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Strategy Without Vision: The U.S. and Asia-Pacific Economic Cooperation

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INTRODUCTION

Since the mid-1980s, the U.S. has pursued a mixed strategy of alternating among or combining unilateral, bilateral, minilateral, and global trade negotiations. Recent scholarly assessments have looked favorably on this “multitrack strategy.”¹ Yet considerable debate exists over the relative importance of these tracks, and over tactical issues such as the means to achieve regional initiatives while advancing liberalization on the global level. By contrast, U.S. domestic interest group debates have centered less around institutional or strategic solutions and more on the substance of long-term agenda and objectives. These seemingly separate debates over strategy and goals are actually closely related in trade policymaking: as we shall argue below, the challenges of institutional reconciliation necessarily alter the parameters of feasible objectives.

The overarching critical theme of this essay is that in the post-Cold War era, American trade policy has been marked by “strategy without vision” -- leading to what we term “opportunistic liberalization.” Put differently, it has searched for the path of least resistance among bilateral, minilateral, and multilateral approaches, be they for a few or many products, alternating among them whenever an earlier commitment runs into obstacles. This approach is further complicated by domestic political imperatives to maintain an overall pro-trade balance in the face of lobbying from export-dependent sectors and protectionist coalitions calling for non-negotiated unilateral measures. Consequently, U.S. trade policy has manifested a lack of overarching strategic coherence and of credible institutional commitments, with predictable adverse effects on the deepening of liberalization efforts accomplished after the Uruguay Round.

This paper provides a critical overview of the evolution of U.S. economic strategy, with a primary focus on trade and a lesser focus on finance and investment issues in the Asia-Pacific. We systemically analyze the various tradeoffs or consequences of involvement through different

modes of trade governance, focusing on three specific forms – globalism (multilateral multiproduct), regional (geographically focused multiproduct multilateralism), and sectoralism. Section I examines different modes of economic organization and assesses their costs and benefits. In Section II, we then consider the political and economic factors that have led to a shift in U.S. strategy toward different forms of international economic organization. Section III then turns to a specific examination of U.S. interest in and policy toward the Asia-Pacific Economic Cooperation (APEC) in the past while Section IV considers some recent problems in U.S. policy toward APEC. Section V then turns to an examination of the problems involved in starting a Millennium Round of negotiations for APEC and for U.S. policy more generally. In concluding, we consider the likely trend in U.S. policy, both with respect to trade more generally, and APEC more specifically.

I. MULTIPLE MODES OF ECONOMIC ORGANIZATION

Over the last fifty years, states have utilized a host of measures to regulate trade flows. In terms of bargaining approaches, these include unilateral, bilateral, multilateral, and multilateral strategies; in terms of product coverage, the range has been narrow in scope (a few products), or quite broad (multiproduct). In addition, these measures have been either market closing or market opening. One can array the resulting options in the following table, developed by one of us, focusing only on the first two dimensions of bargaining approaches and products to simplify our presentation.² The cells include generic types or specific examples of modes of governance.

¹ Feketekuty (1998), p. 14.

² This table has been developed and discussed at length in Aggarwal (2000b).

Table 1: Categorizing Modes of Governance in Trade

ACTOR SCOPE

	<i>Unilateral</i>	<i>Bilateral*</i>	<i>Minilateral</i>		<i>Multilateral</i>
			<i>Geographically Dispersed</i>	<i>Geographically Concentrated</i>	
<i>Few products sectoralism</i>	Specific quotas or tariffs or Super 301 (1)	Voluntary export restraints (VERs) (2)	Single sector commodity agreements (3)	European Coal and Steel Community (4)	Information Technology Agreement (5)
<i>Many products</i>	Tariffs such as Smoot-Hawley, or unilateral liberalization (6)	Bilateral free trade agreement such as U.S.-Canada free trade agreement (7)	Agreement on government procurement or LOME (8)	Multiactor free trade agreements or customs unions such as EU (9)	GATT or WTO (<i>globalism</i>) (10)

*Note: These agreements can also be geographically dispersed or concentrated, but are not elaborated on here owing to space constraints.

In this paper, we focus on three specific types of combinations, which we refer to as sectoralism, regionalism, and globalism. Sectoralism refers to arrangements that focus on a few products (cells 1-5). Regionalism refers to arrangements by a limited set of geographically circumscribed countries. These can include two geographically proximate countries (cell 7),³ or a limited set of geographically focused countries on a few or multiproduct basis (cells 4 and 9). Finally, globalism refers to multilateral, multiproduct arrangements such as the General Agreement on Tariffs and Trade (GATT) and its successor organization, the World Trade Organization (WTO) (cell 10). In each case, as noted earlier, the arrangements in question can be protectionist or liberally oriented.

Based on an analytical interpretation of the post-WWII history of evolving institutional arrangements for managing trade, we suggest some general principles, and advantages and disadvantages for pursuit of trade policy initiatives for each of these tracks – global, regional, and sectoral.

³ By this definition, agreements such as the U.S.-Israel free trade agreement are not a form of “regionalism.”

A. Global Economic Management

Global approaches have been the dominant mode of organizing the trading system in the post-WW II era, although a perceptible shift has taken place over the last fifteen years. From an analytical standpoint, liberalization at the global multilateral arena has provided several well-known advantages. First, such negotiations allow for broad subject coverage and mobilization of broad domestic coalitions and even transnational coalitions. By and large, such negotiations by definition involve many states. Thus, in attempting to balance competing interests, multiple interest groups have become involved, and their common objectives may often cross national boundaries. Second, ongoing global negotiations strongly discourage the introduction of new barriers. Few states are willing to incur the ire of others to help a particular industry for fear of undermining global objectives. Third, global negotiations generally lead to involvement by of key policymakers and politicians.⁴ While this can sometimes be detrimental by stimulating protectionist sentiments, the broad scale benefits of multi-issue trade liberalization and the long length of negotiations make protectionist politicians unwilling to as publicly criticize the negotiations for fear of being seen as beholden to special interests.

At the same time, these advantages are counter-balanced in part by significant difficulties. First, GATT/WTO's large and burgeoning membership makes the agenda setting process invariably complex. Moreover, negotiation under such conditions involves many disparate and competing groups and interests. Thus, while broad coalitions are mobilized, they may also pose an obstacle to moving forward in negotiations. Second, due to the high stakes involved in global negotiations, the startup cost for each new round of negotiation has become prohibitively high. Thus, such efforts have come about in the context of significant asymmetries

of power –namely, the presence of a hegemon or perhaps powerful economic blocs such as the European Union (EU). Third, the high issue salience of global negotiations tends to trigger heated debates on domestic social and economic consequences.⁵

B. Regional Approaches

With fewer states involved in negotiations, some have argued that it is easier to pursue regional agreements. From a purely positive perspective, it may be easier to achieve a cognitive consensus in a smaller group of geographically concentrated countries, although such countries are likely to have possible outstanding conflictive issues as well; from a more power based perspective, asymmetry in such groups may lead to faster agreement. With respect to power, the importance of the U.S. as a global hegemon has not readily translated immediately into regional trade agreements such the Free Trade Area of Americas (FTAA) and APEC. Instead, U.S. leverage must be conscientiously translated into trade strategies during the agenda-setting and negotiation stages. For example, at the 1994 Miami Summit of the Americas, the U.S. employed a “hub-and-spoke” negotiation approach to bring representatives of existing regional organizations (Mercosur, Andean Pact, Caricom, and Central American Common Market) in line with the type of liberalization modeled after the North American Free Trade Agreement (NAFTA). And in the APEC context, U.S. hegemonic power has failed to be decisive in negotiations with Japan, Australia, and countries in the Association of South East Asian Nations (ASEAN), as demonstrated in the tough negotiating process for Early Voluntary Sectoral Liberalization

⁴ The NAFTA (North American Free Trade) negotiations are an exception in this respect.

