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The Political Economy of a Free Trade Area of the Asia Pacific: A U.S. Perspective

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INTRODUCTION

What are the prospects for a free trade area in the Asia-Pacific (FTAAP)? This paper addresses this question from the perspective of the political economy of U.S. trade policy and the current role of the Asia Pacific Economic Cooperation Forum (APEC). To preview my argument, although such an agreement may well be beneficial from a narrowly economic standpoint, the reality of U.S. trade politics, of relations between Northeast Asian economies, and of APEC's relative institutional weakness make it highly unlikely that an FTAAP will come to fruition in the short to medium term, regardless of whether the Doha Round of the World Trade Organization (WTO) is successful or not. Moreover, even the tactical use of an FTAAP to advance the WTO agenda is likely to backfire and simply further undermine prospects for successful completion of the Doha Round. Instead, I suggest that APEC should play an active role in monitoring the proliferation of bilateral trade agreements in the region and work to promote the multilateral trade agenda.

To briefly elaborate, the logic of my argument runs as follows. With respect to the current U.S. political economy of trade, two developments are of particular significance. First, the U.S. strategy of "competitive liberalization" in which it pursues bilateral and minilateral agreements, both sectorally and broadly, with the intent of stimulating the multilateral path of the WTO has fractured the domestic coalition for free trade.[1] Ironically, in their zeal to push forward the agenda of free trade—an agenda which I share—proponents of competitive liberalization have undermined the very movement to free trade that they so ardently advocate through a politically naïve

[1] For a discussion of the pros and cons of competitive liberalization, see Feketekuty 1998, Aggarwal and Lin 2002 and Bergsten 1996, 2002, among others.

understanding of trade politics. Creating piecemeal liberalization through open sectoral agreements such as the Information Technology Agreement (ITA) and bilateral trade agreements has undercut the coalition for free trade. By giving specific industries what they wanted, this policy has left protectionists in agriculture, steel, textiles, and others in control of the trade agenda. Thus, those who bemoan the proliferation of bilateral and regional initiatives and the lack of progress in the WTO fail to recognize the obvious unfortunate causality connecting these two approaches to trade. In my view, it is their very advocacy of a policy of competitive liberalization that has been a *key contributor* to the Doha Round's troubles.

Second, the continuing and increasing U.S. trade deficit with China has dramatically increased domestic protectionist pressure in the United States. Many industry groups and their political advocates have seized upon the gargantuan trade deficit—has been blamed by many on the rigidity of the yuan's exchange rate—to increasingly question the benefits of free trade for the U.S., particularly with countries specializing in low-cost exports. The threat of across-the-board tariffs of 27.5% on all Chinese imports highlights the seriousness of this issue. Although such a tariff is unlikely to pass, it has served as a rallying cry for an assortment of protectionist groups in the U.S. and allied groups who have linked security concerns, labor rights, human rights, religious freedom, and numerous other issues to trade. Together with the fractured domestic coalition for free trade that has been created by competitive liberalization, any free trade area (FTA) that involves China will effectively be dead on arrival in Congress for the foreseeable future.

For its part, APEC has failed to significantly move forward the trade liberalization agenda in the Asia-Pacific and is unlikely to do so with its current weak institutional structure. It has, however, continued to play an important and useful role in trade facilitation activities and with respect to other issues such as security and the environment, to name just a few. Using APEC as the key instrument to promote an FTAAP in the current context will lack credibility and will instead further fracture APEC's membership and undermine the useful roles it has been playing.

How might the logic of this pessimistic view on the prospects for an FTAAP be affected by possible success or failure of the Doha Round? If the Doha Round is successful, states will be busy implementing a complex agreement and the FTAAP would be low on everyone's agenda. If the Doha Round fails, the evidence suggests that U.S. industries are much more likely to push for bilateral trade agreements rather than an FTAAP. Asia and the EU are likely to reciprocate the United States' response, further fostering the proliferation of bilateral accords. Having set in motion a pernicious course of competitive liberalization, putting the genie back into the multilateral bottle will be a Herculean task. Here, APEC could play a useful role in attempting to monitor and reconcile such accords and possibly lead a movement to impose a moratorium and rollback of this disastrous trend. In short, regardless of the Doha Round's success or failure, I believe that an FTAAP is not politically viable at the moment from a U.S. perspective.

The remainder of the paper is organized as follows. Section I characterizes the many different types of trade agreements that might be negotiated, both in theory and in practice. Section II then considers the political problems that have been created through competitive liberalization. Specifically, based on the framework developed in Section I, it shows how U.S. policy has moved away from the previous strong commitment to multilateral multi-product trade liberalization as the central approach to bilateral and minilateral broad and sector specific accords. To examine the prospects of an FTAAP, Section III considers the likely domestic political dynamics of current U.S. trade policy, the importance of the U.S.-China trade deficit, and APEC's current role. In conclusion, Section IV examines the impact of these elements by considering FTAAP's prospects in the scenarios of both success and failure in the Doha Round, as well as positive roles that APEC might play.

I. VARIETIES OF TRADE GOVERNANCE

In the post-World War II period, states have utilized a host of measures to regulate trade flows. Yet in their examination of such accords, analysts have conflated different type of arrangements and used them synonymously. For example, the term "regional agreement" has been used to refer to widely disparate accords such as APEC, the Asia Europe Meeting (ASEM), the North American Free Trade Agreement (NAFTA), intraregional and extraregional bilateral free trade agreements, and even sectoral agreements such as the ITA.[2]

This conceptual ambiguity and under-differentiation of the dependent variable makes it more difficult to develop causal arguments to account for specific outcomes. To more clearly specify different types of trade arrangements, I focus on several dimensions: the number of participants involved in an agreement, product coverage, geographical

[2] See for example, Mansfield and Milner 1999, p. 592, who recognize the problematic nature of the term "regionalism" but then proceed to use this term in their analysis.

scope, market-opening or closing, and institutionalization. I define the number of participants in terms of unilateral, bilateral, minilateral, and multilateral participation in an agreement. I use the term bilateral to refer to two countries and minilateral to more than two.[3] In terms of product coverage, the range is from narrow (a few products) to broad (multiproduct) in scope. Geographical scope differentiates between arrangements that are concentrated geographically and those that bind states across great distances. A fourth dimension addresses whether these measures have been either market opening (liberalizing) or market closing (protectionist). Fifth and finally, one can also look at the degree of institutionalization or strength of agreements.[4] Table 1 summarizes a typology of trade agreements with illustrative examples based on these dimensions but omits discussion of the degree of institutionalization for presentation purposes.

Sectoral Unilateralism

Cell 1 focuses on unilateral sectoral market opening or closing measures, the classic example of is the British Corn Laws of 1815 and their subsequent removal in 1846.[5] Although some sectoral opening took place in the twentieth century, a variant of sectoral opening that is tied to bilateral bargaining took place in the late 1980s and 1990s. The United States used Super 301, a congressionally mandated trade policy instrument, to

[3] This usage differs from that of Yarbrough and Yarbrough 1992, which conflates third party enforcement with these terms so that "bilateral" for them can also mean three countries, a highly counterintuitive use. Keohane 1990 refers to an agreement among three or more states as multilateralism. Richardson 1987 is consistent with my usage.

[4] Of these, the dimension of geographical scope is the most controversial. It is worth noting that this category is quite subjective, since simple distance is hardly the only relevant factor in defining a "geographic region." Despite the interest that regionalism has attracted, the question of how to define a region remains highly contested. See the discussion by Mansfield and Milner 1999, Katzenstein 1997, and Aggarwal and Fogarty 2004, among others.

