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The political economy of the Asia Pacific: A

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I. Introduction

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

To briefly elaborate, the logic of my argument runs as follows. With respect to the current US political economy of trade, two developments are of particular significance. First, the US strategy of “competitive liberalisation” in which it pursues bilateral and minilateral agreements, both sectorally and broadly, with the intent of stimulating the multilateral path of the WTO has fractured the domestic coalition for free trade.¹ Ironically, in their zeal to push forward the agenda of free trade – an agenda which I share – proponents of competitive liberalisation have undermined the very movement to free trade that they so ardently advocate through a politically naive understanding of trade politics. Creating piecemeal liberalisation through open sectoral agreements such as the Information Technology Agreement (ITA) and bilateral trade agreements has undercut the coalition for free trade. By giving specific industries what they wanted, this policy has left protectionists in agriculture, steel, textiles, and others in control of the trade agenda. Thus, those who bemoan the proliferation of bilateral and regional initiatives and the lack of progress in the WTO fail to recognise the obvious unfortunate causality connecting these two approaches to trade. In my view, it is their very advocacy of a policy of competitive liberalisation that has been a key contributor to the Doha Round’s troubles.

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

For its part, APEC has failed to significantly move forward the trade liberalisation agenda in the Asia-Pacific and is unlikely to do so with its current

of a Free Trade Area US perspective

weak institutional structure. It has, however, continued to play an important and useful role in trade facilitation activities and with respect to other issues such as security and the environment, to name just a few. Using APEC as the key instrument to promote an FTAAP in the current context will lack credibility and will instead further fracture APEC's membership and undermine the useful roles it has been playing.

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

Section II of this article considers the political problems that have been created through competitive liberalisation. It shows how US policy has moved away from the previous strong commitment to multilateral multi-product trade liberalisation as the central approach to bilateral and multilateral broad and sector specific accords. To examine the prospects of an FTAAP, Section III considers the likely domestic political dynamics of current US trade policy, the importance of the US-China trade deficit, and APEC's current role. In conclusion, Section IV examines the impact of these elements by considering FTAAP's prospects in the scenarios of both success and failure in the Doha Round, as well as positive roles that APEC might play.

ii. The evolution of US Trade Policy

What trends have we seen in US trade policy strategy in the post-WWII period? As we shall see, the decisive shift in the types of trade arrangements from multiproduct multilateral negotiations to a variety of other forms came in the mid to late 1980s in the midst of the Uruguay Round negotiations.

Multiproduct Multilateralism: US Trade Policy from the Post-World War II period to the early 1980s²

With a dominant military force, a large market, enormous productive capacity, and a strong currency and financial system, the US was well positioned to assume global responsibility at the end of the Second World War. In particular, the nested context of the international trading system within the overall security system gave the US executive leverage to resist domestically oriented protectionist groups. The president could resist both congressional and interest group pressures by raising the specter of the Soviet and Chinese communist threat to US interests, thereby allowing it to advance Cold War concerns over narrow parochial interests and foster free trade.³

The proposed post-WWII trade and monetary systems – consisting of the Bretton Woods regime and the International Trade Organisation – depended on US resources and leadership. In addition, with Western Europe and Japan ravaged by the war, the Cold War context further reinforced the US desire for rebuilding these economies. But despite this positive security context,

a coalition of protectionists and free traders in the United States, each of whom thought that the International Trade Organisation (ITO) was an excessive compromise, prevented the ITO from securing Congressional approval and thus led to its death.⁴

Still, the US executive branch did not simply give up. With the ITO moribund, the US promoted a temporary implementing treaty, the GATT, as the key institution to manage trade on a multilateral basis in 1948. As a trade 'institution', the GATT got off to a difficult start, representing a stopgap agreement among 'contracting parties' – rather than a true international institution. Originally brokered in parallel with ITO negotiations, the 23 GATT members negotiated a series of tariff concessions and free trade principles designed to prevent the introduction of trade barriers.