⁵ For more detailed explanations, see Hufbauer and Schott (1998), pp. 130-132.

(EVSL) and for broadening the APEC agenda to deal with non-trade issues of environmental and labor standards.⁶

With respect to economic effects, trade diversion has not been seen to be as serious a problem as originally feared in the APEC and NAFTA cases. However, anxiety about discriminating trade blocs remains strong, as recent bouts of protectionism between the EU and U.S. demonstrate, and the Asian countries against their extra-regional trade partners in the context of the Asian crisis and downward global price pressure.⁷ Furthermore, over time trade blocs might create entrenched conflictive interests and incompatible rules and trade patterns — harming global liberalization.

C. Sectoral Approches: Liberal and Protectionist Variants

Sectoral initiatives, both in liberal and protectionist incarnations, often aim to resolve issues raised but unanswered by global or regional governance structures. The rationale for U.S. participation in sectoral talks has been of two types: achieving tangible gains for domestic industries in defense of sunset industries mobilizing for protectionism; or in favor of expanding businesses with clear global competitive advantages. Therefore, sectoral agreements more closely follow the preferences of domestic business interests, and the U.S. can maximize its bargaining power with the threat of unilateral retaliation.

The Uruguay Round’s “build-in agenda” amounted to a series of ongoing multilateral sectoral talks. The Information Technology Agreement (ITA) originated as a minilateral sectoral pact initiated in the Quad countries, then was promoted in APEC as a sectoral regional pact, and was later adopted by the WTO as a sectoral multilateral arrangement. Such sectoral openness, as

⁶ Aggarwal and Morrison (1999).

⁷ Aggarwal and Morrison (1999).

manifested in the ITA, may seem to be an ideal means of promoting liberalism when global trade efforts stall. Covering over 90% of the total trade in IT products among 69 participant countries, the ITA forms the foundation upon which further liberalization of the information technology (IT) sector is currently being negotiated in WTO committees. In addition, the WTO Agreement on Telecommunications Services extends the same sectoral liberalization principle to trade in IT services.

On the other hand, because sectoral negotiations involve a limited and easily dichotomized set of domestic interests, the margin for coalition building and political give-and-take is much slimmer. Moreover, even successful coalitions for sectoral agreements may pose a threat to global liberalization if entrenched sectoral groups see little reason to take the risk and energy in relocating their existing benefits onto the global multilateral level. That is, by giving highly motivated liberal-minded interests what they want in their specific sector, the classic “horse trading” among a variety of different sectors that has been the hallmark of the GATT process is undermined. Thus, liberalism for its own sake can be destructive -- without concern for the creation of a broader political-economic coalition that will propel global negotiations forward.⁸

The U.S. has frequently used protectionist voluntary export restraints (VERs) with mixed motives. On the positive side, it has provided such aid as a means of promoting larger trading goals that might otherwise be undermined by highly mobilized protectionist groups. At other times, such lofty global goals have not been the objective of sector specific protection; instead, the executive has bowed to pressure from industries. Contrary to the conventional wisdom, protectionist sectoralism need not always be a disaster. If marked by a clear limited commitment and if designed in a manner to provide a temporary respite for affected industries to permit them to adjust to competition or exit

⁸ See Aggarwal (2000b).

the industry, such arrangements need not evolve into protectionist thickets.⁹ The most egregious example that does *not* meet this criteria has been the textiles and apparel industries, with the Multi-Fiber Arrangement (MFA) evolving into a multifaceted protectionist beast that has eroded the developed countries ability to make moral entreaties in the name of liberalism to developing countries.¹⁰ In the second best of all worlds, sectoralism may allow policymakers to move forward with broader trade objectives; but this path can also be a Pandora's box of protectionist evil.

In sum, the limitations on regional and sectoral agreements have led some analysts to conclude that, from the standpoint of economic or trade gains, “[m]ultilateral trade negotiations give the biggest bang for the buck... Regional pacts may produce deeper liberalization in specific areas, but none matches the comprehensive coverage of national trade practices contained in multilateral accords that have been negotiated in GATT.”¹¹ However, the choice for the U.S. and other countries has never been one of either-or, but one of simultaneous or alternating engagement in different arenas. Thus the issue of “institutional nesting” -- the reconciliation of institutions at different levels -- becomes of utmost importance as countries try to devise ways to allow issue or procedural linkages between these arenas.¹²

Even though the GATT/WTO multilateral system has been challenged by the trend toward sectoralism and regionalism, to this point, it has been able to indirectly or directly encompass these arrangements. With respect to regionalism among countries, these arrangements have been explicitly permitted under Article 24 of the GATT, which allowed the formation of free trade areas and customs unions as long as they were on a multiproduct basis. And although sectoralism has posed a greater challenge to the GATT, the MFA in textiles and apparel trade, the most important exception,

⁹ Aggarwal, Keohane, and Yoffie (1987).

¹⁰ See Aggarwal (1985) for details on the evolution of the MFA.

¹¹ Hufbauer and Schott (1998), p. 125.

¹² See Aggarwal (1998).

was explicitly incorporated as a part of the GATT system. It remains to be seen if this multiplicity of governance mechanisms can continue without severe institutional conflict. Analysts have identified some alternative strategic scenarios for institutional reconciliation, which we next examine.¹³

D. A Global/Regional Synthesis

Ernest H. Preeg has argued that the ascendancy of free trade as an explicit policy aim and the approaching parity between the multilateral Most Favored Nation (MFN) and regional free trade mechanism have created an urgent trade strategy challenge to the U.S., inviting three basic choices in the next five to ten years:¹⁴

First, one could envision a two-track approach: pursuing independent development in the multilateral and regional arena, with a normative commitment to the primacy of WTO rules and dispute settlement mechanisms. The hope is that in some undefined future, these tracks will reach a final convergence to zero barriers. Realistically, there is a risk that regional groupings will outpace the uneven and unpredictable WTO progress, as was the case in the period after the Uruguay Round, thus causing a drifting apart of regional groupings in Europe, Americas and Asia. This risk might be intensified if, say, Asia falls behind in its free trade course.

