



## REGIONAL TRADING ARRANGEMENTS: Policy Choices for the United States

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“There are over 130 preferential trade agreements in the world today – and the United States is a party to only two of them.”<sup>2</sup>

US trade policy stagnated badly during the second Clinton administration. After a series of early victories and new initiatives in 1993-94 – completion of the Uruguay Round, passage of the North American Free Trade Area (NAFTA), the sketching of regional trading arrangements in the Asia Pacific and the Western Hemisphere – sharp divisions with the Democratic Party deflated the administration’s enthusiasm for trade policy. When Clinton, as host, arrived at the Seattle ministerial in late 1999 and shocked the delegates by insisting that future trade agreements include sanctions to promote certain social objectives, the disarray and dissention in US trade policy was all too apparent.

But the world does not stand still for the United States. While the US squabbled internally, the rest of the world moved forward to negotiate a growing number of bilateral, sub-regional and regional trading arrangements (referred to here as RTAs). The Bush administration has expressed alarm at being sidelined from such negotiations, and has said that it wants to vigorously engage in trade liberalization exercises of all sorts – bilateral, regional and global – and in all parts of the world.

This new vigor in US trade policy raises a number of fascinating questions. To date, how does the Bush administration propose to integrate international economic and strategic-military objectives – will it seek to link trade policy, implicitly or overtly, to other political or social objectives? How might negotiations in one region of the world rebound to affect US strategy in other regions – will the administration be able to blend RTAs and global trade talks into a coherent, comprehensive strategy, or will it inadvertently help to lead the world down the road to a crazy-quilt confusion of contradictory and potentially hostile trade pacts? Will it primarily react to the initiatives of other nations, or will it advance new approaches of its own? Will the Bush administration be better able than its predecessor to overcome the sharp divisions

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<sup>2</sup> USTR, “2001 International Trade Legislative Agenda.”



tearing at the US political system to forge a more constructive approach to trade policy – both inside the administration and with the US Congress? This paper will examine the first statements and steps of the new administration for hints to answers to these weighty and troublesome questions.

## **THE ZOELICK OFFENSIVE**

Robert Zoellick holds the promise of being an unusually strong United States Trade Representative (USTR). He has a powerful intellect, capable of thinking strategically and tactically, and during the administration of Bush the Elder (1988-92), as an aide to James Baker III, he honed his operational skills. In contrast to the plight of the USTRs who served under President Clinton, Zoellick has the tremendous advantage of a Chief Executive whose commitment to free trade is apparently unfettered by its conceptual or political linkages to other globalization phenomena.

Within the administration, no other voices have yet emerged that might challenge Zoellick and USTR for hegemony over trade policy. Leadership at the State Department is firmly in the hands of individuals focused on political-military affairs, and the Commerce Department has yet to prove its policy weight. Zoellick will have to contend with the formidable John Taylor, the Undersecretary for International Monetary Affairs at the Treasury Department, although the Stanford University professor has a stronger background in macroeconomics and monetary issues than in trade policy, and with Kenneth Damm, the Treasury Deputy Secretary whose credentials include the authoring of a standard text on the World Trade Organization (WTO). The National Economic Council, under Harvard professor Lawrence Lindsay, in its role as White House coordinator of economic policies, also has jurisdiction over trade policy and potentially could challenge USTR for primacy. But Zoellick is blessed that both Taylor and Lindsay are academic economists firmly rooted in the neo-classical tradition with its free-market preferences. Zoellick confers routinely with his cabinet peers – Commerce Secretary Evans, Treasury Secretary O'Neill, and with National Security Adviser Rice, who so far generally defer to him in his realm of primary jurisdiction. While the Departments of State and Treasury are still struggling to formulate their global strategies, Zoellick has charged ahead and in a series of forceful speeches has enunciated his strategy and its rationale.