[5] See Schonhardt-Bailey 1996.

threaten closure of its market and force other countries to "unilaterally" open up their markets in specific products. This particular form of sectoralism sparked a heated scholarly debate. Jagdish Bhagwati and Hugh Patrick, for example, dub this unusual U.S. practice "aggressive unilateralism."[6]

Table 1: Classifying Varieties of Trade Governance[7]

<table>
<tr><th colspan="2" rowspan="3"></th><th colspan="6">NUMBER OF PARTICIPANTS</th></tr>
<tr><th rowspan="2">Unilateral</th><th colspan="2">Bilateral</th><th colspan="2">Minilateral</th><th rowspan="2">Multilateral</th></tr>
<tr><th>Geographically Concentrated</th><th>Geographically Dispersed</th><th>Geographically Concentrated</th><th>Geographically Dispersed</th></tr>
<tr><td rowspan="2">PRODUCT SCOPE</td><td>Few Products (Sectoral)</td><td>(1)
UK Corn Laws (1815)
UK Corn Law removal (1846)
Super 301 (1990s)</td><td>(2)
U.S.-Canada Auto Agreement (1965)</td><td>(3)
U.S.-Japan VERs and VIEs (1980s-1990s)</td><td>(4)
ECSC (1951)</td><td>(5)
EVSL (1997)</td><td>(6)
LTA (1962) & MFA (1974)
ITA (1997)
BTA (1998)
FSA (1999)</td></tr>
<tr><td>Many Products</td><td>(7)
UK (1860s)
Smoot Hawley (1930)</td><td>(8)
Canada-U.S. FTA (1989)
Japan-South Korean FTA (under negotiation)</td><td>(9)
U.S.-Israel FTA (1985)
U.S.-Singapore FTA (2004)
Japan-Mexico FTA (2004)</td><td>(10)
EC/EU (1958/1992)
ASEAN (1967)
Mercosur (1991)
NAFTA (1993)</td><td>(11)
APEC (1989)
AFTA (1991)
EU-Mercosur (under negotiation)</td><td>(12)
GATT /WTO (1947/1995)</td></tr>
</table>

Sectoral Bilateral Regionalism

In cell 2, we have sectoral agreements between a pair of countries that are geographically concentrated. From a market-opening perspective, this approach often reflects pressures from politically strong but narrow interests that are pursuing greater economies of scale.

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[6] Bhagwati and Patrick 1990. This is a somewhat different usage from my own focus on "unilateral" in the sense of removal of restraints by one county without an agreement. As with voluntary export restraints (VERs), the unilateral vs. bilateral aspect is often muddied by coercive actions.
[7] Adapted from Aggarwal 2001a.

The resulting arrangements tend to promote intra-industry trade.[8] The best example of this kind is the U.S.-Canada Automotive Products Trade Agreement of 1965. Prior to the 1988 Canada-U.S. Free Trade Agreement (CUSFTA), the Auto Agreement was the only major success in the long-standing effort to liberalize bilateral trade between the U.S. and Canada.

Sectoral Bilateral Transregionalism

Cell 3 refers to sectoral agreements between two countries that are geographically dispersed. Examples of this sort of protectionist agreement include VERs and potentially market-opening measures such as voluntary import expansions (VIEs), both of which have generally but not always crossed regions.[9] The word "voluntary" is obviously misleading as such agreements are often the result of coercive pressures. These sorts of agreements set off a lively debate about "mismanaged trade" and the notion of a "fair and level playing field."[10] More recently, a less coercive example of bilateral sectoral liberalization can be seen in the negotiations between the U.S. and EU over the streamlining of testing and approval procedures through the creation of Mutual Recognition Agreements in several sectors.[11]

Sectoral Minilateral Regionalism

In cell 4, we have sectoral agreements between three or more countries that are geographically close to each other. The best example is the European Coal and Steel

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[8] See Milner and Yoffie 1989.
[9] See Aggarwal, Keohane, and Yoffie 1987 on VERs and Bhagwati 1987 on VIEs.
[10] See Tyson 1992 and Irwin 1994.
[11] See Fogarty 2004.

Community (ECSC), created in 1951. Its main task was to integrate the postwar European coal and steel industry, but it also served as the foundation and stepping stone for the political and economic union of Europe. From the start, the ECSC faced criticism for its inconsistency with Article 24 of the General Agreement on Tariffs and Trade (GATT), which calls for liberalization on a multiproduct basis, rather than only for a few products. Although challenged as being inconsistent with the GATT by Czechoslovakia, the ECSC members managed to obtain a GATT waiver of obligation.[12] After the ECSC evolved into the European Economic Community, the issue of sector-specific accords became moot.

Sectoral Minilateral Transregionalism

Cell 5 provides an example of geographically dispersed sectoral transregionalism. One example is the case of the Early Voluntary Sectoral Liberalization (EVSL) under the auspices of APEC. In Vancouver in 1997, ministers agreed to consider nine sectors as a package for fast track liberalization. The United States sought such a sector-specific package deal to discourage countries from picking and choosing sectors based on domestic concerns. This strategy initially appeared viable but quickly ran into difficulties as Japan and several other countries particularly objected to the liberalization of agriculture, forestry, and fishery products in the context of the East Asian financial crisis. In the end, the package was sent to the WTO rather than being considered for liberalization at the APEC level.

[12] Curzon 1966, pp. 266-268.

Sectoral Multilateralism

Cell 6 provides an example of multilateral sectoral accords. This category includes market-opening measures such as the ITA, the Basic Telecom Agreement (BTA), and the Financial Service Agreement (FSA) as well as market-closing measures such as the Long Term Arrangement on Cotton Textiles and the Multfiber Arrangement, the latter expanding managed trade beyond cotton products. The emergence of these types of agreements is a particularly important development. Laura Tyson, for example, has argued that among multilateral trade options, this sectoral approach is a sound alternative to the multi-sector WTO approach.[13] As we shall see below, however, such accords may actually retard progress in trade liberalization by undermining the coalition for free trade and may also lead to economic distortions.

Multiproduct Unilateralism

We turn next to broader multiproduct liberalization and protection. Cell 7 focuses on unilateralism, the most significant example being nineteenth-century Britain. Unilateral liberalization was feasible for Britain thanks to its industrial strength, its limited investment in transaction-specific assets for trade, and its quasi-monopsony power in raw material and export markets—which contrasted with other countries' limited alternatives to importing British manufactured goods.[14] Contemporary examples include unilateral liberalization measures taken by Australia, New Zealand, Chile, Hong Kong, and Singapore. The most important market-closing measures in took place in the U.S. with

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[13] Tyson 2000.

[14] Yarbrough and Yarbrough 1992. McKeown 1983 makes a strong case that Britain did not exhibit hegemonic power in the move to liberalization in the nineteenth century but rather chose to liberalize on its own.

the Smoot-Hawley Tariff of 1930 that set a cycle of trade protectionism in motion and aggravated the depression.

Multiproduct Bilateral Regionalism

Bilateral arrangements of both a regional and transregional actor scope have rapidly proliferated over the last few years. Cell 8 refers to bilateral trade agreements covering multiple products between a pair of adjacent countries, such as the CUSFTA of 1988 and Japan-South Korea preferential trade agreement (PTA) (under negotiation). More often than not, such agreements draw upon not only geographic, historic, and cultural affinities but also complementarities in economic structure. In order to reduce the costs related to geographic distance and to maximize the benefits from economic size, analysts argue that neighboring countries will often form preferential trade agreements (PTAs) with one another, creating a natural trading bloc.