Second, one could imagine a WTO “Grand Bargain”. Fred Bergsten, for example, has proposed that a grand bargain be struck between advanced industrial countries and developing countries, with the former guaranteeing open markets in exchange for the latter’s offer to provide market access to their more protected markets. Bergsten envisioned this agreement to be reached at a WTO summit meeting to achieve global free trade by 2010, with a five to ten year extension for

¹³ For a theoretical discussion of institutional reconciliation and applications to Europe and APEC, see Aggarwal (1998) and Aggarwal and Morrison (1998).

¹⁴ Preeg (1998), p. 144.

developing countries. The major objections to this proposal center on the concerns of political feasibility and WTO's institution capability to handle such a wide-ranging agenda.¹⁵

Third, one could have an extension and integration of regional free trade: Preeg argues for relying on the catalytic role of regional organizations in deepening and widening core values and rules of the multilateral trading system.¹⁶ Since the first moves toward a direct linkage of the principal trading groupings would be bound to encounter the same difficulties as the "Grand Bargain," Preeg suggests the establishment of intermediary regional institutions as a stepping stone, harmonizing and integrating the regional groupings even as they develop autonomously. Such could be the function of the nascent transregional initiatives such as the Transatlantic Free Trade Association (TAFTA) and the Asia-Europe Meeting (ASEM).

E. Global/Bilateral Synthesis

Addressing the complexities of the U.S.-Japan trade relations is beyond the scope of this essay, but it is important and timely to point out that uneven bilateral and sectoral negotiations between these countries have regularly undermined regional and global liberalization efforts. At the same time, both countries are principally committed to multilateral institutions and represent the best chance for leadership in the Asia-Pacific free trade discourse.

Most disputes between the U.S. and Japan have been handled bilaterally, and while in the end most of these bilateral understandings have been designed to be consistent with multilateral principles, GATT/WTO processes have been largely circumvented. The reasons for this historical pattern include Japan's preference for reduced political exposure in handling trade tensions, weaknesses in GATT dispute settlement mechanisms, and the generally perceived effectiveness of

¹⁵ Preeg (1998), p. 149.

¹⁶ Preeg (1998).

bilateral negotiations.¹⁷ However, in recent years analysts have detected increasing Japanese resistance to bilateralism, most likely arising from the following changes: 1) heightened resentment and incapacity on the part of the Japanese foreign policy bureaucracy in the aftermath of the exhausting bargaining over the Structural Impediment Initiatives and the New Framework (1993-4); 2) recent elaboration of WTO procedures; and 3) an erosion of Japanese domestic support in times of recession. In addition, even as Japanese tariffs and official trade and investment policies have become liberalized, U.S. firms continued to encounter difficulties caused by private sector practices and public policy, requiring a different and potentially highly contentious approach to identify and remove these market access barriers.¹⁸ As a result of these changes, Europe and Japan have increasingly struck a consonant voice in criticizing U.S. policies and demurring on trade issues targeted by the U.S.¹⁹ This instability is likely to carry over to multilateral negotiations, as already evident in the discussions of the WTO's Millennium Round.

With these generalizations about the motivations and relevant costs and benefits of different types of trade and investment arrangements in mind, we now turn to a brief historical overview of the evolving relationship among of global, regional, and sectoral agreements. We aim to place developments in U.S. trade policy in the broader context of global causes of and trends in institutional emergence and reconciliation.

II. THE ORIGIN OF AMERICAN CHOICES: FROM OVERARCHING DESIGN TO STRATEGY BY DEFAULT

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

¹⁷ For a detailed account, see Janow (1998), p. 176.

¹⁸ Lawrence (1998), p. 350.

¹⁹ Lawrence (1998), p. 180.

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 over domestically oriented protectionist groups by allowing it to argue for the primacy of Cold War concerns over narrow parochial interests.²⁰ Thus, 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.

Two historical moments marked the turning points in U.S. trade policy: first, the collapse of the Bretton Woods in 1971 signaled the end of the post-WWII monetary order, challenging the conventional view that international economic institutions were necessarily enduring. And second, problems with starting the Uruguay Round, followed by the end of the Cold-War and growing global interdependence, redefined the commercial interests of the U.S. These changes have influenced American bargaining leverage in trade issues vis-à-vis its historical trade partners and emerging markets such as China, and the political alignment and policy influence of trade-impacted domestic groups. The overall impact on U.S. trade policy has been a loss of focus in sustaining overarching objectives and in crafting a strategy of multiple institutional commitments.

Before turning to discussion of the factors that account for the loss of sustained coherence in U.S. trade policy, it is worth considering the origins of U.S. policy and its interest in international institutions. The proposed post-WWII trade and monetary systems – consisting of

²⁰ See Aggarwal (1985) for a discussion of the nesting of economic issues with a security context.

the Bretton Woods regime and the International Trade Organization -- were cast at a global level and depended on U.S. hegemonic resources and leadership.²¹ 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 context, a coalition of protectionists and free traders in the United States, each of whom thought that the International Trade Organization (ITO) was an excessive compromise, prevented the ITO from securing Congressional approval and thus led to its death.²²

Still, the U.S. Executive Branch did not simply give up. With the ITO moribund, the U.S. promoted a temporary implementing treaty, the General Agreement on Tariffs and Trade (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 stop-gap 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.²³ The Kennedy Round of 1962-67 proved to be the most dramatic facilitator of trade

²¹ See Spero and Hart (1997) for a detailed historical narrative.

²² Diebold (1952).

²³ 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.

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%.²⁴ In addition, an agreement establishing a Code on Anti-Dumping was also brokered.

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 multilateralism and a commitment to free trade. Indeed, sectoralism emerged in textiles and in oil trade as early as the mid-1950s. And temporary VERs in textiles and apparel evolved into the increasingly protectionist MFA over a period of 40 years.²⁵

Yet, however repugnant the development of sector specific arrangements, the U.S. executive maintained focus: for President Kennedy, textiles and apparel protection was simply the necessary price to be paid for the broader objective of what came to be known as the Kennedy Round of GATT negotiations. And 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.

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, when the European Coal and Steel

²⁴ Economic Report of the President (1995), p. 205.

²⁵ For an analysis of the MFA, see Aggarwal (1985).

Community (ECSC) was criticized by some as being inconsistent with GATT Article 24 -- which mandated that customs unions and free trade arrangements must cover substantially all products -- the U.S. pressured others to back down and supported the ECSC strongly.

By the 1970s, however, the Bretton Woods system faced severe challenges. A weakening dollar and balance of trade throughout the decade prompted President Nixon to take the U.S. off the gold standard and devalue the dollar. By the mid-1970s, the Organization of Petroleum Exporting Countries (OPEC) “oil shocks” produced stagflation and a rise of new domestic “inside the border” protectionism in the form of voluntary export restraints and support for declining industries. Although the developed countries remained the dominant agenda setters, developing countries increasingly sought to become more influential in obtaining the benefits of international management.²⁶ Finally, the liberal consensus had begun to erode, both among the advanced industrialized countries and the developing world. With a united Western Europe and Japan dissatisfied with the persistently large U.S. deficits, the U.S. was upset with their refusal to revalue their currencies. But the most vocal critics came from the developing countries, who argued that the open monetary, trade and financial system perpetuated their underdevelopment and dependence upon the richer Northern countries.

