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**Between Regionalism and Multilateralism:  
New Dilemmas in U.S. Trade Policy**

**Atsushi Yamada**

**MARCH 2002**

**APEC STUDY CENTER  
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## **I. Introduction**

At least three reasons make an examination of U.S. trade policy indispensable for those attempting to explore the ambivalent relationship between regionalism and multilateralism in the current world trading system. First, the United States is still the greatest economic power in the world. Since the mid-1940s, no single nation has ever surpassed the U.S. in terms of the size of its GDP or the amount of its exports and imports. Inevitably, the economic strength or weakness of the United States and its foreign economic policy affect not only its trading partners, but also the entire world economy.

Second, it is the United States that has led the establishment and development of the post–World War II multilateral trade regime. The United States, as the hegemonic power after the war, strongly endorsed the principle of freer, non-discriminative trade, paved the way for the start-up of the General Agreement on Tariffs and Trade (GATT), and directed the subsequent series of multilateral trade negotiations that led to the launch of the World Trade Organization (WTO) in 1996. Post-war multilateral institutions would not have been so firmly established without U.S. leadership (Goldstein 1993a; 1993b). As such, it is unavoidable that changes in the U.S. posture on multilateralism will influence the future of the world trading system.

Third, the United States has been at the center of a “new” regionalism – the advent of free trade areas and other regional arrangements that emerged in the 1980s and grew rapidly throughout the 1990s. While the main driving force for regionalism in the 1960s was economic integration in Europe, the United States has been a key actor in and advocate of the rise of regionalism today (Gordon 2001: 2; Schultz, Soderbaum and Ojendal 2001a: 3–5). Since the conclusion of the North American Free Trade Agreement (NAFTA) in the early 1990s, the United States has proposed the Free Trade Area of the Americas (FTAA) in the Western Hemisphere, the Trans Atlantic Free Trade Area (TAFTA) with Europe, as well as measures to strengthen the Asia-Pacific Economic Cooperation (APEC) forum. These efforts suggest that the attention of U.S. trade policy has increasingly turned away from multilateral arrangements towards regional arrangements, and that the current wave of regionalism is likely to endure (Bhagwati 1992a; Frankel 1997; Mansfield and Milner 1997).

For better or worse, the United States has been, and will continue to be, the only single nation influential enough to either strengthen or weaken multilateral trade regimes. The aim of this paper is to examine the sources of recent waves of regionalism in U.S. trade policy, with a focus on its domestic politics. Domestic politics matters for U.S. trade policy, owing, in particular, to its unique policy process – including the *fast track* procedure – whereby trade agreements are ratified in the U.S. Congress. Under this *fast track* procedure, the President negotiates international trade agreements and then sends them to Congress for approval; but Congress can only vote them up or down – it cannot amend them. The President, in turn, must ask Congress to authorize him to use *fast track* powers prior to concluding trade negotiations. The future of U.S. trade policy depends heavily on whether the President can persuade the members of Congress and their constituencies to give him *fast track* powers, which are essential for any major trade agreements, regional or multilateral. After it expired in 1994, the *fast track* authority was defeated in Congress in 1997 and 1998. In May 2001, President George W. Bush proposed a new *fast track*, which was narrowly passed in the House in December 2001 and will be taken up in the Senate in 2002.<sup>1</sup>

The next section of this paper explores how the globalization of the U.S. economy has changed the landscape of U.S. domestic politics and brought new dilemmas to U.S. trade policy. The following two sections then illustrate how these new dilemmas have shaped U.S. positions in the negotiations for NAFTA and the FTAA – the two regional free trade agreements that the United States has pushed most enthusiastically since the 1990s. The last section is a provisional assessment of the prospects for the multilateralization of American regional trade agreements.

## **II. Globalization and the New Trade Politics of the U.S.**

When it turned to protectionism in the 1970s, the objective of U.S. trade policy was straightforward: to shield American industries from low price competitors (Haggard 1997: 34). Less certain were its methods, for the U.S. government used various forms of

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<sup>1</sup> The Senate Committee on Finance passed the bill on December 12, 2001. By the time of writing (March 2002), however, the entire Senate has not taken a vote on the bill.

protection. Some were unilateral, such as high tariffs and quotas. Others were bilateral, such as voluntary export restraints (VERs) and orderly marketing arrangements (OMAs). Even multilateral means were employed for protection, as illustrated by the Multi-Fiber Arrangement (MFA) that set the ceiling on import growth for textile and apparel products in the mid-1970s as an exception to the GATT rules (Aggarwal 1985).