Multiproduct Bilateral Transregionalism

In cell 9, we have cases of geographically dispersed bilateral agreements covering multiple products. Examples include PTAs between the United States and Israel (1985), Mexico and Israel (2000), the United States and Jordan (2001), Japan and Singapore (2001), South Korea and Chile (2002), the United States and Singapore (2004), and Japan and Mexico (2004). Some of these bilateral PTAs—for example, the U.S-Israel agreement and U.S.-Jordan one—have been clearly motivated primarily by political-strategic rather than economic reasons.[15] Some such as the PTAs between Japan and Singapore and South Korea and Chile—are largely designed for the purpose of "training"

[15] Aggarwal and Urata 2006.

or "capacity-building" for broader and deeper trade liberalization. More recently, this training and capacity-building objective has been widely sought in East Asia as many in the region have begun to seek PTAs with little prior experience in their formation.[16]

Multiproduct Minilateral Regionalism

Cell 10 focuses on geographically concentrated minilateral agreements. For the past decades, these types of accords have attracted the most scholarly attention, commensurate with the rise of regional trading arrangements since the 1960s. Conventional explanations for the move toward minilateral regionalism have focused on both economic and political-strategic motivations. Some economic arguments include: enlarging economies of scale without excessive global competition; increasing the attractiveness of an economy to foreign capital; and creating natural trading blocs according to geographic proximity.[17] Political-strategic economic reasons include signaling or strengthening one's bargaining position in relation to more powerful partners; responding to the erosion of U.S. support for multilateralism; locking in a domestic reform agenda; a domino effect; limiting free rider problems; reducing transaction costs between negotiating parties; and lowering the political salience of negotiations.[18] There has also been a significant amount of work examining regional variations in terms of the nature, strength, depth, and scope of minilateral arrangements. These works usually compare European or North American "success" with Asian or Latin American "failure," focusing on historical, cultural, politico-institutional differences within and between different

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[16] Koo 2006.

[17] On economies of scale, see Milner 1997; on foreign capital, see Lawrence 1996; and on natural trading blocs, Frankel 1997.

[18] See respectively Milward 1992; Gilpin 1987 and Krasner 1976; Haggard 1997; Oye 1992 and Baldwin 1997; and Yarbrough and Yarbrough 1992 among others.

geographical groupings.[19] It is worth noting that all of these explanations, which have seemingly focused on "regionalism," fall in fact into several cells of my typology, namely 2, 4, and 8—and, to some extent, cell 11 as well, indicating the conceptual ambiguity and under-differentiation inherent in the existing literature on regionalism.

Multiproduct Minilateral Interregionalism

Another important recent development in trade arrangements concerns links that span countries across continents, as noted in Cell 11. Many analysts lump their examination of "minilateral regional" accords such as NAFTA and the EU with those of "minilateral interregional" arrangements such as the EU's efforts to link up with Mercosur, although the causal factors behind minilateral interregionalism are often quite different from those driving minilateral regionalism.

The term "interregionalism" can itself be broken down into more specific types, based on the prevalence of PTAs and/or customs unions as constitutive units within interregional agreements. In work with Edward Fogarty, I refer to an agreement as "purely interregional" if it formally links free trade areas or customs unions, as in the case of EU-Mercosur.[20] If a customs union negotiates with countries in different regions, but not with a customs union or free trade agreement, we refer to this as "hybrid interregionalism" (e.g., the Lomé Agreement). Finally, if an accord links countries across two regions where *neither* of the two negotiates as a grouping, then we refer to this as "transregionalism" (e.g., APEC). These sub-categories of interregionalism suggest the

[19] See Haggard 1997 and Katzenstein 1997.
[20] Aggarwal and Fogarty 2004.

importance of taking into account the diverse driving forces and effects of interregionalism—as opposed to more "garden-variety" regional arrangements.

Multiproduct Multilateralism

Finally, cell 12 refers to the case of global, multiproduct trading arrangements such as the GATT and its successor organization, the WTO. Neoclassical trade theory argues that unilateral trade liberalization is the best means by which to promote overall economic welfare. Though theoretically solid, this option is often not politically feasible. As a second-best option, therefore, economists have preferred multilateral trade strategies to sub-multilateral, preferential approaches. Though highly successful throughout the postwar period, multilateral trade forums at the global level have increasingly encountered difficulties in hammering out new terms of trade liberalization. This, in turn, has fueled interest in preferential arrangements at the sub-multilateral level.

II. THE EVOLUTION OF U.S. TRADE POLICY

What trends have we seen in U.S. trade policy strategy in the post-WWII period? As we shall see, the decisive shift in the types of trade arrangements from multiproduct multilateral negotiations to a variety of other forms came in the mid to late 1980s in the midst of the Uruguay Round negotiations. This analysis and categorization of the evolving landscape of U.S. trade policy based on Table 1 helps to provide the necessary background to understand the current political economy of U.S. trade policy and its implications for attempting to create an FTAAP, a topic we take up in Section III.

Multiproduct Multilateralism: U.S. Trade Policy from the Post-World War II Period to the Early 1980s[21]

With a dominant military force, a large market, enormous productive capacity, and a strong currency and financial system, the U.S. was well positioned to assume global responsibility at the end of the Second World War. It acted as military leader of the Western alliance, served as the world's central banker, and provided the major impetus for international trade liberalization. As a result, the 1950s and 1960s were marked by unprecedented economic growth and development. In particular, the nested context of the international trading system within the overall security system gave the U.S. executive leverage to resist domestically oriented protectionist groups. The president could resist both congressional and interest group pressures by raising the specter of the Soviet and Chinese communist threat to U.S. interests, thereby allowing it to advance Cold War concerns over narrow parochial interests and foster free trade.[22] During this period, the U.S. maintained a coherent approach to the trading system — founded on its interest in promoting multilateralism — and ensured that its trading partners grew to buttress the Western alliance against Soviet encroachment.

The proposed post-WWII trade and monetary systems—consisting of the Bretton Woods regime and the International Trade Organization—were cast at a global level and depended on U.S. hegemonic resources and leadership. In addition, with Western Europe and Japan ravaged by the war, the Cold War context further reinforced the U.S. desire for rebuilding these economies. But despite this positive security context, a coalition of protectionists and free traders in the United States, each of whom thought that the

[21] This subsection draws heavily on Aggarwal and Lin 2002, which focuses on the pitfalls of what we term "opportunistic liberalization" and where we characterize U.S. trade policy as being recently characterized as strategy without vision. See also the excellent concise discussion of historical trends in U.S. trade policy in Bergsten 2002. The classic account remains Destler 2005.

[22] See Aggarwal 1985 for a discussion of the nesting of economic issues with a security context.

International Trade Organization (ITO) was an excessive compromise, prevented the ITO from securing Congressional approval and thus led to its death.[23]

Still, the U.S. executive branch did not simply give up. With the ITO moribund, the U.S. promoted a temporary implementing treaty, the GATT, as the key institution to manage trade on a multilateral basis in 1948. As a trade 'institution', the GATT got off to a difficult start, representing a stopgap agreement among 'contracting parties'—rather than a true international institution. Originally brokered in parallel with ITO negotiations, the 23 GATT members negotiated a series of tariff concessions and free trade principles designed to prevent the introduction of trade barriers. Unlike the ITO, GATT negotiations were successfully concluded and signed in Geneva in October 1947. Under the agreement, over 45,000 binding tariff concessions were covered, constituting close to $10 billion in trade among the participating countries.