By the late 1960s, shortly before the collapse of fixed exchange rates, the steel industry had secured protection. This trend accelerated into the 1970s and 1980s with market sharing arrangements in electronics, autos, footwear, and semiconductors. In this context of growing sectoral protectionism, and concern over the impact of the oil crisis, the next GATT round, the Tokyo Round, appeared to be in jeopardy. Yet with persistent effort, led by the U.S., the Tokyo Round of 1973-79 led to a record number 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. Yet for most participants, the Tokyo Round was a disappointment. With inadequate implementation and enforcement mechanisms in place, disputes involving nontariff barriers, agricultural and industrial subsidies remained relatively unsolved.

Following the Tokyo Round, prospects for the trading system once again looked grim. In particular, it appeared that European interest was now diverted to deepening regional integration. In 1982, the effort to start a new round proved to be a failure, as most countries criticized the U.S. for attempting to include services and other new issues on the agenda. With problems in the GATT, in 1984, following the failed 1982 GATT Ministerial meeting, the US Trade and Tariff Act authorized the administration to actively negotiate bilateral free trade agreements. Soon thereafter, the U.S. negotiated the Caribbean Basin Initiative (1983) and the US-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.

In fact, even though the new Uruguay Round got underway in 1986, the U.S. kept up the pressure. 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 unilateral arrangements or a series of bilateral agreements. While we associate a liberal trading system with multilateralism, bilateral or unilateral regimes may also help move the world toward a more open system.²⁷

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 dissolution of the

²⁶ See Krasner (1985).

²⁷ Toronto Star, January 6, 1988.

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 cooperation.

After several delays from the original target conclusion date of 1990, the Uruguay Round came to a conclusion in 1993. But the U.S. was no longer solely committed to the multilateral route. In 1987, it concluded an agreement to create a free trade area with Canada, in 1989 it agreed to become a member of APEC, in 1990 it initiated negotiations with Mexico that led to the 1993 NAFTA agreement, and in 1996 it negotiated sectoral agreements in information technology and telecommunications. The Pandora's box of opportunistic regionalism and sectoralism as a strategy was now opened; but it had come from frustration, rather than part of a grand overall design.

III. THE U.S. AND THE EVOLUTION OF APEC

The establishment of APEC represented a conspicuous exception to the prior history of U.S. hegemonic leadership in international regime-building. Curiously, while America's status as a regional military and economic superpower in the Asia-Pacific has been indisputable, as it had also been for Europe and the Americas, the historical record of regional institutional development in Asia compares poorly with that of other regions. The coming of age of the APEC concept was to a large extent a response by Australia and Japan to the negative spillovers of U.S. unilateralism in Asia-Pacific and regionalism in North American. Thus it was not surprising that the U.S. would initially take a defensive posture toward APEC, participating in it mainly to avoid losing its foothold in the emerging regional institutional arrangement. However, as we will argue below, the U.S. has not come up with a strategic vision to help steer APEC into

institutional compatibility with the WTO and other regional organizations, or enable APEC to develop the political foundation and operational mechanism for sustained liberalization. Instead, U.S. has pushed for “opportunistic liberalization” at fortuitous periods, and reverted back to the global multilateral arena when the regional momentum has swung toward domestic recovery in the aftermath of the Asian crisis. The legacy of U.S. strategic maneuvers and turnaround has contributed to a feeling of disillusionment with the APEC.

The nature of the U.S. policymaking process is also an important factor in the U.S.’s seeming lack of strategic oversight of multiple institutional commitments.²⁸ Generally speaking, since power is so diffuse in the American political and governmental systems, leading to multiple points of access and influence, U.S. policy on complex issues is frequently the sum of a variety of interests and perspectives, some of which may even be mutually inconsistent.²⁹ Both of these centrifugal tendencies — multiple priorities and points of interest group access — were more tightly reigned in during the Cold-War era due to a clear issue hierarchy that placed security and broader economic goals over more literal and provincial commercial interests. This structural constraint has been significantly loosened in the past decade. In short, the U.S. approached the APEC process with mixed motives — not single-minded coherence.

A. Initial Proposal and the U.S. Response

A number of economic and political factors in the 1970s and 1980s converged to set the stage for the establishment of a broad-based regional economic cooperation regime in the Asia-Pacific. Rapid regional economic growth, increasing regional economic interdependence, fear of

²⁸ Baker (1998), p. 165. This section draws heavily on Richard Baker’s excellent study of U.S. policy toward APEC.

²⁹ Baker (1998), p. 166.

protectionism, and the end of the Cold War all led to the creation of APEC.³⁰ Specifically, many smaller states wished to draw their largest partners -- the United States and Japan -- into a larger organization that would diminish U.S. pressure for market openness and prevent isolation if the trend turned toward discriminatory trading blocs. ASEAN countries in particular had perceived U.S. trade strategy as heavy-handed in its reliance on the use or threat of use of Super 301 clause of the Omnibus Trade and Competitive Act.³¹ The motive of binding the hegemon appeared to have been the central driving force behind Australia's promotion of APEC: it was highly concerned about both potentially exclusive Asian and North American blocs. Also, both the government and internationally competitive firms had an interest in binding Australian foreign policy to an open market system that would help to bolster Australia's domestic liberalization policies.³²

The U.S. government was not involved in the development of an intergovernmental institution in the Asia-Pacific. Thus, when Australian Prime Minister Bob Hawke in his January 3, 1989 Seoul speech proposed that a ministerial meeting on the subject be held in Canberra later that year, the initial reaction of the U.S. government under the newly inaugurated Bush administration was restrained.³³ Skeptical of the prospects for political reform in China, the Bush administration remained opposed to multilateral approaches to political-security issues in the Asia-Pacific. It was not until the 1993 Seattle meeting that the U.S. began to take APEC's potential seriously and to actively participate in APEC regime-building.³⁴

A number of reasons exist for U.S. interest in an Asia-Pacific regional economic institution.³⁵ Building an institutional framework for a regional community in the Asia-Pacific

³⁰ For a detailed analysis of these trends in Asia, see Aggarwal and Morrison (1998), Chapter 1.

³¹ Plummer (1998), p. 307.

³² Ravenhill (1998).

³³ Baker (1998), p. 168.

³⁴ Ostry (1998), p. 344.