Zoellick has laid out five elements of the US trade agenda:<sup>3</sup>

The US will pursue global, regional and bilateral trade agreements. The US will negotiate agreements in each of these planes simultaneously, seeing them as complementary and mutually reinforcing. According to Zoellick, in a phraseology that combines a sense of military tactics and international political economy, “By moving on multiple fronts, we can create a competition in liberalization that will promote open

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<sup>3</sup> Robert Zoellick, “The United States, Europe, and the World Trading System,” remarks before The Kangaroo Group, Strasbourg, France, May 15, 2001.



markets around the world.” So far, Zoellick has not sought to impose his own preferential rankings, but has rather reacted to his inbox as set by pre-scheduled international meetings or the initiatives of other countries. Interestingly, Zoellick shows a taste for innovation and risk-taking: “We can also experiment, learn from the experience, and forge models of success that we can apply elsewhere.”

The US will seek to better integrate the developing countries into the global economic system. To gain support among the developing countries in the proposed new round of global trade negotiations, Zoellick has announced a modest but symbolic US contribution to the WTO’s Global Trust Fund for Technical Assistance. In the context of negotiations for the Free Trade Area of the Americas (FTAA), Zoellick has promised the weaker Central American and Caribbean countries assistance to enhance their trade negotiating capacity. As part of this offensive to recoup some of the ground lost to the European Union at the Seattle WTO ministerial, where the EU appeared more ready to make concessions to the less developed nations, Zoellick has been explicit in his support for special preferential trade liberalization measures, in both Latin America and Sub-Saharan Africa.

The administration will consider various measures to gain public support for its trade policies. Zoellick recognizes that trade policy is deeply rooted in domestic politics; prior to joining the administration, he wrote an article detailing the influence of the Congress on trade policy.<sup>4</sup> Like others in the Bush administration, he lays blame on the Clinton administration for walking away from trade policy and for not building a domestic consensus behind freer trade. Zoellick has said that the administration will consider “the creative and targeted use of safeguards if businesses and workers restructure seriously,” and that for workers who will lose their jobs, “we need improved assistance, training and placement.” The bottom line: “We need better transitions, not protectionism.” Just how innovative and fulsome such adjustment and training programs will be remains to be seen.

In a retreat from USTR purism, which holds that trade policy should be kept neat and separate from other policy issues, Zoellick accepts that trade cannot be quarantined from other variables in the international political economy: “We need to align the global trading system with our values.” Specifically, Zoellick argues that trade policy can show respect for core labor standards and environmental protectionism, as well as democracy and the rule of law – but “without slipping into fear-based campaigns and protectionism.” In an effort to move away from a sanctions-based approach to advancing trade-related issues, Zoellick has proposed a “toolkit” of measures to advance trade and environmental objectives. These measures consist primarily of technical and financial assistance that can be extended to the relevant ministries in developing countries, by bilateral and international agencies such as the US Agency for International Development, the World Bank, the International Labor Organization and various United Nations agencies.<sup>5</sup>

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<sup>4</sup> TBA.

<sup>5</sup> See the “toolkit” on the USTR web page, at [www.ustr.gov](http://www.ustr.gov).



In another concession to pressures arising out of domestic US politics, Zoellick asserts that “transparency should become a hallmark of all future trade negotiations.” In response to the anti-globalization backlash, Zoellick argues that transparency can widen the public debate beyond “babbling bureaucrats and agitated activists.” He also maintains that transparency can advance trade negotiations by revealing special interests and countering corruption. As the Clinton administration had done, Zoellick will continue to press the WTO to make more documents public and with promptness, to open its adjudicative proceedings, to encourage more exchange with non-governmental groups, to broaden the range of WTO meetings and events open to the public, and to further improve the use of internet facilities to reach more stakeholders. As a potentially precedent-setting initiative, Western Hemisphere governments decided to release the bracketed draft text of the FTAA. This surprise move was agreed upon at the trade ministerial in Buenos Aires that preceded the April Summit of the Americas in Quebec City, and reportedly was proposed by Latin American ministers, not the United States, but the US quickly concurred.

