographically Dispersed</i>	<i>Geographically Concentrated</i>	<i>Geographically Dispersed</i>	
		(1)	(2)	(3)	(4)	(5)	(6)
PRODUCT SCOPE	Few Products	(1) Super 301 (1990s)	(2)	(3)	(4)	(5) EVSL (1997)	(6) ITA (1997) BTA (1998) FSA (1999) MFA (phased out 2005)
	Many Products	(7) Generalized System of Preferences (1976, 2002) Andean Trade Preference Act (1991, 2002) African Growth and Opportunity Act (2000) Caribbean Basin Initiative (1983, 2000)	(8) Canada-U.S. FTA (1989)	(9) Israel FTA (1985) Jordan FTA (2001) Chile FTA (2003) Singapore FTA (2003) Morocco FTA (2004) Australia FTA (2004) Bahrain FTA (2006) Oman FTA (2006) Peru TPA (2007) Colombia FTA (2006)* Panama FTA (2007)* Korea FTA (2007)* Malaysia FTA (N) Thailand FTA (N)	(10) NAFTA (1993)	(11) APEC (1989) Dominican Republic-Central America FTA (2005) Free Trade Area of the Americas (UN) South African Customs Union FTA (N)	(12) GATT/WTO (1947/1995)

Competitive Liberalization: Mid-1990s to 2008

- **Systemic**
 - Rise of new powers
 - Continued disputes between the EU and US
- **Domestic**
 - Continued partisanship in trade
 - NGO pressures with the problems in NAFTA
- **Ideology and Leadership**
 - Free trade questioned
 - Belief in bicycle theory of trade

Multilateral Open Sectoral Approaches

“... the global-round approach to trade talks, involving all WTO participants in a comprehensive agenda requiring bargains across several sectors, may have outlived its usefulness. Focused negotiations on trade issues in specific sectors among a smaller group of WTO members are a promising alternative.

Laura D'Andrea Tyson, “What Really Sabotaged the Seattle Trade Talks” Business Week, February 7, 2000.

Multilateral Open Sectoralism

The Information Technology Agreement, ITA (1996)

- computers
- telecommunications
- software
- semiconductors
- printed circuit boards

The Basic Agreement on Global Telecommunications BTA (1998)

- telephony and fax
- data transmission
- mobile satellite services
- paging
- mobile data services

The Financial Services Agreement FSA (1999)

- banking
- insurance
- securities
- asset management
- financial information

Multilateral Open Sectoral Liberalization

- **Advantages:**

- Agreements closely follow the preferences of domestic business interests
- Creates tangible gains for domestic industries when global or regional trade efforts stall

- **Disadvantages:**

- Open sectoralism buys off winners, reducing the possibility of future support for global negotiations
- Further tariff reductions in sectors with already low tariffs may worsen distortions