³⁵ Baker (1998), pp. 170-1.

was seen as critical for providing stability in the region and has the potential of reducing transaction costs in U.S. economic relations with the region. Participation in APEC established the U.S. as a member of the Asia-Pacific community and assures access to the resources and opportunities offered by the region's rapid economic growth. In particular, the U.S. could take the opportunity to ensure that the APEC meta-regime and regime would not lead to an East Asian free trade area with negative consequences for U.S. flexibility in promoting liberalization through the multitrack strategy.³⁶ One U.S. official was quoted as saying, "Our goal is to get all these countries into the camp of open markets rather than see them take the Japanese approach of more managed trade."³⁷

Pressuring the Europeans on the Uruguay Round also was a critical motive — however far-fetched that APEC could become a credible alternative to the GATT in short order. The U.S. was impatient with European foot-dragging in agricultural liberalization; however, in the end APEC's "open regionalism" would not have allowed U.S. to exclude the benefits of regional liberalization from European free-riding.³⁸ Finally, the Clinton administration perceived APEC Summits as opportunities for "photo-op diplomacy," where a well-publicized congregation of Asian leaders created an aura of regional harmony, vigorous leadership, and a novel Asia-focus in U.S. foreign policy.³⁹

Despite these opportunistic strategic reasons, APEC has not been a consistently salient issue in the U.S. trade policy. Bilateral economic ties with Japan, the Koreans, and China often overshadowed APEC as a priority for U.S. leaders. The American academic community has long advocated a multilateral approach to U.S. relations with the region. Receptive to ideas

³⁶ Grieco (1998), pp. 245-6.

³⁷ Grieco (1998), p. 246.

³⁸ Cameron (1998), p. 275.

³⁹ Ostry (1998), pp. 344-5.

emanating from the intellectual community, some members of the U.S. government did adopt a regional focus. Winston Lord, Clinton's Assistant Secretary of State for East Asian and Pacific Affairs from 1993 through 1996, authored the Clinton administration's policy of multilateral cooperation in its approach to the region.⁴⁰ Clinton subsequently promulgated Lord's embrace of multilateralism in his own speeches during his July 1993 trip to Asia. Moreover, by the late 1980's, many officials in foreign affairs and national security condemned the Bush administration's continuing resistance to Asia-Pacific cooperation as short-sighted.⁴¹ Their new support towards building a multilateral cooperation helped provide acceptance of a shift in policy that occurred under the Clinton administration.

APEC received a mixed reception from the U.S. business community. While American exporters were pleased with the government's promotion of reducing barriers to market access, a majority of American business were interested in maintaining barriers to Asian imports that competed with domestic industries.⁴² In this context of uncertainty, Clinton's success at the 1996 Manila APEC meetings in obtaining an APEC endorsement for the conclusion of an Information Technology Agreement on the WTO level was of direct importance to tipping the balance toward pro-APEC American business interests. In the past decade, increased overall involvement of the American business community in the Asia-Pacific economies has translated into a heightened interest in APEC.

In sum, the reactive and opportunistic approach of the U.S. toward the development of APEC and the initial mixed response of domestic interest groups had led to the perpetuation of a mixed trade strategy that continued to rely on unilateralism and bilateralism, even at the expense of APEC development, until after the mid-1990s. In 1992, when another APEC summit meeting

⁴⁰ Baker (1998), p. 174.

⁴¹ Baker (1998), p. 176.

was proposed, U.S. response was noncommittal and no action was taken. In his 1992 election campaign, Bush had announced he would pursue bilateral free trade agreements with a number of Asian nations.⁴³ In contrast with the Bush administration, the Clinton administration placed clearer emphasis on the primacy of regional cooperation and multilateralism as a medium and long-term goal. Winston Lord's "New Pacific Community" initiative provided the centerpiece of their policy in the region.⁴⁴ Following the 1993 Seattle meeting, the administration's East Asian policy team lobbied for the acceptance of regional free trade at the November 1994 meetings. The administration also worked through a round of preparatory meetings in 1995 to ensure that the Osaka APEC meetings sustained the momentum of trade liberalization. But despite continuing efforts to promote multilateral regional cooperation following the 1993 Seattle summit, the Clinton administration's actual actions toward Asian trade partners were characterized by a heavy reliance on unilateral action and bilateral negotiations.

B. Institution-Building: Routes and Strategies

Agenda-setting in APEC has been particularly controversial. Most Asian countries have attempted to secure an agenda that focuses only on voluntary trade and investment liberalization in the region. The U.S. (as well as the Canadians and Australians), pressed by a variety of lobbies, have pushed to include a number of other issues onto the agenda. As a result, APEC's issue scope now includes trade and investment liberalization, the environment, social issues, infrastructure, women's issues, and recently, attempts at financial coordination in the aftermath of the Asian crisis. Predictably, the shallow APEC institutionalization has been heavily taxed by

⁴² Baker (1998), pp. 177-179.

⁴³ Baker (1998), p. 180.

⁴⁴ Baker (1998), p. 181.

this issue expansion.⁴⁵ Developing economies of APEC have shown persistent wariness toward this expanding tendency, most recently revealed by Malaysia's resistance to U.S. mobilization of APEC for support of the Millennium Round.

Even in issue areas where the U.S. has succeeded in securing a formal liberalizing agreement, actual progress has been stalled by APEC members' resistance to U.S. determination to apply the operating principle of reciprocity. For example, the U.S. led a movement to make the nine-sector liberalization a package (discussed in detail in Section IV) in order to discourage countries from picking and choosing sectors based on domestic concerns. But at Kuala Lumpur at the 6th Leaders' Summit in November 1998, Japan, supported by other Asian countries who were concerned about moving forward with liberalization in their weakened economic state, refused to liberalize fishing and forestry products. This development threw the U.S. strategy of using APEC as the vanguard for sectoral liberalization into disarray and forced the participants to send the whole package to the WTO for negotiation. Thus, due primarily to the Asian crisis, APEC's role in trade liberalization has stalled.

In contrast to the legalistic and highly detailed rule based approach in NAFTA, the process of negotiation in APEC reflects its "consensus-building, non-binding, 'soft law' approach" to multinational cooperation.⁴⁶ The norms of consensus and limited scope of participation do not imply absence of controversies and stalemates. The lack of practical results and hesitation exhibited in APEC are not simply a product of organizational softness, but also reflect political tensions within the APEC regime. Several geographic, economic and political dividing lines among member nations have vitiated against consensus on norms and procedures. The central debates in APEC continue to focus around alternative mechanisms for liberalization

⁴⁵ See Aggarwal (2000a) for analysis.

⁴⁶ Zarsky (1998), p. 3. Also see Aggarwal and Morrison (1998).

and for rendering APEC compatible with GATT/WTO, and resolving the ambiguities left by the Osaka Agenda, including the issues of endpoints, benchmarks, time path, and extension of reduced tariffs to nonmembers.

In sum, the United States has found the voluntary nature of implementation of individual action plans (IAPs) from the Osaka Action Agenda ineffective in implementing trade liberalization. First, the voluntary agreements meant there was no way for APEC to deal with member countries that were slow to implement the trade liberalization plans. Second, the United States found these agreements to be large ineffective in advancing trade liberalization in specific sectors, specifically services and agriculture. The effort to maintain consistency with the GATT/WTO through the pursuit of so-called “open regionalism” has retarded the development of rules, implementation, and enforcement at the regional level while supporting it at other levels.⁴⁷ “Open regionalism” has been a code phrase against what many Asian regard as “Western-style institution-building,” serving as a defense against bureaucratic, region-wide rules-making model of the EU and NAFTA, thus rendering commitments impossible to enforce and monitor. Finally, the nesting of APEC under WTO has sometimes distracted U.S. leadership from regional solutions in certain trade-related disputes, as was the case in the recent trade-environmental linkage debates.⁴⁸

The consequences were no substantial reductions for the United States (or Japan) in their IAPs affecting tariffs or non-tariff measures. The United States has yet to made specific commitments beyond those made under the ITA and some agricultural support programs. At Kuala Lumpur, the United States made no commitments for tariff reduction other than those

⁴⁷ The following two paragraphs are excerpted from Aggarwal and Morrison (1998), pp. 403-404.