As the sole interim framework for regulating and liberalizing world trade, the GATT turned out to be highly successful at overseeing international trade in goods and progressively reducing trade barriers.[24] The Kennedy Round of 1962-67 proved to be the most dramatic facilitator of trade liberalization. GATT membership increased to 62 countries responsible for over 75% of world trade at the time. New tariff concessions reached over 50% on many products as negotiations expanded from a product-by-product approach to an industry/sector-wide method, while overall tariff reductions were 35%.[25] The Tokyo Round of 1973-79 led

[23] Diebold 1952.

[24] While the Annecy Round of 1949 resulted in 5,000 more tariff concessions and the entry of ten new GATT members, the Torquay Round of 1951 led to an overall reduction of close to 25% and the inclusion of four new contracting parties. The 1956 Geneva Round that followed resulted in further agreement of tariff reductions worth approximately $2.5 billion. Under the terms of the Dillon Round of 1960-61, for the first time, a single schedule of concessions was agreed for the recently established European Economic Community, based on the Common External Tariff. Also, tariff concessions worth over $4.9 billion in trade were also negotiated. In total, tariff reductions for the first five rounds amounted to 73%. Economic Report of the President (1995), p. 205.

[25] Economic Report of the President (1995), p. 205.

to a record 99 countries agreeing to further tariff reductions worth over $300 billion of trade and an average reduction in manufacturing tariffs from 7% to 4.7%. In addition, agreements were reached on technical barriers to trade, subsidies and countervailing measures, import licensing procedures, government procurement, customs valuation and a revised anti-dumping code.

This period is often dubbed the "golden age" of trade liberalization, witnessing a dramatic reduction of border barriers. But while this golden age of globalism was marked by significant coherence, it is worth noting that the 1950s were already marred by exceptions to a multilateral multiproduct approach to negotiations. Indeed, sectoralism emerged in textiles and in oil trade as early as the mid-1950s, while temporary VERs in textiles and apparel evolved into the increasingly protectionist multilateral MFA over a period of 40 years.[26]

Yet however repugnant the development of sector-specific arrangements, the U.S. executive maintained a focus on free trade. For President Kennedy, textiles and apparel protection was simply the necessary price to pay for the broader objective of what came to be known as the Kennedy Round of GATT negotiations. Most crucially, despite deviating from the norms of the GATT in some respects, the Long Term Arrangement on Cotton Textiles and the MFA were carefully nested in the GATT, and indeed the implementation and enforcement structure were housed in Geneva.

In the context of the negotiation of GATT rounds, the U.S. executive continued to face protectionist pressure from specific industries and was repeatedly forced to accommodate them. Soon after the Kennedy Round was concluded, the steel industry managed to secure voluntary export restraints to limit steel imports from Japan and the

[26] For an analysis of the creation and evolution of the textile regime, see Aggarwal 1985.

EEC in 1969.[27] These VERs were dropped in 1974, but since then various new accords to limit steel imports have repeatedly been imposed and dropped. In footwear, orderly marketing arrangements were negotiated with Taiwan and South Korea in 1977, but these were dropped in 1981 and have not been reimposed. Similarly, OMAs restricting televisions from Japan, Korea and Taiwan came into effect from 1977 to 1979, but were then dropped from 1980 to 1982. In autos, President Reagan negotiated a VER with the Japanese in 1981, but by 1985, these had also been dropped.

The most important issue to keep in mind when thinking about the implications of sector-specific arrangements is their purpose. For example, as in the case of sectoral arrangements in textiles and apparel, President Kennedy removed opposition by an industry that viewed itself as *losing* from freer trade. By appeasing this potent opponent, Kennedy was able to strengthen the coalition for free trade. Similarly, other agreements as in televisions, footwear, and autos have come into being for similar reasons, but in the case of those industries, were relatively temporary and have not been reimposed. By contrast, as I argue below, competitive liberalization has had the opposite effect, instead *weakening* the pro-free trade coalition. Thus, we must be careful in assessing the pros and cons of sectoral initiatives.

A second key deviation from the multilateral process was the development of regional accords. But the most significant of these—the European Coal and Steel Community, which evolved into the European Economic Community (EEC) and now the EU—were backed by the U.S. with overall security concerns in mind. Indeed, as we have seen, when some criticized this accord as being inconsistent with GATT Article 24,

[27] See Aggarwal, Keohane, and Yoffie 1987, which models the factors that explain why different industries have been able to secure protection of varying length.

the U.S. supported a waiver for the ECSC in the GATT. For its part, however, the U.S. refused to engage in the negotiation of regional trading accords and persisted with its multilateral multiproduct approach, albeit with occasional deviations on a sectoral basis as I have noted.

Table 2 illustrates the various trade agreements of which the U.S. was a part during the period of the 1950s to the early 1980s.

Table 2: U.S. Trade Policy: 1940s to early 1980s

		NUMBER OF PARTICIPANTS					
		Unilateral	**Bilateral**		**Minilateral**		**Multilateral**
			Geographically Concentrated	*Geographically Dispersed*	*Geographically Concentrated*	*Geographically Dispersed*	
PRODUCT SCOPE	**Few Products**	(1)	(2) U.S.-Canada Auto Agreement (1965)	(3) U.S.-Japan, S. Korea, Taiwan, 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)

As noted, the dominant U.S. approach during this period was clearly a GATT-based multilateral multiproduct approach, with occasional highly focused deviations. Aside from the sectoral protectionist arrangements, the only other accord of any significance was the U.S.-Canada auto agreement. This agreement, tied to the co-production arrangements across the border, received a formal GATT waiver of obligation.

But in the early 1980s, following the Tokyo Round, change in the traditional approach was clearly in the air. The U.S. began to fear that European interest was now focused on widening and deepening of its regional integration efforts. With respect to the GATT, the 1982 effort to start a new round proved to be a failure, as most countries criticized the U.S. for attempting to included services and other new issues on the agenda. With problems in the GATT, in 1984, following the failed 1982 GATT Ministerial meeting, the U.S. Trade and Tariff Act authorized the administration to actively negotiate bilateral free trade agreements. Soon thereafter, the U.S. negotiated the Caribbean Basis Initiative (1983) and the U.S.-Israel free trade (1985) agreement, made overtures to ASEAN, and undertook sectoral discussions with Canada in 1984 (which ended in failure). But the direction was now clear: the U.S. now was willing to shift its own strategy away from pure multilateralism.

Trade Policy after the mid-1980s: One Step Forward, Two Steps Backward[28]

After considerable discussion, particularly over the inclusion of services, the GATT Uruguay Round got underway in 1986. Yet the U.S. kept up the pressure of using alternatives to the GATT to put pressure on other states in the ongoing negotiations. The signal was clear. Treasury Secretary James Baker warned in 1988:

> 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.[29]

A high level of contentiousness continuously threatened the conclusion of the round. In part, this reflects the changing balance of power among more actors in the system, the

[28] Adapted from Bergsten 2002's "One Step Backward, Two Steps Forward" subtitle.
[29] *Toronto Star*, January 6, 1988.

dissolution of the liberal consensus and inclusion of diverse interests, and the unwillingness of the U.S. to continue to be the lender and market of last resort. The era of détente and the subsequent end of the Cold War further weakened the security argument for continuing economic concessions in broad-based trade negotiations.