All told, Zoellick’s five-point approach suggests that US trade policy has been evolving gradually but significantly over the last 10-15 years. The “multiple fronts” strategy fully incorporates RTAs into the heart of US trade policy, burying the historic USTR dedication to the GATT/WTO as an institution and globalism as being not only the first best but the only legitimate trade strategy. The “competitive liberalization” concept further integrates RTAs into US trade policy, rendering RTAs inseparable from global negotiations.

Zoellick is looking to RTAs to set precedents that may be useful in other trade forums. Already, in the pursuit of a consensus-building transparency, by agreeing to release a bracketed draft text, the FTAA negotiations have put pressure on other trade forums to follow suit. Zoellick hopes that the negotiations with Chile on a bilateral FTA will set high standards; and will yield a trade-labor-environment formula that eschews trade sanctions but with enough teeth to be credible and that will break that Gordian knot and be applicable elsewhere. In this search for politically acceptable formulas that link trade to other objectives, Zoellick represents a continuation of the efforts of his predecessor, Charlene Barshefsky, but unlike the Democrats he is seeking positive linkages, eschewing sanctions that are unacceptable to most Republicans and developing countries.



## **THE QUEBEC CITY SUMMIT OF THE AMERICAS**

The first test faced by the Bush administration's trade policy was determined by the schedule of Western Hemisphere summits. The initial Summit of the Americas (Miami, 1994) mandated negotiations among the 34 countries of the region for a free trade area, to be completed by 2005. Since then, the prospective FTAA has been the centerpiece of both the regional summits and regional trade policy.

During his presidential campaign, Bush (in remarks drafted in good measure by Zoellick) criticized the Clinton administration for dropping the ball on US policy toward Latin America in general and the FTAA in particular. But in the first days of the Bush administration, doubts arose. There were stories that senior Bush officials were seeking to downgrade the bureaucratic standing of USTR, and that more traditional military-security policies might dominate US foreign policy and sideline international economics. In addition, some Bush aides seemed to prefer unilateralism, raising questions about the place that regional arrangements and global institutions would occupy in US foreign policy.

The Quebec Summit suggested that such perceptions were misplaced or at least overly simplified. Before, during and immediately after Quebec, Bush and Zoellick made strong statements of commitment to completing the FTAA accord. In a lengthy briefing to the US media in Quebec, Zoellick laid out his strategic rationale for trade policy, making clear that at least he understood that US security was not the sole concern of the Pentagon. In presidential language, Bush made similar remarks linking free trade to prosperity and freedom. Bush also demonstrated that notwithstanding his administration's penchant for robust unilateralism, this US president can behave constructively in a multilateral setting, and that while his administration is well staffed with military men, Bush can also delve into economic and political matters.

In summit-related remarks, Bush and Zoellick made clear that they see the FTAA, and by implication RTAs, in complex, multi-dimensional terms. RTAs are much more than commercial accords. The FTAA "provides a framework for the Administration's hemispheric strategy."<sup>6</sup> For Zoellick, the hemispheric RTA "provides incentives and rewards for governments pursuing difficult economic reforms," and sends a positive signal to investors. The FTAA is also the lynchpin around which cooperation on a host of other issues – immigration, counter-narcotics, energy, labor and the environment – can be constructed.

At Quebec, governments adopted a democracy clause that states: "any unconstitutional alteration or interruption of the democratic order in a state of the hemisphere constitutes an insurmountable obstacle to the participation of that state's government in the Summit of the Americas process." The "Summit process" is understood to

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<sup>6</sup> Robert Zoellick, "Free Trade and Hemispheric Hope," Remarks before the Council of the Americas, Washington, D.C., May 7, 2001.



include the prospective free trade accord. This puts new teeth into the capacity of the region's democracies to deter – and if necessary reverse – threats to democratic governance. It gives private sectors an additional incentive to support constitutional rule.