⁴⁸ “In the ... shrimp-turtle dispute, WTO Director-General R. Ruggiero castigated the U.S. for seeking solutions to environmental problems through unilateral trade rules.” *BusinessWorld*, July 14, 1998, p. 1.

made in WTO agreements. The inability to get the United States or Japan to support to the IAPs gave way to developing a sectoral approach to trade liberalization: the EVSL.

IV. (MIS)USING APEC

The U.S. has now found itself in a situation of what we have termed opportunistic liberalization. Put differently, its policy is simply a tactical response to pressures from U.S. business to open markets. But lacking strategic vision, such liberalization comes at a heavy price — damaging long-term U.S. interests in the Asia Pacific region. This problem extends to economic policy more generally, including financial policy, which has been marked by a clear lack of sensitivities to Asian interests. The result has been to damage APEC as an institution as the U.S. blithely moves on to other avenues to meet domestic pressures.

A. Liberal Sectoralism: ITA and EVSL

Because more than 80 percent of global information technology trade occurs within APEC economies, the U.S. chose to promote this sector for liberalization after initial Quad discussions by presenting the original ITA proposal at the annual APEC summit in Manila in 1996. With a strong U.S. business presence in the Asia-Pacific and a well-coordinated lobbying strategy, APEC Ministers unanimously endorsed the agreement as an important example of regionally-driven, sectoral, market-opening action. In fact, many argue that the 1996 APEC Leaders' ITA declaration successfully pushed other countries to join in completing the ITA by the WTO biennial ministerial at the WTO's December 1996 Singapore Ministerial meeting. The final multilateral agreement calls for the phasing out of tariffs on several categories of equipment by the year 2000, including computers, selected telecommunications equipment, software,

semiconductors, and printed circuit boards. This effort can be seen as using sectoralism regionally to pursue sectoral liberalization globally.

The U.S. continued on this path with enthusiasm, extending this model to promote liberalization in a variety of other sectors.⁴⁹ In Vancouver in 1997, Ministers agreed to consider nine additional sectors for fast track liberalization in the EVSL scheme : chemicals, energy-related equipment and services, environmental goods and services, forest products, medical equipment, telecommunications equipment, fish and fish products, toys, and gems and jewelry. In addition, they called for discussion of liberalization in six other sectors: oilseeds and oilseed products, food, natural and synthetic rubber, fertilizers, automotive, and civil aircraft.

The U.S. led a movement to make the nine-sector liberalization a package in order to discourage countries from picking and choosing sectors based on domestic concerns.⁵⁰ Rather than having voluntary tariff reductions across a broad range of industries, EVSL aimed to specifically target industries that would have a positive impact on economic growth for member nations. EVSL aimed to resolve the ineffective IAPs by forcing trade liberalization in specific sectors. The framework for EVSL forced timetables among participating members for trade liberalization on the sectors, reducing the problem of dealing with slow-movers.

This strategy initially appeared to be viable, but quickly ran into difficulties. Mexico opposed the sectoral approach, preferring multilateral liberalization through the WTO. Chile opted out because of its flat tariff rate structure. Then in Kuala Lumpur at the 6th Leaders' Summit in November 1998, Japan — supported by China, Indonesia, Thailand and Malaysia,

⁴⁹ Some have interpreted the EVSL process as deriving from U.S. pressure for a regional confidence-building measure. U.S. Under-Secretary of Commerce for International Trade, David Aaron, said that the EVSL process is essential as: “a confidence-building measure and to send a signal to financial markets, also for APECs own credibility in this time of crisis. I firmly believe that if this APEC process does not go forward, it would have series consequences for the region as a whole.” Lloyd (1999), p. 11.

⁵⁰ See Aggarwal and Morrison (1999) for a more extended discussion of these points.

with the latter three countries concerned about moving forward with liberalization in their weakened economic state — refused to liberalize trade in fishing and forestry products. With an economy that was still moribund, the Japanese government was unwilling to take the political heat from interest groups who strongly opposed liberalization in this area. Disagreement immediately took hold between the United States and Japan and other, forcing the EVSL to be pushed to the WTO. The outcome of the disagreement was the failure of any APEC member country to implement unilateral EVSL tariffs cuts, essentially ending EVSL as an effective means for reducing tariff barriers. Instead, the ministers agreed to shift the negotiations in these sectors to the World Trade Organization.

The abandonment of further negotiations on EVSL — with the package being sent for further debate to the WTO — can be viewed in one of two ways: first, that APEC wishes to become the springboard for new WTO initiatives, thereby making the decision to transfer EVSL to the WTO a strategic approach. Or second, one could argue that APEC has conceded defeat in further trade reductions via EVSL, and the decision to transfer the EVSL to WTO was an act of desperation after it failed to make any progress in terms of trade liberalization. Given Japanese opposition to the tariff reductions, the evidence would support the latter conclusion.

Meanwhile, the deadline for reaching a final accord on extending the scope of ITA to additional products was postponed several times in 1998, and delays continue. An ITA-2 pact was intended to remove duties on 200 high-tech products by 2002 (2007 for some poorer countries). But this idea, pushed by the U.S. and EU, met considerable resistance from some Asian developing countries, especially Malaysia and India. India was concerned about dual use technology that might damage its defense interests while Malaysia wanted to protect its printed circuit board manufacturers. As a result, the product list has been more than halved in search of

consensus; currently it includes printed circuit board-making equipment, radar and navigation goods, certain components of IT equipment, and some consumer electronics.⁵¹

The abandonment of cooperation among the main players in APEC represents a perilous turn of events for the rest of the APEC countries. As the two key players in APEC, unless the United States and Japan agree to move forward together on liberalization, the legitimacy and effectiveness of APEC will be undermined, increasing pressures on smaller economies to resist trade reform. As one observer puts it: "If the two largest economies in the world don't show us a good example on trade liberalization, then you can't expect the smaller and weaker economies to take the risks. The initiative, the momentum and the drive really do have to come from Japan and the U.S."⁵² As we argued in Section I, this failure of collaborative leadership stems from an underdevelopment of multilateral/bilateral-sectoral strategic synthesis, which leaves U.S. and Japan unable to sort out their bilateral tensions through effective use of regional or global mechanisms.