After considerable delay, the Uruguay Round came to a conclusion in 1993. But the U.S. was no longer solely committed to the multilateral route, as illustrated by its policy shift beginning in the mid-1980s. On a multiproduct basis, the U.S. created its first bilateral agreement with Israel in 1985, and a year earlier had created a preferential trading agreement for the Caribbean countries. But these rather minor deviations were superseded by the very significant 1987 free trade area with Canada, the United States' founding membership in APEC in 1989, the initiation of negotiations with Mexico that led to the 1993 NAFTA agreement, and ongoing negotiations for a Free Trade Area of the Americas.

On a sectoral basis, while continuing to be part of the protectionist Multifiber Arrangement, the U.S. moved to a new tack with the conclusion of "open sectoral" multilateral agreements in information technology, telecommunications, and financial services from 1996 to 1998. It is worth examining the implications of these open sectoral agreements at length. Laura Tyson, for example, has argued that among multilateral trade options, this sectoral approach is a sound alternative to the multi-sector WTO approach. In her words,

> ... 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. Such negotiations have produced significant agreements in information technology, telecommunications, and financial services.[30]

Yet as I have argued elsewhere, open sectoralism can be politically hazardous.[31] From a political perspective, sectoral market opening is likely to *reduce* political support for multilateral, multisector negotiations. Because sectoral agenda setting involves a limited and easily polarized set of domestic interests, the margin for coalition building and political give-and-take is much slimmer. Moreover, industries that have succeeded in securing sectoral liberalization may pose a threat to a global liberalization agenda. These groups will see little reason to risk their existing benefits by supporting their relocation in the WTO-centered multilateral, multiproduct regime. By giving highly motivated liberal-minded interests what they wanted in their specific sector, this approach contrasts sharply with the longstanding successful policy that we have seen of giving often-temporary relief to strong protectionist interests to remove their opposition to broader liberalization. Thus, while such open sectoral liberalization seems attractive from an economic standpoint, it may actually be one step forward and two steps backward when it comes to securing freer trade.

What about the trend in U.S. policy over the last few years? President Clinton failed to obtain fast track authority during his tenure in the 1990s. Business groups continued to worry that the EU was moving forward in the negotiation of trade accords, particularly with eastward expansion. In 2001, the Business Roundtable argued:

> 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

[30] Tyson 2000.
[31] This paragraph draws heavily on Aggarwal 2001b and Aggarwal and Ravenhill 2001.

> and bilateral initiatives just to avoid discrimination by our more active trading partners.[32]

Echoing this view, USTR Robert Zoellick argued that:

> America's absence from the proliferation of trade accords hurts our exporters…If other countries go ahead with free trade agreements and the United States does not, we must blame ourselves. We have to get back in the game and take the lead.[33]

Once President Bush obtained fast track authority (now known as trade promotion authority), the U.S. proceeded to negotiate a large number of bilateral trade agreements (see Table 3 below), often for strategic reasons with little economic rationale or direct trade benefit. Indeed until the recent initiation of negotiations with South Korea, the total export coverage of all the agreements to this point, excluding NAFTA, was little more than 10%.

What are the international implications of the pursuit of bilateral trade agreements? This so-called competitive liberalization strategy has created an important negative dynamic. As John Ravenhill notes, at the end of 2001, of 144 WTO members, only China, Hong Kong, Japan, South Korea, Mongolia, and Taiwan, had not signed a preferential trading agreement.[34] This quickly changed with these members imitating the U.S. strategy of negotiating bilateral accords, and in doing so contributing to the heavily criticized "noodle bowl" in Asia.[35] As was recently reported, "What makes [Japan's] government eager to rush to sign FTAs is the rapid progress elsewhere . . . centered on the U.S.""[36]

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[32] Business Roundtable 2001.
[33] Office of the USTR 2001, 4.
[34] 2003, p. 2.
[35] See Aggarwal and Urata 2006 on the proliferation of bilateral trade agreements in the Asia-Pacific.
[36] Quoting the Tokyo Shimbun, Bernard Gordon, "The FTA Fetish," *Wall Street Journal*, 17 November 2005.

And with the Asians and U.S. now actively moving forward, we have now come full circle, with the EU now beginning to worry that *it* has been left behind in the bilateral game. In a recent paper, Peter Mandelson, the European Trade Commissioner noted in July 2006 that the EU needed to ink bilateral deals to increase its competitiveness with Asia and the U.S. As the *Financial Times* noted:

> European business has argued that the EU's reluctance to be seen as undermining the World Trade Organization by negotiating bilateral deals has seen it overtaken by competitors such as the U.S. and Japan that are not shy.[37]

In short, the competitive liberal approach has not led to success in the pursuit of broad scale trade liberalization. Instead, bilateralism has simply fostered more widespread bilateralism.

To summarize U.S policy after the mid-1980s, Table 3 provides a snapshot of the variety of agreements that the U.S. is now pursuing, and provides a sharp contrast with the agreements that the U.S. pursued until the early 1980s.

III. The Political Economy of the FTAAP: Current U.S. Dynamics

With the sharp trend in U.S. policy toward competitive liberalization, and rapid proliferation of bilateral trade agreements in the Asia-Pacific more generally, might an FTAAP be an optimal trade arrangement and reinvigorate APEC? Unfortunately, my analysis suggests that the answer to this question is a resounding "No". Three key factors underlie this pessimism. First, any U.S. domestic political coalition that might support such a move has been undermined by bilateral and sectoral agreements, and these groups have begun to prefer a bilateral route. Second, the U.S. trade deficit poses a significant

[37] *Financial Times*, July 10, 2006, p. 9.

obstacle to any participation of China in an PTA, whether bilaterally or as part of a broader Asia-Pacific accord. And third, APEC is insufficiently institutionalized to play a role that could foster such an accord. Worse, APEC's current benefits, however limited, are likely to be further undermined by any such effort. Moreover, these arguments apply, irrespective of whether a Doha Round agreement is signed in the near future or not.

The Missing Political Coalition for an FTAAP

With the U.S. pursuing competitive liberalization, particularly along a bilateral route, the coalition for free trade has begun to fray, making it very unlikely that the U.S. executive will be able to generate support for an FTAAP and secure passage of an implementing bill in Congress.

With respect to general domestic implications of bilateral accords, a number of analysts see the political implications of bilateral agreements along the lines of the problems identified with open sectoralism. As Ravenhill notes:

> By providing a means to achieve liberalization without political pain, the new bilateralism encourages protectionist interests and has the potential to weaken domestic pro-liberalization coalitions and especially demand for multilateral liberalization. From the perspective of comprehensive global trade liberalization, such effects are unambiguously bad.[38]

Turning to the U.S. specifically, and consistent with my argument about the limited benefit of most U.S. PTAs, Richard Feinberg argues that "Bilateralism has opened the door to an explicit introduction of political criteria, in contradiction to GATT/WTO apolitical universalism." [39]

[38] Ravenhill 2006, p. 45.
[39] Feinberg 2006, p. 113.