Such arbitrary uses of protection led many observers to characterize U.S. trade policy as ad-hoc, inconsistent, contradictory, or fragmented in nature (e.g., Destler 1986; Krueger 1995). But it was also “strategic” or “rational” in the sense that the U.S. government always tried to choose the way that seemed most effective and least costly for its policy goals (Martin 1993). Unilateral and bilateral means were employed when the existing multilateral rules could not work to protect U.S. industries; in particular, the impracticality of Article XIX (safeguard) of the GATT pushed the U.S. government to negotiate VERs and OMAs with many exporting countries<sup>2</sup>. When neither unilateral nor bilateral protection could work, and no adequate multilateral rule existed, the United States created a new one: the MFA was initiated by the United States when it faced a surge of textile imports from all over the developing world that were impossible to control through bilateral restrictions alone.

It should be noted that multilateral arrangements can be either liberal or restrictive. The experience of the MFA suggests that multilateralism itself does not guarantee the expansion of world trade. The “contents” of multilateralism matter (Ruggie 1993a), and the contents are determined mostly by the distribution of power in international politics. The United States has been, and will continue to be, a main player in guiding (or misguiding) the multilateral trade regime.

U.S. trade policy changed dramatically and became more complicated during the 1980s. Old-style protectionism waned in general, although some protectionist elements remained in politically powerful industries such as steels and autos. Protectionist groups were counterbalanced by anti-protectionist groups, that is, firms whose foreign operations and trade ties gave them a particular interest in open trade policies both at home and abroad (Destler, Odell and Elliott 1987; Milner 1988). The attention of U.S.

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<sup>2</sup> In order to activate a safeguard measure defined in Article XIX, a GATT member country had to prove that a surge of imports was unpredictable and seriously damaging its domestic industry. Furthermore, safeguard measures were to be temporary and applied to imports from all countries. U.S. trade officials regarded these requirements as too demanding, and preferred VERs and OMAs, which allowed them to control imports from specific countries immediately and for a longer period of time.

trade policy began to shift from protecting declining industries to promoting the growth of competitive ones. It was a shift from import protection to export promotion.

The shift was accelerated in the 1990s, as the U.S. economy became more and more intertwined with the global economy. The globalization of U.S. industries changed the landscape of U.S. trade politics, enhancing the position of pro-liberalization exporting sectors more than ever. Old protectionism could not be said to have disappeared, but its presence had clearly receded (Destler and Balint 1999: 8).

These changes, however, have brought new dilemmas to U.S. trade politics. First, while the old protectionism against cheap imports has waned, a new aggressiveness has arisen in order to promote U.S. exports to rapidly expanding global markets. The U.S. government has again employed various policy measures strategically. Unilaterally, it has employed the Super 301 clause to condemn the “unfair” trade practices of its trading partners, demanding that those nations give U.S. exporters greater access to their markets. Bilaterally, VERs have been replaced by voluntary import expansion agreements (VIEs), by which foreign nations have been forced to promise to buy more American goods and services (Bhagwati 1988: 82–4). Multilaterally, the U.S. government has enhanced its efforts to establish new international regimes that protect and promote the interests of U.S. businesses across the globe. Such efforts have led to the conclusion of agreements on trade in services, Trade-Related Investment Measures (TRIMs), and Trade-Related Intellectual Properties (TRIPs) achieved during the GATT Uruguay Round. More recently, the U.S. government has aimed to strengthen these new regimes, and has caused conflicts not only with developing countries, but also with Japan, Europe and other industrialized nations. Such conflicts retarded the launch of a new round of multilateral trade negotiations under the WTO (Schott 2000).

Second, “new issues” have arisen in U.S. trade politics during the last decade. Issues previously unrelated to trade have become central to the U.S. trade policy agenda. Two issues – labor and the environment – have been especially important. Organized labor is hardly a new player in the trade policy process; for example, the American Federation of Labor–Congress of Industrial Organizations (AFL-CIO) – a federation of labor unions currently representing more than 13 million workers nationwide – has shaped and twisted U.S. trade policy since the old protectionist days. What has changed is that, as economic globalization speeds up, American labor has come to the forefront

of the “anti-globalization” forces and has begun to condemn trade liberalization for reducing living standards and human rights. Labor’s position on trade can be summarized as follows: trade costs jobs, since cheap imports force domestic firms either to shut down their facilities or to move them abroad; trade suppresses wages, since import competition puts downward pressures on domestic wages; and trade undercuts labor standards, since domestic workers are forced to bear lower wages, longer hours of work, and unsafe working conditions in order to cut costs and maintain the international competitiveness of their firms. These claims are mostly rhetorical, because many careful analyses of the effects of trade liberalization suggest otherwise. But, symbolically, their impact has been too huge for U.S. trade policymakers to ignore (Destler and Balint 1999: 15–19).