B. The Asian Financial Crisis

The U.S. role in dealing with the Asian financial crisis has also been criticized for undermining APEC institutional development. While APEC had provided a forum for discussions on the crisis, particularly during the 1997 Vancouver meeting, the possibility of an active role by APEC or other Asia Pacific regional organizations in resolving the financial crisis came to naught. In fact, other institutions in the Asia-Pacific have also attempted to play an active role, but the International Monetary Fund (IMF), supported by the U.S. and European countries have resisted this effort. On the role of the IMF, the U.S. and European appear to see

⁵¹ *The Economist*, October 3, 1998, p. 37; *Financial Times*, December 15, 1998, p. 9.

⁵² *Asiaweek*, November 27, 1998.

eye-to-eye, not wishing to see the development of autonomous financial organizations on a regional basis that might undermine their strong endorsement of classic IMF conditionality.

Beginning with its first key Asian program after the crisis began (a total package of \$17 billion to Thailand in August 1997), the IMF, supported by the U.S., attempted to deter any rival institutions from taking a significant role. With the U.S. failing to financially participate in the Thai rescue package, the Japanese took the lead in September 1997 with a proposal for an Asian Monetary Fund (AMF), to be backed by \$100 billion that they had lined up in commitments in the region. But the IMF, U.S., and most other G-7 countries attempted almost immediately to quash this initiative, with the U.S. Treasury leading the charge. In particular, the latter viewed such a fund as undercutting its preferred approach of IMF loans accompanied by conditionality. In addition, it expressed concern about the relationship that any such fund would have to the IMF.⁵³

Three positions quickly emerged: The Japanese argued for some division of labor and parallel linkage between the two funds, with an AMF playing a role in the crisis prevention as well. A second view, expressed by Malaysian Prime Minister Mahathir, was to have an AMF that would be independent of the IMF, thus creating a clear institutional rivalry. The third view, the IMF and American position, was that any Asian fund should be fully nested within the purview of the IMF. As Michel Camdessus put it, “There is unanimity ... to avoid creating whatever facility which would not be triggered by a programme with the IMF.”⁵⁴

The success of the U.S. and the IMF in forestalling creation of a rival financial institution was embodied in the November 1997 Vancouver APEC summit meeting leaders’ endorsement of the so-called Manila framework, agreed to by the APEC financial ministers shortly before the

⁵³ Aggarwal (2000b)

⁵⁴ *Financial Times*, November 14, 1997.

start of the summit. The Manila framework called for the International Monetary Fund to take the lead in providing emergency loans to Thailand, Indonesia, and South Korea, with APEC member nations taking only a secondary role, if necessary, to supplement IMF resources on a standby basis without any formal commitment of funds. Thus, with the APEC action providing a seal of approval for the US-IMF backed plan, the AMF idea was put on hold.

V. THE U.S. POSITION ON THE WTO MILLENNIUM ROUND

Since the Asian crisis and the collapse of the EVSL approach, the United States' position on trade liberalization has begun to shift from APEC to the WTO. The apparent advantage of the WTO is that commitments continue to be voluntary, but they are binding once they are made; in contrast, the lack of enforcement of voluntary agreements in APEC has turned out to be ineffective in addressing sectoral liberalization. However, this newly emphasized insight hardly constitutes a long-term strategic solution to the challenges of institutional reconciliation.

Substantively, the U.S. wants further negotiations in agriculture, in some services areas, and also in some of the built-in negotiations. The Clinton administrative and USTR had not yet developed fully articulated developed negotiation positions prior to the Seattle meeting. Not certain of how Congress would react to a request "fast-track" authority request, the Clinton administration attempted to keep its options open. At one end of the spectrum, it hoped to try and use American "market power" as a large import market, and the threat or danger of protectionism, to get concessions from others, particularly the developing countries. At the same time, it wanted to ensure that its own rules become multilateralized in the WTO. This would create new obligations for others, but none for the U.S. that would require congressional approval for changes in statutes.⁵⁵

⁵⁵ *Third World Economics*, No. 204, March 1999, pp. 1-15.

A. The Strength of Different Interests in the U.S.

In order to understand the problems encountered in Seattle, it is useful to consider the strength of different groups.⁵⁶ Overall, it is quite clear that U.S. business interests remain the strongest group in favor of trade liberalization, supported aggressively by some service sector groups. As noted above, however, some of the most politically powerful groups such as the telecom and information technology sectors are not as interested as before in a new Millennium Round of the WTO because of the sector specific liberalization agreements that have been concluded in their favor. As a consequence, business interests do not include the full panoply of committed interests to the extent that they did before the start of the Uruguay Round. Agriculture remains powerful, but it has not been as vociferous advocates as before as liberalization has taken place in this sector.

On the protectionist business anti-Millennium round side are the weaker older industries such as steel, textiles, and apparel. These industries are very powerful with easy access to Congress. This does not of course guarantee protection for these industries, as the recent defeat of a protectionist steel bill in the U.S. Congress indicates, but these industries remain a powerful force. But two other groups have increasingly allied themselves with older protectionist oriented industries: labor and environmental groups. While the strength of these groups varies, the highly educated and well-organized environmental groups together with their somewhat weaker labor allies can mount strong opposition to further trade liberalization, particularly with Democrats in Congress and the President. As we have seen, this new coalition proved powerful enough to complicate the start of a new round of negotiations.

⁵⁶ For details on the position of US interest groups on the WTO negotiations and likely problems, see Aggarwal (1999).

In his most substantive public statement to date, President Bill Clinton articulated a U.S. agenda for the WTO Seattle meeting that contains uneven degrees of issue specificity and nearly no indication of strategic consideration for the broader institutional implications of the Millennium Round.⁵⁷ This preoccupation with the immediate gains of upcoming negotiation and with reacting to current domestic demands is consistent with our argument that an integrated, long-run vision of appropriate relations among different free trade courses is lacking.

For the agriculture sector, the Clinton administration aimed to pressure the European and other protected agricultural markets to eliminate export subsidies, reduce tariffs, and reduce barriers against biotechnology which is one the U.S. agrochemical business' strong suits. Since Europe, Japan, South Korea, and others have very little interest in agriculture liberalization, the American farming groups could expect little from these ambitious goals.⁵⁸ For the services sector, little was mentioned aside from an interest to open more markets. And Clinton pledged to extend the ban on e-commerce tariffs and to reach an additional agreement on eliminating remaining tariffs of information technology. Again, it is worth mentioning that the last two sectors already enjoy recently operational sectoral agreements, and have expressed a conservative preference against dramatic revisions at the WTO level. Finally, Clinton stated his longstanding concerns for labor and environmental considerations, but appears to be leaning toward the business advocacy of narrow WTO focus on establishing working groups and collaboration with International Labor Organization and International Environmental Organization, rather than toward an integration of these concerns into the trade and investment mechanisms as demanded by labor and environmental groups.

⁵⁷ "Remark by the President at the Democratic Leadership Council Gala," 10/13/99. Released by the White House Office of the Press Secretary.