Table 3: U.S. Trade Policy: Mid-1980 to 2006

		NUMBER OF PARTICIPANTS					
		Unilateral	**Bilateral**		**Minilateral**		**Multilateral**
			Geographically Concentrated	*Geographically Dispersed*	*Geographically Concentrated*	*Geographically Dispersed*	
PRODUCT SCOPE	**Few Products**	(1) Super 301 (1990s)	(2)	(3) U.S.-Japan VIEs (1980s-1990s) Australia FTA (2004)	(4)	(5) EVSL (1997)	(6) ITA (1997) BTA (1998) FSA (1999)
	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 (2004) Morocco FTA (2004) Bahrain FTA (2005) Oman FTA* (2006) Peru TPA* (2006) Malaysia FTA (UN) Thailand FTA (N) Panama FTA (N) Korea FTA (N) Colombia 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)

Key: An asterisk indicates that the agreement has been signed but not ratified. "N" means currently being negotiated.

This political dynamic has created a situation where the pursuit of bilateral trade agreements has now given interest groups and their supporters an interest in their continuation. As Feinberg finds from his analysis:

> This range of interests appeals not only to USTR and the Commerce Department, but also to the U.S. departments of State and Defense, as well as to the international offices in the Department 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.[40]

As the U.S. pursues a piecemeal approach, the passage of specific accords creates narrow vested interests. For example, with respect to the CAFTA debate, one source commented that the "deal drew concentrated fire from three well-organized constituencies -- textile producers, sugar companies and unions. But because the CAFTA economies are so small, U.S. business didn't mount as muscular a campaign as it did in the NAFTA vote."[41] For its part, agricultural groups are interested in a broad agreement and would gain relatively little from a purely Asia-Pacific agreement. The official U.S. advisory committee on agriculture has warned:

> The APAC takes this opportunity to reiterate its belief that highest priority must be given to comprehensive agricultural trade reform in the Doha Development Agenda round of negotiations. Only a WTO agreement can deliver full and equitable reforms in market access, domestic support, and export subsidies. Some APAC members are concerned that a proliferation of FTAs, which only address market access, may have a negative impact on negotiating equitable reform across the three pillars identified in the Doha negotiations. Members are also concerned that Congressional support for trade liberalization could erode through fatigue from constant trade debates over individual FTAs.[42]

Other powerful lobbies are also wary of further opening. The textile and apparel industry has received protection for over 50 years. Although the MFA was terminated at the end of 2004, the textile and apparel industries successfully secured restrictions on Chinese textile and apparel imports in 2005 in the wake of the MFA's removal. Currently, the

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[40] Feinberg 2006, p. 112.
[41] "CAFTA Vote Clouds Prospects for Other Trade Deals--Bitter Fight Reveals Fears Of Globalization, as Talks In Doha Round Languish," *Wall Street Journal*, 29 July 2005.
[42] Agricultural Policy Advisory Committee for Trade, *The U.S.-Peru Trade Agreement: Supplementary Report of the Agricultural Policy Advisory Committee for Trade*, 15 February 2006. http://www.ustr.gov/assets/Trade_Agreements/Bilateral/Peru_TPA/Reports/asset_upload_file570_8967.pdf

textile and apparel industry is pushing to create separate negotiations on textiles and apparel once again. In a letter to the USTR, as the *Journal of Commerce* notes,

> …44 U.S. representatives called for separate negotiations for textiles. Their letter included an implicit threat: If U.S. trade negotiators fail to address the concerns of textile manufacturers, it will "substantially impact" congressional support for a Doha agreement on Non-Agricultural Market Access.[43]

With the textile industry's success in securing new restraints on China in 2005, can one really imagine that this key powerful player would support an FTAAP that would only increase imports from low-cost producers in the Asia Pacific region? Indeed, even the ratification of bilateral agreements faces bipartisan opposition. With respect to Vietnam, for example:

> A vote in favor of permanent MFN for Vietnam could be controversial for Republicans with textile constituents given the opposition of the National Council of Textile Organizations. NCTO has opposed the bilateral market access deal on Vietnam because it fails to impose safeguards on Vietnamese textile exports which it charges are heavily subsidized by the government.[44]

The increasing opposition to trade liberalization, of any sort, is reflected in the mood in Congress. Although many Republicans have increasing doubts about further trade liberalization, particularly those from states with protectionist-minded industries, the real opposition to trade agreements comes from the Democrats. Since the narrow passage of fast-track authority in 2002, the congressional politics of U.S. trade policy have become increasingly polarized, both in partisanship and in interest-group representation. Democratic opposition to the administration's trade agenda has arisen primarily over concerns about foreign labor and environmental standards, adverse effects

[43] "Grasping at straws; Textile industry groups want a special agreement for textiles at the Doha Round," *Journal of Commerce*, 26 June 2006.
[44] "McCrery Expresses Doubts About Trade Deals, Including Vietnam," *Inside US Trade*, 9 June 2006.

for American employment, and human rights issues, aptly seizing trade policy as a tool to mobilize the Democratic base.

Although initial passage of Trade Promotion Authority (TPA) was barely achieved after Republican concession to a program paying health benefits to workers displaced by trade, most trade accords brought to Congress in the first few years of fast-track generally met bipartisan acceptance. Major contention arose in 2005, however, with the vote to implement the Dominican Republic–Central America Free Trade Agreement (DR-CAFTA). Democrats claimed the agreement would export American jobs overseas without ensuring international labor standards were protected, and allowed U.S. corporations to benefit from low labor costs by exploiting poor workers. A *Washington Post* article rightly called DR-CAFTA "the most fiercely contested trade accord in the past decade," and in the end it passed the House by a vote of only 217 to 215, a far closer victory than even the contentious NAFTA vote in 1993.[45] The partisan nature of the divide was clear from the vote – only 15 Democrats voted for the agreement, while only 27 Republicans voted against it. What DR-CAFTA revealed was the potential power that a coalition of traditional protectionists (politicians obliged to various local industrial interests) and the champions of 'linkage' politics in trade policy (seizing upon labor, environmental, and human rights concerns) might possess if the Republicans are unable to consolidate the party line on trade.

Since DR-CAFTA, Democrats in Congress have prioritized defeating bilateral trade agreements negotiated under the auspices of the 'competitive liberalization' strategy, recognizing both the current political weakness of the Bush administration and

[45] "U.S. Hopes for Momentum from CAFTA; Portman to Push WTO to Negotiate Global Agreement," *Washington Post*, 29 July 2005.

the potential trade policy has to garner key support from groups like the AFL-CIO in the run-up to midterm elections. Most recent has been the furor over the negotiated U.S.-Oman PTA, with House Democrats demanding that a clause be inserted into the agreement to insure against the use of forced labor in production. USTR Schwab responded by asserting that the negotiated text, bolstered by current U.S. law preventing the import of goods produced by forced labor as well as promises by the Omani government to reform its labor laws, was sufficient to prevent labor abuses. Some have argued that the Oman FTA is a "political test drive" for a bigger Congressional battle to be waged over a U.S.-Peru agreement over the next year.[46] And indeed, Democrats appear to be fighting agreements as much for party politics as much as principled opposition.

Most of these pacts are likely to be passed by Congress in the end. But the significant opposition put forward on these limited and, all things considered, rather inconsequential trade agreements reveals the current disbanded state of the much ballyhooed 'consensus on free trade' as well as how the deep partisan divide in Congress has affected the feasibility of potential U.S. trade agreements in the future. In this context, an FTAAP involving low-labor cost countries, those with human rights violations, low labor standards, and a host of other red flags including religious freedom, democratic rights, environmental policies, and the like is hardly likely to win votes in Congress.

It is worth noting that the growing lack of interest in broad-based accords caused by the pursuit of a competitive liberalization strategy is hardly restricted to the U.S. In discussing EU domestic dynamics, the *Financial Times* recently noted:

[46] "Free Trade and Security," *Wall Street Journal*, 11 July 2006.