As the sole interim framework for regulating and liberalising world trade, the GATT turned out to be highly successful at overseeing international trade in goods and progressively reducing trade barriers. The Kennedy Round of 1962-67 proved to be the most dramatic facilitator of trade liberalisation with sharp tariff cuts. GATT membership increased to 62 countries responsible for over 75% of world trade at the time. The Tokyo Round of 1973-79 led to a record 99 countries agreeing to further tariff reductions worth over \$300 billion of trade and an average reduction in manufacturing tariffs from 7% to 4.7%. In addition, agreements were reached on technical barriers to trade, subsidies and countervailing measures, import licensing procedures, government procurement, customs valuation and a revised anti-dumping code.

But while this golden age of globalism was marked by significant coherence, the 1950s were already marred by exceptions to a multilateral multi-product approach to negotiations. Indeed, sectoralism emerged in textiles and in oil trade as early as the mid-1950s, while temporary VERs in textiles and apparel evolved into the increasingly protectionist multilateral MFA over a period of 40 years.⁵

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

In the context of the negotiation of GATT rounds, the US executive continued to face protectionist pressure from specific industries and was repeatedly forced to accommodate them. Soon after the Kennedy Round was concluded, the steel industry managed to secure voluntary export restraints to limit steel imports from Japan and the EEC in 1969.⁶ These VERs were dropped in 1974, but since then various new accords to limit steel imports have repeatedly been imposed and dropped. In footwear, orderly marketing arrangements were negotiated with Taiwan and South Korea in 1977, but these were dropped in 1981 and have not been reimposed. Similarly, OMA's restricting televisions from Japan, Korea and Taiwan came into effect from 1977 to 1979, but were then dropped from 1980 to 1982. In autos, President Reagan negotiated a VER with the Japanese in 1981, but by 1985, these had also been dropped.

The most important issue to keep in mind when thinking about the implications of sector-specific arrangements is their purpose. In the case of sectoral arrangements in textiles and apparel, President Kennedy removed

Table 1: US Trade Policy: Mid-1980 to 2006

		NUMBER OF PARTICIPANTS					
		Unilateral	Bilateral		Minilateral		Multilateral
			Geographically Concentrated	Geographically Dispersed	Geographically Concentrated	Geographically Dispersed	
PRODUCT SCOPE	Few Products	(1) Super 301 (1990s)	(2)	(3) U.S.-Japan VIEs (1980s-1990s) Australia FTA (2004)	(4)	(5) EVSL (1997)	(6) ITA (1997) BTA (1998) FSA (1999)
	Many Products	(7) Generalised System of Preferences (1976, 2002) Andean Trade Preference Act (1991, 2002) African Growth and Opportunity Act (2000) Caribbean Basin Initiative (1983, 2000)	(8) Canada-U.S. FTA (1989)	(9) Israel FTA (1985) Jordan FTA (2001) Chile FTA (2003) Singapore FTA (2004) Morocco FTA (2004) Bahrain FTA (2005) Oman FTA* (2006) Peru TPA* (2006) Malaysia FTA (UN) Thailand FTA (N) Panama FTA (N) Korea FTA (N) Colombia FTA (N)	(10) NAFTA (1993)	(11) APEC (1989) Dominican Republic-Central America FTA (2005) Free Trade Area of the Americas (UN) South African Customs Union FTA (N)	(12) GATT/WTO (1947/1995)

Key:
An asterisk indicates that the agreement has been signed but not ratified.
N means currently being negotiated. Framework draws on Aggarwal (2001a).

opposition by an industry that viewed itself as losing from freer trade. By appeasing this potent opponent, Kennedy was able to strengthen the coalition for free trade. Similarly, other agreements as in televisions, footwear, and autos have come into being for similar reasons, but in the case of those industries, were relatively temporary and have not been reimposed. By contrast, as I argue below, competitive liberalisation has had the opposite effect, instead weakening the pro-free trade coalition. Thus, we must be careful in assessing the pros and cons of sectoral initiatives.