B. Intra-APEC Cleavages in the Millennium Round

As noted, during the 1999 APEC Ministerial meeting in New Zealand, the APEC ministers agreed to refer current negotiations on tariff elimination in six specific trade sectors – oilseeds, food, rubber, fertilizer, civil aircraft, and car industries – to the WTO. This effort signals a significant shift in attitudes of countries such as Japan and South Korea that had previously resisted such a move.⁵⁹ While APEC countries, therefore, have now in principle agreed on including industrial tariff negotiations at the WTO, developing countries including China, India, Indonesia, and Brazil continue to disagree with the United States, the EU, and Japan on including subjects like government procurement and investment policy.⁶⁰

APEC members have failed to show unity on the new WTO round largely because Japan and the U.S. failed to narrow the gap between their approaches during the APEC meetings: Japan wanted a ‘single-undertaking’ approach (supported by South Korea), while the U.S. wanted to allow participating economies to implement accords as soon as they are reached.⁶¹ Following the Auckland APEC meeting, the U.S. won out and it was decided that tariff reductions would be delivered sector by sector according to each economy.

Also, Japan preferred to take up a variety of issues at the WTO round, but the U.S. wanted a limited agenda. A senior Japanese official correctly predicted that the Seattle WTO meeting would not succeed if the U.S. sticks to its stance. Japan and the U.S. are likely to continue their long-running battle of wills over fish, timber products and agriculture. Paradoxically, at the same time, many developing nations, particularly Malaysia, are cautious of

⁵⁸ “Press Briefing by National Economic Advisor Gene Sperling, United States Trade Representative Charlene Barshefsky, and Secretary of Agriculture Dan Glickman,” 10/13/99. Released by the White House Office of the Press Secretary.

⁵⁹ Financial Times, p. 4., June 30, 1999.

⁶⁰ Japan Economic Newswire, June 26, 1999. “APEC Senior Officials Begin Talks on WTO Agenda”

moves to widen the scope of WTO negotiations to include non-trade issues. Malaysian ministers were glad that APEC did not set a decisive time for new trade negotiations in the Millennium Round, against U.S. pressures to do so.⁶² Early on Malaysia had refused to dispatch its trade minister to Auckland's APEC meeting because it opposes the 'extraneous' new issues such as the linkage of trade with environment protection and labor standards, both topics supported by U.S. representatives.⁶³

VI. CONCLUSION

This paper has argued that U.S. policy has been marked by "strategy without vision." While the early post-WW II period was marked by an overarching design to integrate American security and economic concerns, the rise of Japan and Europe, the eroding consensus on liberalism, and the end of the Cold War have all combined to yield a policy of opportunistic liberalism. As we have suggested, while one could gild the lily and label this a successful multitrack approach, the lack of an overall vision has often undermined institutions and disrupted important American relationships with its allies and friends throughout the world.

The current U.S. frustration with APEC stems from the lack of vision that we have noted. From the beginning, APEC was seen in purely instrumental terms, rather than an overarching U.S. priority in the region and long-term commitment to the Asia-Pacific economic regime. Critical institutional issues such as open regionalism, bilateral disputes, issue scope, China's WTO status, and the like were never worked out as part-and-parcel of a strategic vision. It is unrealistic to argue that the U.S. could have easily overcome problems of regime-building

⁶¹ *Japan Economic Newswire*, September 8, 1999. "APEC Ministers End Morning Session in N.Z."

⁶² *Bernama: The Malaysian National News Agency*, September 19, 1999. "MSIA Happy No Date Set To Launch New WTO Negotiations"

⁶³ *Japan Economic Newswire*, June 26, 1999. "APEC Senior Officials Begin Talks on WTO Agenda."

arising from the economic diversity and political differences in the region. But it did not help that the U.S. participated in APEC for defensive and opportunistic reasons, and then withdrew its initiatives when the bargaining costs escalated in the aftermath of the Asian crisis.

In comparing regime building in the Asia Pacific to the evolution of regionalism in Europe or America, regionalism in Asia represents a departure from the model of hegemonic initiative in regime-building in at least two ways. First, while the U.S. maintained overwhelming military and economic position in the Asia-Pacific area, it had taken no significant leadership in forging regional security or economic organizations beyond some sundry military alliances during the Cold War. Compared to NATO and the European Community in the Cold-War European arena and the Free Trade Area agreement with Canada in North America, subregional Asian-Pacific organizations prior to the establishment of APEC — mainly ASEAN (and later the ASEAN Free Trade Area) and the Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) — arose independently of U.S. preferences. In fact, the preparatory work for APEC's creation was mainly undertaken by Japanese and Australian politicians and epistemic communities.

Consequently, in the late 1980s, the Bush administration shifted from reluctance to endorsement when it became clear that jumping on the APEC bandwagon could have the strategic benefits of: 1) preempting the formation of a discriminatory pan-Asian trading bloc; 2) appeasing ASEAN countries critical of U.S.'s contemporary regional initiatives in Americas and counteractions in Europe; and 3) promoting additional liberalization outside of the Uruguay Round. From the perspective of current U.S. strategic vision, the first two reasons have since then become near obsolete, while the last one has ran aground with the collapse of the U.S. sectoral strategy. More fundamentally, while the U.S. had deliberately insisted on an APEC

meta-regime (principles and norms) that is consistent with the GATT/WTO, the expected outcome of “WTO-plus” contribution has not been forthcoming. Institutionally, the regime characteristics of decisionmaking based on consensus formation and voluntary implementation have resulted in few significant advances beyond the extant commitments of individual countries to the GATT/WTO — problems that can of course not be laid only on the American doorstep.

The U.S. promoted the EVSL initiative as an effort to overcome this ineffectiveness by committing members to detailed market-opening plans on a broad range of sectors. However, protectionist disputes with Japan and other Asian countries and political tensions with the People’s Republic of China have forced the U.S. to revert to the WTO arena. These conflicts reflect a basic U.S. neglect of bringing bilateral relations in line with fledgling regionalism. Institutional capability and nesting issues aside, there remains the unresolved problem of “open regionalism” as potentially lethal to the U.S. interest in shifting its economic and diplomatic weight among different trade tracks to promote competitive liberalization. The U.S., for example, worried that the EU would free-ride on any agricultural liberalization achieved in the APEC context.

It is beyond the scope of this essay to provide a full menu of foreign policy recommendations. As the leading global power without Cold War concerns of combating the Soviet Union, the U.S. government has not been able to use security pressures to dissuade protectionist groups from pursuing their agenda. In such an environment, with a more open structural context, the executive branch must make an active case for open trade policy. In particular, some pressing fundamental questions relating to APEC’s status in U.S. multilateral strategy need to be addressed by the U.S. in the context of mobilizing APEC support for a new Millennium Round of the WTO:

- Bringing historical bilateral relations with Japan, China, and South Korea into some agreement with regional procedures and mechanisms
- Reconsider the principle of reciprocity in the context of APEC metaregime and regime
- Decide on the future operationalization of open regionalism, and reexamine the alternative of a free trade area
- Consolidate domestic business, academic, and bureaucratic commitment to a long-term, sustained interest in developing an Asia-Pacific foreign policy

Without fast track and a broader partisan consensus on U.S. economic policy, these ideas may seem rather quixotic. But without ideas on forming a vision to provide a foundation for U.S. foreign economic policy, tactical opportunism will remain the order of the day.

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