> …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.[47]

The Politics of the U.S.-China Trade Deficit

China's 'peaceful rise' as the new engine of the global economy has become a highly charged issue in U.S. domestic politics as economists warn of the ever-growing trade deficit[48] with dire predictions for the dollar and producers lamenting the capturing of their markets by an authoritarian, ostensibly non-market economy. Charges of manipulation in foreign exchange markets to keep the renminbi undervalued have been levied by traditional protectionists and economic forecasters alike who fear either the overwhelming competition to key U.S. sectors or a sudden dollar collapse once Asian banks cease their buying frenzy of U.S. securities.

Since China's full accession to the WTO, cheap goods have flooded the U.S. market, undercutting domestic producers and sending the U.S. trade balance with China into a rapid downward spiral. In 1995, the U.S. ran a trade deficit with China of $33.8 billion; by 2005, it had ballooned to over $201 billion (see Table 4).[49] In the last four years alone, the bilateral trade deficit has nearly doubled while the overall current account situation grows ever worse. Producers particularly harmed by China's emergence include manufacturing, textiles and

[47] "US and European officials hope big companies flex their muscles to ensure deadlock is broken," *Financial Times*, 12 December 2005.
[48] Bergsten 2005.
[49] Source: U.S. Census Bureau, Foreign Trade Division, Data Dissemination Branch, Washington D.C. 20233: http://www.census.gov/foreign-trade/balance/c5700.html

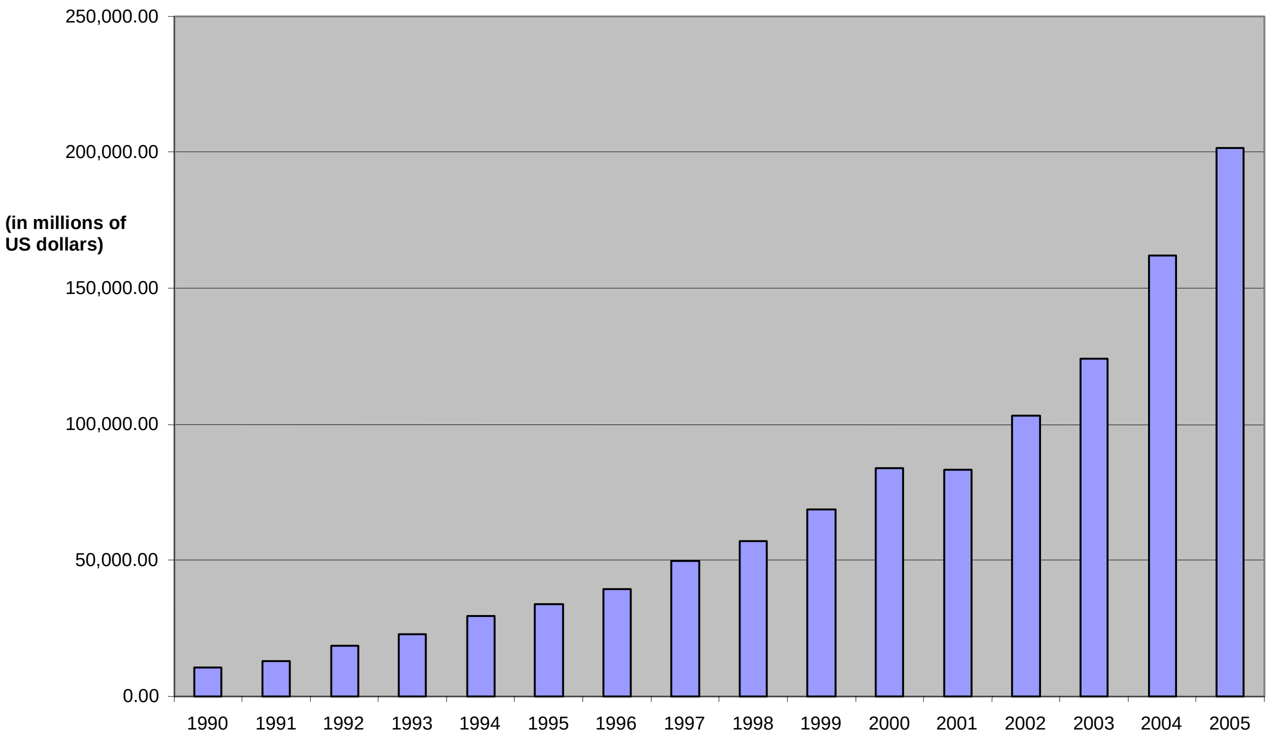
apparel, and steel, just to name a few. Among other issues, the Steel Trade Advisory committee has been pushing to prevent any PTAs with countries that might be seen to be manipulating their currency (read China) of those engaging in subsidization of the industry.[50] To bolster their coalition, the steel industry has piggybacked on the China deficit and currency issue to garner wider support among producers for protection, attempting to strengthen the ability of domestic producers across the industrial spectrum to tap into anti-dumping (AD) and countervailing duty (CVD) measures.

Many in Congress have seized upon the China issue for political purposes, either in the name of workers or business, introducing a vast array of retaliatory measures that could be taken against the PRC. The most extreme case is certainly the bipartisan Schumer-Graham bill, which would impose an across-the-board tariff of 27.5% (the estimated damage of currency undervaluation) on all Chinese goods. Senator Charles Schumer (D-NY) has said he will bring the bill to a vote in September, or whenever the Treasury declares China's currency policy to constitute "manipulation."

A politically weak Bush Administration has not had much luck in fending off pressure against China. In the recent words of a *Washington Post* report: "The Bush administration sought…to mollify Congress about problems in U.S.-China economic

[50] See Industry Trade Advisory Committee on Steel (ITAC-12) report entitled *The U.S.-Peru Trade Promotion Agreement (U.S.-Peru FTA)*, 18 January 2006.
http://www.ustr.gov/assets/Trade_Agreements/Bilateral/Peru_TPA/Reports/asset_upload_file765_8986.pdf

Table 4: US-China Trade Deficit



Source: U.S. Census Bureau, Foreign Trade Division, Data Dissemination Branch, Washington, D.C. 20233

relations…But the response from Capitol Hill was a mixture of scorn and denunciation, underscoring the pressure from powerful lawmakers for a tougher approach toward Beijing."[51]

APEC's Role

Much has been written about APEC's origin and evolution.[52] Here, suffice it to say that APEC has clearly faced significant problems in fostering free trade in the Asia Pacific and the target dates for developed countries of 2010 and 2020 for all countries seems increasingly unrealistic. In particular, the debacle over pursuing a sectoral approach to advance trade negotiations (the Early Voluntary Sectoral Liberalization effort) put

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[51] "Senators Deride U.S. Position on China; Currency System Is Called Unfair," *Washington Post*, 19 May 2006.

[52] See, for example, Funabashi 1995, Aggarwal and Morrison 1998, and Ravenhill 2001.

APEC's effort to promote trade liberalization in jeopardy, and since 1997, APEC has done little more than serve as a cheerleader for multilateral negotiations.[53] As Charles Morrison and I have argued,[54] much of the weakness of APEC stems from its lack of institutionalization. In recommending changes (in the year 2000), we argued that to realize its role in promoting trade, APEC needs to have a considerably stronger Secretariat, in-house analytical capabilities, greater NGO participation, and a clearer agenda and focus. Many of these recommendations would seem to remain valid.