A second key deviation from the multilateral process was the development of regional accords. But the most significant of these – the European Coal and Steel Community, which evolved into the European Economic Community (EEC) and now the EU – were backed by the US with overall security concerns in mind. For its part, however, the US refused to engage in the negotiation of regional trading accords and persisted with its multilateral multiproduct approach, albeit with occasional deviations on a sectoral basis as I have noted.

But in the early 1980s, following the Tokyo Round, change in the traditional approach was clearly in the air. The US began to fear that European interest was now focused on widening and deepening of its regional integration efforts. With respect to the GATT, the 1982 effort to start a new round proved to be a failure, as most countries criticised the US 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 authorised the administration to actively negotiate bilateral free trade agreements.

Soon thereafter, the US 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 US now was willing to shift its own strategy away from pure multilateralism.

Trade Policy after the mid-1980s: One Step Forward, Two Steps Backward⁷

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

If possible we hope that this ... liberalisation will occur in the Uruguay Round. If not, we might be willing to explore a market liberalising club approach through minilateral arrangements or a series of bilateral agreements. While we associate a liberal trading system with multilateralism, bilateral or minilateral regimes may also help move the world toward a more open system.⁸

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

After considerable delay, the Uruguay Round came to a conclusion in 1993. But the US was no longer solely committed to the multilateral route, as illustrated by its policy shift beginning in the mid-1980s. On a multiproduct basis, the US created its first bilateral agreement with Israel in 1985, and a

year earlier had created a preferential trading agreement for the Caribbean countries. But these rather minor deviations were superceded by the very significant 1987 free trade area with Canada, the United States' founding membership in APEC in 1989, the initiation of negotiations with Mexico that led to the 1993 NAFTA agreement, and ongoing negotiations for a Free Trade Area of the Americas.

On a sectoral basis, while continuing to be part of the protectionist Multifiber Arrangement, the US moved to a new tack with the conclusion of "open sectoral" multilateral agreements in information technology, telecommunications, and financial services from 1996 to 1998. Laura Tyson, for example, has argued that among multilateral trade options, this sectoral approach is a sound alternative to the multi-sector WTO approach.⁹ Yet as I have argued elsewhere, open sectoralism can be politically hazardous.¹⁰ From a political perspective, sectoral market opening is likely to reduce political support for multilateral, multisector negotiations. Because sectoral agenda setting involves a limited and easily polarised set of domestic interests, the margin for coalition building and political give-and-take is much slimmer.

Moreover, industries that have succeeded in securing sectoral liberalisation may pose a threat to a global liberalisation agenda. These groups will see little reason to risk their existing benefits by supporting their relocation in the WTO-centered multilateral, multiproduct regime. By giving highly motivated liberal-minded interests what they wanted in their specific sector, this approach contrasts sharply with the longstanding successful policy that we have seen of giving often-temporary relief to strong protectionist interests to remove their opposition to broader liberalisation. Thus, while such open sectoral liberalisation seems attractive from an economic standpoint, it may actually be one step forward and two steps backward when it comes to securing freer trade.

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

Obviously, the best policy option is to build on the WTO framework... However, it may take regional and bilateral initiatives to jumpstart the WTO. Alternatively, we may have to undertake the regional and bilateral initiatives just to avoid discrimination by our more active trading partners.¹¹

Once President Bush obtained fast track authority (now known as trade promotion authority), the US proceeded to negotiate a large number of bilateral trade agreements (see Table 1 below), often for strategic reasons with little economic rationale or direct trade benefit. Indeed until the recent initiation of negotiations with South Korea, the total export coverage of all the agreements to this point, excluding NAFTA, was little more than 10%.