It remains to be seen whether the final FTAA accord will repeat the democracy requirement. USTR is reportedly hesitant to do so, for fear that members of Congress will then ask for a similar linkage in other regions, including Asia, where a democracy clause would clearly be unworkable. Certainly, the adoption of a democracy clause linking trade to politics in the Western Hemisphere does not mean that the Bush administration will seek to insert democratic conditions into the Asia Pacific Economic Cooperation (APEC) forum or the WTO. But other US politicians are now more likely to pressure the administration to do just that.

As a further indication of the administration's positive approach toward RTAs, when asked at the closing press conference in Quebec whether he might favor a free trade accord with Central America, Bush responded that he "had an open mind."

Noteworthy, an element of strategic "hemispherism" crept into Bush's language in Quebec. Speaking extemporaneously at the closing press conference, Bush asserted that freer trade would better enable the Western Hemisphere to compete against Asia and Europe. Seemingly, this put Asia and other regions on notice that Bush is capable of contemplating turning inward toward his own hemisphere, should relations elsewhere deteriorate. At the very least, Bush appears willing to play one region off against another, to the potential benefit of US bargaining power and strategic interests. In a similar but more positive vein, Zoellick told a gathering of business executives with interests in Latin America, "If the Americas are strong, the United States will be better positioned to pursue its aims around the world."<sup>7</sup>

That Zoellick is serious about trying to gain support for trade initiatives from non-government groups was apparent at Quebec. At the initiative of the Canadian hosts, trade ministers held a roundtable with invited civil society leaders from throughout the hemisphere. When the scheduled time ran out, several civil society participants had yet to make their prepared remarks. The Canadian chair implored the ministers to remain for a few more minutes, but when the Canadian trade minister rose to leave, all the other ministers followed him to the exit save one – Robert Zoellick – who sat still and politely listened to the last few statements by the civil society representatives. This savvy, symbolic gesture did not go unnoticed.

Of course the Free Trade Area of the Americas is far from a done deal. Numerous tough issues remain to be negotiated among the 34 countries. Most of the governments want the negotiations to succeed, but there is strong domestic opposition in the two major nations, the US and Brazil. Yet, at Quebec, the Bush administration was

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<sup>7</sup> Ibid.





persuasive in its commitment to doing its best to shepherding the FTAA to a successful conclusion.

## THE HISTORICAL EVOLUTION OF US TRADE POLICY AND RTAs

Over the last two decades, the US came to accept regional trading arrangements. There is yet no authoritative study explaining why US policy in the 1980s turned toward bilateral and regional free trade arrangements, beginning with Israel and Canada and spreading in the 1990s to Mexico and then to the Asia Pacific and Latin America. Decisions appear generally to have been made case by case, on an ad hoc and opportunistic basis, with the new pattern emerging only gradually. Several trends in the international economy contributed to what eventually emerged as a paradigm shift: the shortcomings of the General Agreement on Tariffs and Trade (GATT), opportunities for strategic advantages, progress toward economic reforms in countries interested in RTAs, and new market openings.<sup>8</sup>

When confronted with the potential formation of RTAs that excluded the United States, US officials have expressed alarm rooted in both economic and strategic interests. When an Asia Pacific coalition began to emerge in the late 1980s, then-Secretary of State James A. Baker III, in words perhaps crafted by his then aide Robert Zoellick, explained his interest in APEC thus: "Above all, I was determined that any move toward economic integration in East Asia include the United States. At State, I would try to check any move by the East Asians to exclude us – gently if I could, not so gently if I must. But I wanted also to use broadened economic cooperation in more positive ways. Closer links to the economies of East Asia would help open up dynamic markets to American exports and investment. In addition, they would complement our existing political and strategic ties to a region that we had considered vital since the time of Teddy Roosevelt."<sup>9</sup> Strong political motives also lay behind the elder Bush administration's interest in free trade with Mexico. In words that now ring prescient, Baker wrote in his memoirs that NAFTA "would be the cornerstone of a new relationship with Mexico and enhance close ties on the whole set of issues that don't respect borders: narcotics, the environment, and immigration. And it would help advance other US objectives in Mexico, including the democratization of the political system."<sup>10</sup>

To date, the only RTAs ratified by the US are those with Israel (with its obvious strategic motivation) and the North American Free Trade Area (NAFTA). The Clinton administration shoved NAFTA through the US Congress over strong opposition from some environmental groups, organized labor and the majority of Democratic members.