The Rise of Bilateralism

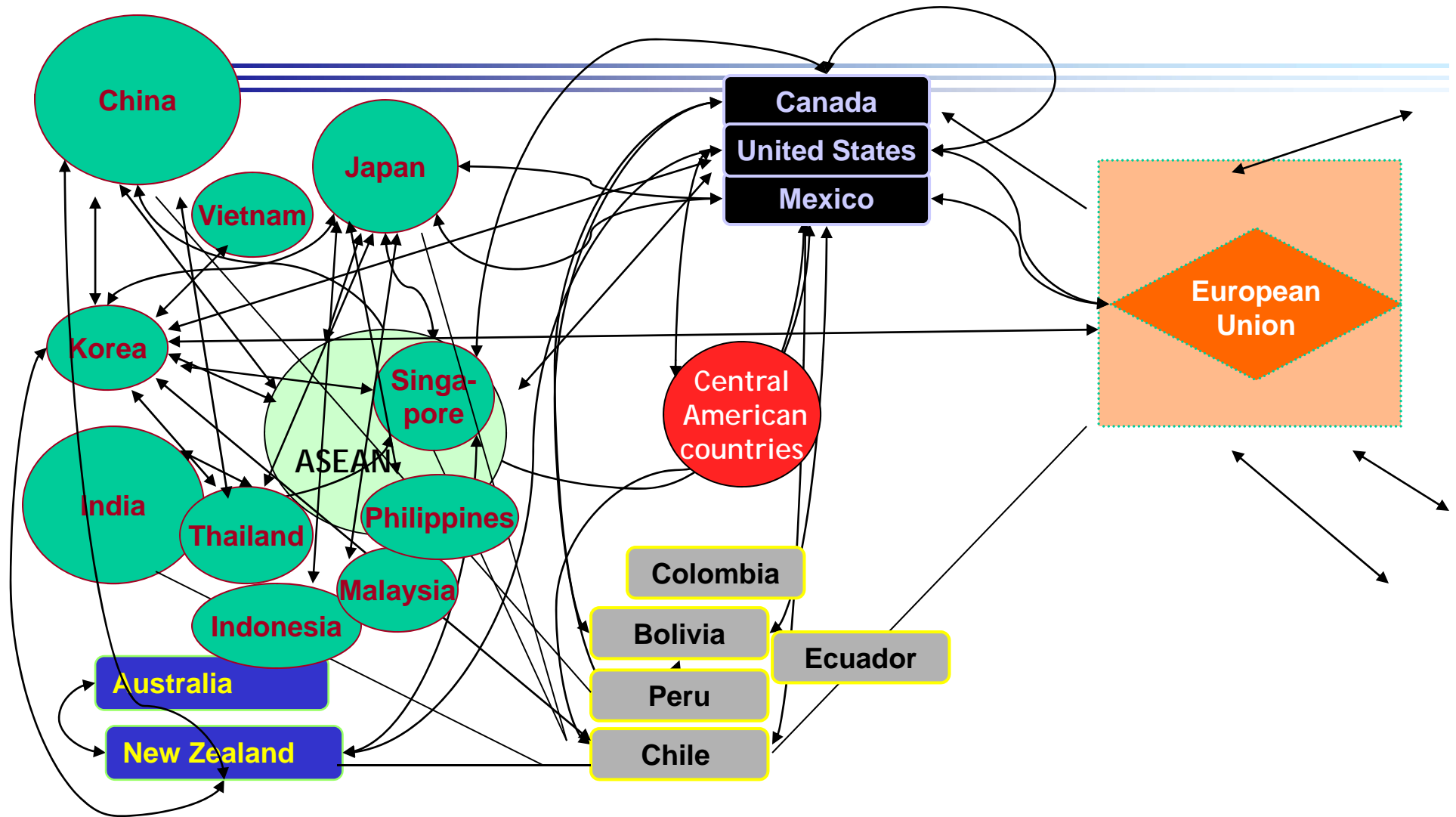
“Obviously, the best policy option is to build on the WTO framework...However, it may take regional and bilateral initiatives to jumpstart the WTO. Alternatively, we may have to undertake the regional and bilateral initiatives just to avoid discrimination by our more active trading partners.”

U.S. Business Roundtable, February 2001

... the US administration is using the concept of "competitive liberalization," working on global accords as well as individual agreements. By pursuing bilateral agreements, that puts pressure on other countries to do the same thing. I think they reinforce each other.

-C. Fred Bergsten, 2003

Bilateralism



Currently approaching 400 agreements

N.B.: Chart is only illustrative of trends, not all actual accords

Bilateral Agreements: Pros and Cons

- **Advantages:**
 - Easier to start negotiations
 - Can achieve political/economic objectives and payoff quickly
 - Respond to other states' bilaterals
- **Disadvantages:**
 - Significant trade and investment diversion
 - Patchwork of agreements complicates the challenge for firms, particularly SMEs
 - Pressure on smaller countries to make concessions

Who's Lobbying?

"...unlike the last global round of negotiations, when movie studios, drug companies, software makers, banks and manufacturers coalesced into a formidable free-trade lobby, the enthusiasm this time has been narrower...

The lack of business lobbying has been blamed in part by Peter Mandelson, the EU trade commissioner, for the turning of the Doha Round into what he called "the Ag-only round". He said that business had failed to provide "countervailing pressure" to protectionist agricultural lobbies."

December 12, 2005, [Financial Times](#)

What Next? A Free Trade Area of the Asia-Pacific?(FTAAP)

➤ Bergsten's Arguments for an FTAAP

- Will control PTAs
- Prevent development of East Asian exclusive agreements
- Mitigate U.S.-China conflict
- Bolster APEC
- Enhance prospects for Doha

➤ Aggarwal counterarguments: (ABAC/PECC study)

- Irony: Competitive liberalization generated PTAs; few incentives to stop proliferation
- East Asians see through this and are skeptical
- Domestic political non-starter to have free trade with China
- APEC is institutionally weak
- Undermine remaining hope for Doha

Pres. Obama's Trade Policy

(Based in part on USTR 2009 report)

- Trade policy is a relatively low priority at this point
- Commitment to the Doha Round but little movement likely as U.S. seems unwilling to make further concessions and concern about surge mechanism
- Lots of discussion about social accountability, the environment, and political transparency
- Redoing trade agreements
 - Panama: likely to be passed
 - KORUS and Colombia: Likely to be reworked; autos and beef the key in Korea case
 - NAFTA: unlikely that there will be major changes
 - P4-P8: Pressures to not proceed from various lobbies but these can be overcome

Take Aways

- Regionalism consists of a variety of different types of trading arrangements that may have very different implications
- An *open sectoral* approach may look tempting, but it may undermine the coalition for free trade
- Bilateralism is on the rise and poses dangers for the WTO and interregionalism
- An FTAAP at this point is a non-starter
- The rise of “murky protectionism”
- The P4 approach—now P8 seems more promising but opposition must be resisted