In terms of APEC's other roles, Elaine Kwei and I have argued that this grouping has played an important role in ensuring that leaders in the Asia Pacific meet regularly, in setting new agendas, with respect to trade facilitation, and as a means of working toward a greater cognitive consensus on issues of mutual concern. By assigning APEC the clearly divisive task of promoting an FTAAP in view of its current institutional weakness, we risk further marginalization of APEC in an area of the world that remains highly underinstitutionalized. Simply evoking fears of an East Asian economic grouping, as motivation for APEC to play a role in a trans-Pacific free trade agreement does not constitute a compelling argument, and is one that Asian countries may well perceive as simply a cynical American effort to divide them.

IV. DOHA OR NO DOHA—PROSPECTS FOR AN FTAAP

What are the prospects of an FTAAP from a U.S. political economy perspective? This paper has argued that a combination of a weak political coalition for an FTAAP, the

[53] See for example, Aggarwal and Kwei 2005.
[54] Aggarwal and Morrison 2000.

rising deficit with China, and APEC's institutional weakness make such an accord infeasible for the present.

Section I of this paper provided an analytical categorization of trade agreements as an analytical backdrop to examine U.S. trade policy in the post World War II period. I argued that traditional approaches to looking at trade arrangements have failed to adequately characterize different types of trade agreements, thereby missing the very real political and economic forces driving types of trade accords.

Based on this analytical effort, Section II traced how the U.S. has moved away from a traditional pursuit of multilateral multiproduct trade agreements to an increasing focus on competitive liberalization including in particular an emphasis on open sectoral and bilateral trade agreements. As I have argued, this approach has systematically undermined the coalition for free trade and diametrically opposed the previously bipartisan effort that bought off protectionist interests with an eye to promoting broad-scale trade liberalization. The result of this failed effort has been to encourage a competitive international dynamic that has delivered an increasing number of pernicious globally negotiated bilateral trade agreements—without any of the claimed beneficial effects on the negotiation of a broad-scale trade agreement that was the original *raison d'etre* of this misguided policy. Ironically, some of the same analysts who promoted the many advantages of the competitive liberal approach now wish to dampen this dismal trend by calling for an FTAAP as yet another halfway house to freer trade.

Yet as Section III has systematically shown, the undermining of the trade coalition through competitive liberalization, the rising trade deficit with China, and APEC's institutional weakness make the likelihood of U.S. support and successful negotiation of an FTAAP unlikely. There is almost no political support for such an idea—or more accurately—active opposition by textile, steel, and other manufacturing elements, as well as agricultural interests. Moreover, the Congress is increasingly moving to a bipartisan consensus *against* freer trade, particularly with respect to China. In this political environment, an FTAAP is simply another pipe dream that may well have as equally pernicious an effect as competitive liberalization for those who wish to promote freer trade and a more open global trading system.

To sum up, we can consider two scenarios, one with possible conclusion of a successful Doha Round and another without, to examine how an FTAAP effort might play out. If a Doha Round is successfully negotiated, the motivation to pursue an FTAAP will rapidly decline as states focus on ratification and implementation of the Round. The likely political struggles to pass an agreement will be high on the agenda of many states, and a new initiative to specifically promote free trade in the Asia-Pacific that goes beyond the WTO ("Doha Plus") would be unlikely to garner support in the U.S., particularly in view of the ongoing deficit with China. In this context, APEC could create a study group to identify possible issues that have not been handled in the successful Doha Round, but discussion of an FTAAP would be premature. APEC could also play a role in trying to put the genie of the politically malicious strategy of competitive liberalization back in the bottle through an oversight role.

If the Doha Round fails, might the FTAAP emerge as a second best solution? This notion also is problematic from a political economy perspective because U.S. goals are widely divergent in the two forums. What the U.S. is seeking in the Doha negotiations—significant agricultural market access in the EU and industrial market access in large emerging markets such as Brazil and India—are goals that cannot be achieved to any significant extent at an Asia-Pacific bargaining table. Although some might argue that an FTAAP might have better prospects than the currently moribund Doha Round as the number of states involved would be smaller, this view reflects a misunderstanding of the political economy of trade negotiations. In fact, with a larger number of states as in the Doha Round, the horse trading necessary to achieve a successful outcome would yield an agreement that stands a significantly *better* chance of being approved in the U.S. than a minilateral agreement that narrowly focuses on states with whom the U.S. runs massive trade deficits.

It is also worth noting that the potential for creating an FTAAP has been hurt by the competitive liberalization efforts that have led to the accelerating negotiation of bilateral trade agreements over the last few years in the Asia-Pacific.[55] This approach has fostered a coalition of pro-liberalization forces in the U.S. pushing state specific bilateral accords in the Asia-Pacific, rather than broad-based regional trade initiatives. The agricultural sector, for example, while preferring a multilateral route, has little incentive to push an FTAAP. In fact, Asian and U.S. business groups say it is a “practical reality” that agricultural concessions in the Asia-Pacific region would have to be dealt with on a bilateral basis.[56] More generally, a bilateral path with Korea and Japan avoids the key domestic pitfalls for the U.S. that marks an FTAAP. The U.S. still faces significant domestic pressure from the textile and manufacturing industries to prevent a further increase of cheap imports from China, and an FTAAP agreement would open the

[55] See Aggarwal and Urata 2006 on the driving forces leading to the negotiation of bilateral trade agreements in the Asia-Pacific.
[56] “U.S., Japan Business Groups Explore Possibility of Bilateral Trade Deal,” *Inside US Trade*, 5 May 2006.

floodgates not only to Chinese imports, but also to the less developed economies of ASEAN such as Cambodia that present a similar low-cost import threat. The U.S. has the opportunity to pursue with Korea and Japan the same general goals as it pursued with Singapore—deep trade agreements with high-value economies that avoid many of the domestic political conflicts created by agreements with low labor-cost countries.

The increasing promise of U.S.-Korea negotiations has spurred the first serious discussions of a U.S.-Japan integration effort, and pursuing this path would bring many of the economic benefits of an FTAAP with few of the downsides. A deep liberalization agreement with these two countries would mean significant U.S. access to key investment opportunities, an opening of manufacturing and automotive markets, and possibly even much-sought-after access to the agricultural markets of industrialized Asia. With the U.S. pursuing such a path, an FTAAP would recede to the background. Instead, we would likely see a further unfortunate proliferation of selective bilateral agreements by Asian states in response to U.S. actions, adding more "noodles" to the bowl. From a strategic perspective, the continued prospect of such economic gains with minimal political costs makes other more politically expensive options—like the vaunted FTAAP proposal—far less less attractive than a bilateral path.

In short, with either success or failure in the Doha Round, I believe that an FTAAP is not politically likely at the moment from a U.S. perspective. APEC should not currently be pushing an FTAAP that is infeasible for the time being and that would undermine its positive contributions in other issue areas. Rather, APEC should serve as a forum to institutionalize the administration and negotiation of minilateral and bilateral agreements, so that the 'noodle bowl' of liberalizing efforts can be brought into some kind of logical order and into conformity with the WTO. In addition, APEC can usefully pursue a number of functions that have been discussed at length by many scholars and in this volume by Charles Morrison. These include the harmonization of standards, better rules of origin, capacity building, peer assessment of compliance with APEC targets, and serving as a complementary institution to the WTO. Although one might think that promoting schemes such as the FTAAP do no harm, as we have seen, the advocacy of competitive liberalization as a means of securing trade liberalization has been a recipe for disaster. Ideas, both good and bad, do have consequences.

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