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<sup>8</sup> For a more extensive discussion, see Richard Feinberg, *Summitry in the Americas* (Washington, DC: Institute for International Economics, 1997), pp.44-53; see also Jeffrey Frankel, *Regional Trading Blocs in the World Economic System* (Washington, DC: Institute for International Economics, 1998).

<sup>9</sup> James A. Baker III, *The Politics of Diplomacy* (New York: H.P. Putnam and Sons, 1995), p.609.

<sup>10</sup> *Ibid.*, p.607.



Smarting from this revolt of its core political constituencies, the Clinton administration rarely mentioned its NAFTA progeny in public, even as it faithfully implemented most of its clauses (trucking being the exception, where it postponed implementation under pressure from the Teamsters Union). But the Bush administration has different base constituencies, and its supporters in business and in the border states have benefited from NAFTA, motivating Bush and Zoellick to repeatedly cite NAFTA's benefits to the US and Mexican economies and politics. Both have drawn attention to the fact that, after NAFTA, Mexico has become more democratic. The conviction that NAFTA is a success is one factor in making RTAs more acceptable to the administration, and giving RTAs a respectable place in US trade policy.

Privately, the Clinton administration did see NAFTA as a success, and in the waning days of the administration, the Clinton team proceeded to open RTA negotiations with three countries. As a logical follow-on to the US-Israel RTA, the administration concluded negotiations for a bilateral free trade accord with Jordan, but did not have time to obtain Congressional ratification. Then, as a follow-on to the announcement of the US-Jordan accord, at the APEC Leaders Meeting in Brunei in November, 2001, the US and Singapore announced their intention to negotiate a bilateral FTA.

Barshefsky was enthusiastic about the environmental and labor provisions in the US-Jordan accord, which had the mild support of some Congressional Democrats. She saw the labor and environmental clauses as a possible floor – as well as a ceiling – that could finally break that Gordian knot with which those contentious issues had tied up US trade policy. The Singaporeans had long been pressing for a US-Singapore FTA. Reportedly at the urging of US Ambassador Green, himself persuaded by his hosts of the value of a Singaporean-US accord, on her way to the mid-November APEC Leaders Meeting in Brunei, Barshefsky stopped in Singapore, and her discussions centered upon a possible trade accord. The Singaporeans indicated that they could accept the labor and environmental clauses in the US-Jordanian accord. Barshefsky then persuaded the White House, despite the reservations of some senior administration officials who felt that, as a minimum, an accord with Singapore was much more significant than an essentially symbolic agreement with Jordan, that many tough issues such as services, competition and regulatory policies and intellectual property rights needed to be vetted and that USTR should hold the normal consultations with the private sector and Congress that typically precede important trade initiatives. But this was the closing moments of a hectic 8-year administration and routine bureaucratic disciplines were breaking down. By all reports, Barshefsky was focused more on the labor and environment clauses than the possible precedent that an FTA with an important trading partner might set for US trade policy. While a very capable USTR, a trade lawyer by profession, Barshefsky tended to focus more on specific deals or policy problems than on big picture trade strategy. Yet, unlike Canada and Mexico, an FTA with Singapore could not be justified as an exception to globalization based upon geographic propinquity. But there was no systematic intra-governmental review of the implications that an FTA with Singapore might have for broader US trade strategies.<sup>11</sup>

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<sup>11</sup> This conclusion is based on the author's discussions with numerous senior US government officials.