What are the international implications of the pursuit of bilateral trade agreements? This so-called competitive liberalisation strategy has created an important negative dynamic. As John Ravenhill notes, at the end of 2001, of 144 WTO members, only China, Hong Kong, Japan, South Korea, Mongolia, and Taiwan, had not signed a preferential trading agreement.¹² This quickly changed with these members imitating the US strategy of negotiating bilateral accords, and in doing so contributing to the heavily criticised "noodle bowl" in Asia.¹³

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

European business has argued that the EU's reluctance to be seen as undermining the World Trade Organisation by negotiating bilateral deals has seen it overtaken by competitors such as the US and Japan that are not shy.¹⁴

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

III. The political economy of the FTAAP: Current US dynamics

With the sharp trend in US policy toward competitive liberalisation, and rapid proliferation of bilateral trade agreements in the Asia-Pacific more generally, might an FTAAP be an optimal trade arrangement and reinvigorate APEC? Unfortunately, my analysis suggests that the answer to this question is a resounding "No". Three key factors underlie this pessimism. First, any US domestic political coalition that might support such a move has been undermined by bilateral and sectoral agreements, and these groups have begun to prefer a bilateral route. Second, the US trade deficit poses a significant obstacle to any participation of China in a PTA, whether bilaterally or as part of a broader Asia-Pacific accord. And third, APEC is insufficiently institutionalised to play a role that could foster such an accord. Moreover, these arguments apply, irrespective of whether a Doha Round agreement is signed in the near future or not.

The Missing Political Coalition for an FTAAP

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

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

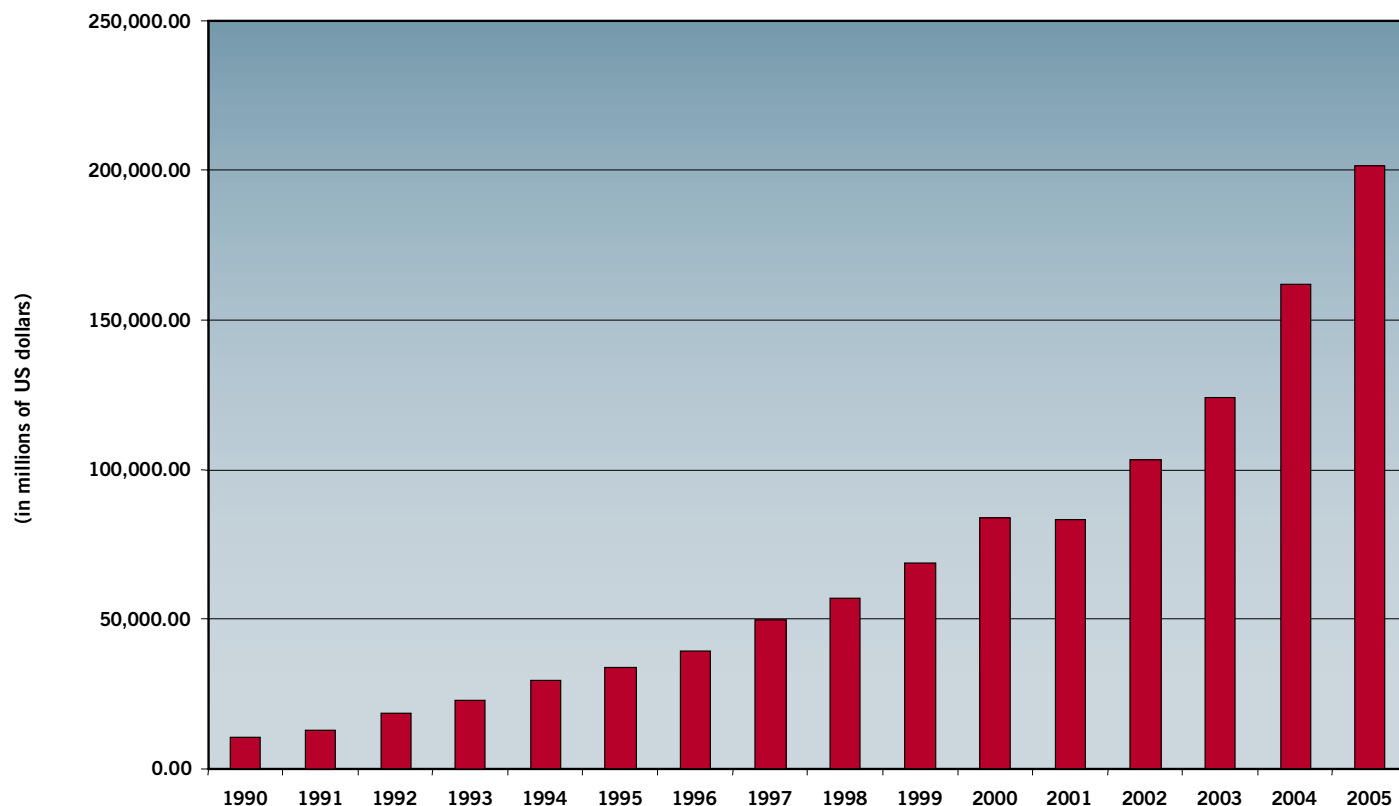
As Ravenhill notes:

By providing a means to achieve liberalisation without political pain, the new bilateralism encourages protectionist interests and has the potential to weaken domestic pro-liberalisation coalitions and especially demand for multilateral liberalisation. From the perspective of comprehensive global trade liberalisation, such effects are unambiguously bad.¹⁵

This political dynamic has created a situation where the pursuit of bilateral trade agreements has now given interest groups and their supporters an interest in their continuation. As the US pursues a piecemeal approach, the passage of specific accords creates narrow vested interests. For example, with respect to the CAFTA debate, one source commented that the "deal drew concentrated fire from three well-organised constituencies – textile producers, sugar companies and unions. But because the CAFTA economies are so small, US business didn't mount as muscular a campaign as it did in the NAFTA vote."¹⁶ For its part, agricultural groups are interested in a broad agreement and would gain relatively little from a purely Asia-Pacific agreement.

Other powerful lobbies are also wary of further opening. The textile and apparel industry has received protection for over 50 years. Although the MFA was terminated at the end of 2004, the textile and apparel industries successfully secured restrictions on Chinese textile and apparel imports in 2005 in the wake of the MFA's removal. Currently, the textile and apparel industry is pushing to create separate negotiations on textiles and apparel once again. With the textile industry's success in securing new restraints on China in 2005, can one really imagine that this key powerful player would support an FTAAP that would only increase imports from low-cost producers in the Asia Pacific region?

The increasing opposition to trade liberalisation, of any sort, is reflected in the mood in Congress, particularly with the victory of Democrats in the November 2006 elections. Although many Republicans have increasing doubts about further trade liberalisation, particularly those from states with protectionist-minded industries, the real opposition to trade agreements comes from the Democrats. Since the narrow passage of fast-track authority in 2002, the congressional politics of US trade policy have become increasingly polarised, both in partisanship and in interest-group representation. Democratic opposition to the administration's trade agenda has arisen primarily over concerns about foreign labor and environmental standards, adverse effects for American employment, and human rights issues, aptly seizing trade policy as a tool to mobilise the Democratic base.

Table 2: US-China Trade Deficit

Source: US Census Bureau, Foreign Trade Division, Data Dissemination Branch, Washington, DC 20233

Although initial passage of Trade Promotion Authority (TPA) was barely achieved after Republican concessions to a program paying health benefits to workers displaced by trade, most trade accords brought to Congress in the first few years of fast-track generally met bipartisan acceptance. Major contention arose in 2005, however, with the vote to implement the Dominican Republic–Central America Free Trade Agreement (DR-CAFTA). Democrats claimed the agreement would export American jobs overseas without ensuring international labor standards were protected, and allowed US corporations to benefit from low labor costs by exploiting poor workers. DR-CAFTA revealed the potential power that a coalition of traditional protectionists and the champions of ‘linkage’ politics in trade policy seizing upon labor, environmental, and human rights concerns might possess if the Republicans are unable to consolidate the party line on trade.