Over drinks following a late-night round of golf in Brunei, President Clinton and Prime Minister Goh signed off on an announcement that their two nations would proceed to open negotiations on a bilateral FTA.

Later, USTR would justify a US-Singapore deal as being a potential spur to re-ignite Asian interest in APEC and WTO initiatives. No doubt USTR was frustrated with APEC, where its Early Voluntary Sectoral Liberalization (EVSL) initiative was killed by Japan in 1998. A US-Singapore deal would be a way to work around Japan and APEC, and possibly motivate other Asian nations to rethink their cautious trade policies.

Like many in the US government, the Chileans first learned of the US-Singaporean initiative in the media. The Chileans were furious that the US seemingly was pushing Chile further back in the RTA queue. The administrations of Bush the Elder and of Bill Clinton had both discussed a possible FTA with the Chileans, only to pull back under domestic political constraints. Once again, in response to Chilean pleas, the Clinton administration agreed that an FTA would serve both countries' interests, and negotiations were launched in December 2000. Once again, US trade policy was reactive, was being driven by the forceful initiative of other nation, without careful consideration of the cumulative impact that such a step might have for US policy directions much less for the global trading system.

## **COMPETITIVE LIBERALIZATION**

Zoellick has taken the hand he has inherited – potential FTAs with Jordan, Singapore and Chile, the FTAA negotiations with the Western Hemisphere, the promise of open trade in the Asia Pacific as inscribed in the Bogor goals of APEC, and a possible new WTO Round – and tied them together tactically with the concept of competitive liberalization. Zoellick did not coin the phrase,<sup>12</sup> but it now has operational significance for US trade policy.

In the Western Hemisphere, competitive liberalization works thusly: an FTA with Chile has already led other Mercosur members to signal their interest in an FTA with the US, should the US-Chilean negotiations prosper. That will put pressure on Brazil to be more pliable within the FTAA negotiations for fear that Mercosur could unravel and Brazil be left isolated. In turn, an energized FTAA would put pressure on Asians and Europeans to seek progress within the WTO context, as a way for them to slow the march toward exclusionary RTAs and to reduce the margins of preference resulting from any RTAs that do emerge.

It is not yet clear how far the US will take the competitive liberalization strategy in Asia. Already, the US-Singapore talks are intended to spur other ASEAN countries to

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<sup>12</sup> For example, see C. Fred Bergsten, Competitive Liberalization and Global Free Trade: A Vision for the Early 21<sup>st</sup> Century, Working Papers on Asia Pacific Economic Cooperation No. 96-15 (Washington: Institute for International Economics, 1996).



take a more positive approach toward APEC and the WTO, on the grounds that they stand to lose if the RTA bandwagon picks up steam and other countries gain preferential access to the US and other major markets. Senator Max Baucus has suggested that the US negotiate free trade agreements with Australia, New Zealand and, curiously, South Korea, and although this may be mainly political posturing (to demonstrate that he is not really a protectionist), the floating of such a proposal by an influential Senator does suggest that this is a fluid moment in US trade policy.

So for the early Bush administration, it appears that RTAs have several tactical attractions, beyond the immediate market-openings. They can spur other countries into more positive attitudes toward trade liberalization in other forums. They can set precedents on such issues as labor and the environment (as Barshefsky imagined the US-Jordan accord might do). They are an opportunity to negotiate high standards, as in the NAFTA accord, that the US can try to replicate in other agreements. They can also be used to benefit reformers in developing countries, and, as Zoellick has said with regard to the US-Chilean FTA, “send a signal to the nations of Latin America and the rest of the world: the United States will reward good performers.”<sup>13</sup> In addition, RTAs may be helpful in relations with the Congress; each FTA will have its supporters, such that stringing together a number of RTAs might help build a winning coalition behind the administration’s trade legislation.

US policymakers recognize that RTAs carry risks as well. Most obviously, depending upon their substantive content, RTAs can be trade diverting rather than trade creating, and worst of all, inconsistent with WTO rules. The WTO itself has been incapable of policing RTAs, as it has never sanctioned a RTA under its article XXIV which allows for RTAs only under certain conditions; disagreements within the Committee on Regional Trade Agreements has inhibited consensus, issuing reports that merely describe different countries’ concerns.<sup>14</sup> Politically, RTAs could divert attention and negotiating resources from the WTO. They also run the risk of creating new vested interests, including multinational corporations, which grow fat and happy within a region and resist openings that would allow in fresh competition.<sup>15</sup>

Traditionally, the US has worried about regional blocs built around a competitive power center, even if it has ultimately accepted and sometimes even supported such regional arrangements. Zoellick has commented: “In the 19<sup>th</sup> century, many strong countries wanted weak neighbors that they could dominate. In the 21<sup>st</sup> century, strong countries will benefit from healthy, prosperous, and confident democratic neighbors.”<sup>16</sup> In the case of a RTA that houses a rival state, the US will look to other

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<sup>13</sup> Robert Zoellick, Remarks before the Council of the Americas, op.cit.

<sup>14</sup> Article XXIV of the GATT allows a RTA if the RTA provides that duties are to be eliminated, substantially all the trade between the parties is covered, any interim agreement is concluded within a reasonable period of time, and with regard to other countries, duties do not become higher and trade regulations do not become more restrictive as a result. I am indebted to Claire Wright for her insights into WTO behavior.

<sup>15</sup> For a good discussion of the pros and cons of RTAs from a developing country perspective, see Diana Tussie and Ngaire Woods, Trade, Regionalism and the Threat to Multilateralism (Buenos Aires: FLACSO for the Latin American Trade Network, March, 2000).

<sup>16</sup> Robert Zoellick, Remarks before the Council of the Americas, op.cit.



RTA members to balance that rival and to press for arrangements and rules consistent with US interests and the WTO. In the European Common Market, the US has looked to Germany as a counterweight to France. Within Mercosur, the US encourages Argentina to check Brazil's protectionist tendencies. Within ASEAN, the US expects Singapore to balance Malaysia.

## **ASIA AND APEC**

During the 2000 presidential campaign, Bush criticized the Clinton administration for not paying sufficient attention to traditional US security ties in Asia, notably with Japan, South Korea and the Philippines, and for being too conciliatory toward China. In its early days, the Bush administration's Asia policies have concentrated on strategic-military concerns such as China-Taiwan and North Korea. But despite the rising tensions with China, the administration has supported China's WTO accession and the continuation of Clinton's efforts to integrate China into the global economic system.

Some Bush administration officials are known to be skeptical about multilateralism in general and in the Asia Pacific in particular, believing that bilateral ties with key security allies are more productive. Nevertheless, Bush is expected to attend the APEC annual Leaders Meeting in Shanghai in October. Once again, the calendar of international events will focus administration attentions and to some degree drive policy, as the US is compelled to accommodate the interests of other summit participants. Clinton administration interest in APEC waned after the collapse of the EVSL negotiations, even as the Brunei meeting served as a ready-made forum to seal the US-Singapore FTA initiative. As self-styled realists, the Bush administration is little inclined to give much credence to APEC's non-binding, voluntary, consensual, "concerted unilateralism" approach to trade policy.<sup>17</sup> Nevertheless, the Bush administration will probably continue to press APEC to make tangible progress toward its Bogor goals of open trade and investment in the region, and to make its Individual Action Plans (wherein APEC members list their initiatives on the road toward the Bogor vision) more transparent, comparable, concrete and results oriented, even as, if the past is any guide, the US is unlikely to make unilateral concessions in its own IAP.