Since DR-CAFTA, Democrats in Congress have prioritised defeating bilateral trade agreements negotiated under the auspices of the ‘competitive liberalisation’ strategy, recognising both the current political weakness of the Bush administration and the potential trade policy has to garner key support from groups like the AFL-CIO in the run-up to midterm elections.

The ratification of bilateral pacts is now in question. In this context, an FTAAP involving low-labor cost countries, those with human rights violations, low labor standards, and a host of other red flags including religious freedom, democratic rights, environmental policies, and the like is hardly likely to win votes in Congress.

The Politics of the US-China Trade Deficit

China’s ‘peaceful rise’ as the new engine of the global economy has become a highly charged issue in US domestic politics as economists warn of the ever-growing trade deficit¹⁷ with dire predictions for the dollar and producers lamenting the capturing of their markets by an authoritarian, ostensibly non-market economy. Charges of manipulation in foreign exchange markets to

keep the renminbi undervalued have been levied by traditional protectionists and economic forecasters alike who fear either the overwhelming competition to key US sectors or a sudden dollar collapse once Asian banks cease their buying frenzy of US securities.

Since China’s full accession to the WTO, cheap goods have flooded the US market, undercutting domestic producers and sending the US trade balance with China into a rapid downward spiral. In 1995, the US ran a trade deficit with China of \$33.8 billion; by 2005, it had ballooned to over \$201 billion (see Table 2 above).¹⁸ In the last four years alone, the bilateral trade deficit has nearly doubled while the overall current account situation grows ever worse. Among other issues, the Steel Trade Advisory committee has been pushing to prevent any PTAs with countries that might be seen to be manipulating their currency (read China) of those engaging in subsidisation of the industry.¹⁹

Many in Congress have seized upon the China issue for political purposes, either in the name of workers or business, introducing a vast array of retaliatory measures that could be taken against the PRC. The most extreme case is certainly the bipartisan Schumer-Graham bill, which would impose an across-the-board tariff of 27.5% (the estimated damage of currency undervaluation) on all Chinese goods.

A politically weak Bush Administration has not had much luck in fending off pressure against China. In the recent words of a Washington Post report: “The Bush administration sought...to mollify Congress about problems in US-China economic relations. But the response from Capitol Hill was a mixture of scorn and denunciation, underscoring the pressure from powerful lawmakers for a tougher approach toward Beijing.”²⁰

APEC’s Role

Much has been written about APEC’s origin and evolution.²¹ Here, suffice it to say that APEC has clearly faced significant problems in fostering free

trade in the Asia Pacific and the target dates for developed countries of 2010 and 2020 for all countries seems increasingly unrealistic. In particular, the debacle over pursuing a sectoral approach to advance trade negotiations (the Early Voluntary Sectoral Liberalisation effort) put APEC's effort to promote trade liberalisation in jeopardy, and since 1997, APEC has done little more than serve as a cheerleader for multilateral negotiations.²² As Charles Morrison and I have argued,²³ much of the weakness of APEC stems from its lack of institutionalisation.

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

IV. Doha Or No Doha - prospects for an FTAAP

What are the prospects of an FTAAP from a US political economy perspective? This article has argued that a combination of a weak political coalition for an FTAAP, the rising deficit with China, and APEC's institutional weakness make such an accord infeasible for the present.

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

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

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

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

It is also worth noting that indeed, the potential for creating an FTAAP has been hurt by the competitive liberalisation efforts that have led to the accelerating negotiation of bilateral trade agreements over the last few years in the Asia-Pacific.²⁴ This approach has fostered a coalition of pro-liberalisation forces in the US pushing state specific bilateral accords in the Asia-Pacific, rather than broad-based regional trade initiatives.