As Clinton did at the APEC meeting in Auckland prior to the 1999 Seattle ministerial, Bush can be expected to rally APEC to place its weight behind the launch of a new WTO round, in anticipation of the November WTO ministerial in Doha, Qatar. The US may also join with Australia, New Zealand and other countries that have been urging APEC to scrutinize RTAs for consistency with APEC principles and WTO norms.<sup>18</sup> This would be a way to advance transparency in trade policy, and more immediately,

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<sup>17</sup> For a description of APEC norms in comparative perspective, see Richard Feinberg, "Comparing Regional Integration in Non-Identical Twins: APEC and the FTAA," *Integration and Trade*, No. 10, Vol.4.

<sup>18</sup> For a discussion of APEC and RTAs, see C. Fred Bergsten, *Brunei: A Turning Point for APEC?* (Washington, D.C.: Institute for International Economics, February, 2001).



to place pressure on Japan not to negotiate RTAs that exclude agriculture, and thereby violate WTO Article XXIV rules that require coverage of “substantially all the trade.”

## **CONCLUSIONS**

On trade policy, the Bush administration has hit the ground running. In USTR Zoellick, it has an experienced and informed leader. While deferring to Zoellick in his area of primary jurisdiction, other senior administration officials seem to accept the strategic import of trade policy. In their first major outing centered on trade, at the Quebec Summit of the Americas, Bush and his trade czar persuaded those within ear shot of their commitment to free trade in general, and to hemispheric commercial integration in particular.

Regional trading arrangements have become a central component of US trade policy. In the minds of senior policy makers, they now serve multiple purposes, both offensive and defense, commercial and strategic. They can advance specific negotiating objectives as well as serving to bolster reformist allies within developing countries around the world. Yet, should RTAs proliferate, and in the absence of progress in broader forums, there is a clear threat to the coherence and efficiency of the international trading system, and to US economic and strategic interests.

As a strategy, competitive liberalization may be just a rationale for an ad hoc, reactive, incoherent policy, or may jell into something more, which drives policy forward on multiple fronts in a dynamic and consistent direction. So far, the new Bush administration largely has had to play the hand it inherited, and while articulate has not yet launched major new initiatives of its own. The upcoming APEC Leaders Meeting and the subsequent WTO ministerial will give us early clues of possible new directions.

Ironically, probably the toughest challenge facing the Bush administration's international trade policy will be domestic politics. Whether the administration will be able to persuade the US Congress to provide the critical trade negotiating authority (formerly referred to as “fast track,” relabeled “Trade Promotion Authority”) – repeatedly denied to President Clinton – is an open question. So far, despite many hours of consultations with Congressional members and staff, and with non-governmental leaders, Zoellick has yet to find the magic formula to cut the Gordian knot on the trade-environment-labor nexus.<sup>19</sup> Already, organized labor has publicly rejected the use of monetary fines (as opposed to trade sanctions) on the model of the

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<sup>19</sup> Washington is replete with proposals. For example, see Trade Policy Group of the Inter-American Dialogue and the Carnegie Endowment for International Peace, Breaking the Labor-Trade Deadlock (Washington, DC: Carnegie Endowment, Working Paper No. 17, February, 2001); and Kimberly Ann Elliott, Finding Our Way on Trade and Labor Standards? (Washington, DC: Institute for International Economics, Policy Brief, April 2001).



Canada-Chile FTA.<sup>20</sup> During the Clinton years, partisan positions on trade policy hardened, and a curious coalition has congealed between the AFL-CIO and some non-governmental groups who together are advocating a lengthy list of demands tied to trade policy.<sup>21</sup> Zoellick's political task is not made any easier by the perception among liberals that Bush is hostile toward environmental and labor causes in general. Much will probably depend upon the overall relations between the administration and Congress, and whether, in the final analysis, the Bush administration is willing to give high priority to trade policy and to spend political capital at home to advance its international economic objectives.

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<sup>20</sup> John J. Sweeny, Testimony Before the Subcommittee on Trade, House Committee on Ways and Means, US Congress, May 8, 2001.

<sup>21</sup> Sweeny's testimony is instructive in this regard. Ibid.