The agricultural sector, for example, while preferring a multilateral route, has little incentive to push an FTAAP. In fact, Asian and US business groups say it is a “practical reality” that agricultural concessions in the Asia-Pacific region would have to be dealt with on a bilateral basis.²⁵ More generally, a bilateral path with Korea and Japan avoids the key domestic pitfalls for the US that marks an FTAAP. The US still faces significant domestic pressure from the textile and manufacturing industries to prevent a further increase of cheap imports from China, and an FTAAP agreement would open the floodgates not only to Chinese imports, but also to the less developed economies of ASEAN such as Cambodia that present a similar low-cost import threat. The US has the opportunity to pursue with Korea and Japan the same general goals as it pursued with Singapore – deep trade agreements with high-value economies that avoid many of the domestic political conflicts created by agreements with low labor-cost countries.

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

In short, with either success or failure in the Doha Round, I believe that an FTAAP is not politically likely at the moment from a US perspective—particularly in light of the new Democratic-dominated Congress. APEC should not currently be pushing an FTAAP that is infeasible for the time being and that would undermine its positive contributions in other issue areas. Rather, APEC should serve as a forum to institutionalise the administration and negotiation of unilateral and bilateral agreements, so that the ‘noodle bowl’ of liberalising efforts can be brought into some kind of logical order and into conformity with the WTO. Moreover, APEC can play a role in the harmonisation of standards, better rules of origin, capacity building, peer assessment of compliance with APEC targets, and serving as a complementary institution to the WTO. Although one might think that promoting schemes such as the FTAAP do no harm, as we have seen, the advocacy of competitive liberalisation as a means of securing trade liberalisation has been a recipe for disaster. Ideas, both good and bad, do have consequences.

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Footnotes

- For a discussion of the pros and cons of competitive liberalisation, see Feketekuty 1998, Aggarwal and Lin 2002 and Bergsten 1996, 2002, among others.
- This subsection draws heavily on Aggarwal and Lin 2002, which focuses on the pitfalls of what we term "opportunistic liberalisation" and where we characterise US trade policy as being recently characterised as strategy without vision. See also the excellent concise discussion of historical trends in US trade policy in Bergsten 2002. The classic account remains Destler 2005.
- See Aggarwal 1985 for a discussion of the nesting of economic issues with a security context.
- Diebold 1952.
- For an analysis of the creation and evolution of the textile regime, see Aggarwal 1985.
- See Aggarwal, Keohane, and Yoffie 1987, which models the factors that explain why different industries have been able to secure protection of varying length.
- Adapted from Bergsten 2002's "One Step Backward, Two Steps Forward" subtitle.
- Toronto Star, January 6, 1988.
- Tyson 2000.
- This paragraph draws heavily on Aggarwal 2001b and Aggarwal and Ravenhill 2001.
- Business Roundtable 2001.
- 2003, p. 2.
- See Aggarwal and Urata 2006 on the proliferation of bilateral trade agreements in the Asia-Pacific.
- Financial Times, July 10, 2006, p. 9.
- Ravenhill 2006, p. 45.
- "CAFTA Vote Clouds Prospects for Other Trade Deals--Bitter Fight Reveals Fears Of Globalisation, as Talks In Doha Round Languish," *Wall Street Journal*, 29 July 2005.
- Bergsten 2005.
- US Census Bureau, Foreign Trade Division, Data Dissemination Branch, Washington D.C. 20233: <http://www.census.gov/foreign-trade/balance/c5700.html>
- See Industry Trade Advisory Committee on Steel (ITAC-12) report entitled *The US-Peru Trade Promotion Agreement (US-Peru FTA)*, 18 January 2006. http://www.ustr.gov/assets/Trade_Agreements/Bilateral/Peru_TPA/Reports/asset_upload_file765_8986.pdf
- Senators Deride US Position on China; Currency System Is Called Unfair, *Washington Post*, 19 May 2006.
- See, for example, Funabashi 1995, Aggarwal and Morrison 1998, and Ravenhill 2001.
- See for example, Aggarwal and Kwei 2005.
- Aggarwal and Morrison 2000.
- See Aggarwal and Urata 2006 on the driving forces leading to the negotiation of bilateral trade agreements in the Asia-Pacific.
- "US, Japan Business Groups Explore Possibility of Bilateral Trade Deal," *Inside US Trade*, 5 May 2006.



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