The rise of environmental groups as another anti-globalization front force has been similarly important. Before the 1990s, environmentalists paid little attention to trade issues. Today, however, they regard trade liberalization as the main driving force for environmental degradation. Environmentalists share the view that international economic competition drives down regulatory standards for environmental protection, since industries demand deregulation from government in order to reduce costs in manufacturing. Environmentalists also share the perception that multilateral trade institutions consistently favor economic goals over environmental goals. Some extremists even claim that the invisible hand operating in global markets is destroying the spiritual integrity of the natural world and human beings (Mander and Goldsmith 1996).

The focus of today’s trade politics, therefore, is no longer the tension between protectionism and free trade; rather, the conflict is between trade expansion and other social values (Destler and Balint 1999: 47). Such social values include workers’ rights and environmental protection, which existing trade institutions are poorly equipped to address. Labor, environmentalists, and other anti-globalization groups view the WTO as a symbol of biased institutions that promote globalization, a perception which explains their anger in Seattle when the WTO ministerial meetings took place in December 1999.<sup>3</sup>

In summary, economic globalization has brought new dilemmas to U.S. trade

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<sup>3</sup> For a variety of anti-globalization arguments, see Mander and Goldsmith 1996, and Wallace and Sforza



politics. On the one hand, it has shifted the attention of U.S. trade policy from import protection to export promotion, which has encouraged the rise of a new U.S. aggressiveness in support of its businesses across the globe. On the other hand, economic globalization has propelled American workers and environmentalists into anti-globalization roles, thereby transforming labor and the environment into new key trade policy agendas. The U.S. government has been obliged to follow simultaneously the at times diverging paths of expanding trade *and* of respecting other social values. Existing multilateral institutions, whose establishment and development was led largely by the United States, have been poorly equipped to address such a dilemma.

During the 1990s, the United States began to search for new ways to overcome this dilemma. One of the new methods was to conclude regional arrangements, of which the first major attempt was the North American Free Trade Agreement (NAFTA).

### **III. U.S. Regionalism in NAFTA**

NAFTA was signed in December 1992 by three North American countries – the United States, Canada, and Mexico. It was one of the most comprehensive Free Trade Agreements (FTAs) ever established, covering a wide range of issues such as trade in services, government procurement, competition policy, foreign direct investment, intellectual property rights, labor, and the environment. These issues, outside the GATT/WTO scheme at the time, were called “WTO-plus” issues.

Numerous studies have already been done on NAFTA concerning its negotiation process, its expected and actual economic, political, and social effects, its consistency and inconsistency with the WTO, and so forth, so that a list of the literature is almost endless. This paper only focuses on how changes in U.S. domestic politics contributed to the birth of NAFTA. As noted in the previous section, by the early 1990s, U.S. trade policy faced a new dilemma of striking a balance between pro-globalization business interests and anti-globalization social values. The tension between the two interests became a major political issue for the first time in the NAFTA debate, and the final NAFTA provisions reflect the U.S. government’s efforts to ease the tension outside the

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1999.

existing multilateral institutions, which seemed slow to change.

The idea of forming NAFTA was first endorsed publicly in June 1990, when U.S. president George Bush met Mexican president Carlos de Gortari Salinas and agreed on the necessity of a comprehensive FTA in the North American region. Later in September, Canada announced its intention to participate in the negotiations, and these started in June 1991. The three nations reached a basic agreement by August 1992, and signed NAFTA in December. After congressional ratification in each of the three countries, NAFTA took effect in January 1994.

NAFTA was the first major FTA between highly developed and less-developed nations. Although Mexico had already grown to be one of the newly industrializing economies (NIEs), its GDP per capita was only one seventh the size of U.S. GDP per capita. This economic asymmetry led many observers to predict that numerous difficulties would likely hinder the three nations from reaching any meaningful agreements on trade liberalization. The actual negotiations, however, took only fourteen months – much shorter than expected – and the final provisions were much more comprehensive and stricter than imagined. This was because each of the three nations had strong motives to overcome the difficulties and establish NAFTA.

The United States took most of the initiatives in the negotiations,<sup>4</sup> as it had both long-term and short-term interests in establishing NAFTA. The first of the long-term interests was, of course, to expand U.S. exports in the region. As importers of U.S. goods and services, Canada ranked first, while Mexico ranked third (Japan was second). U.S. firms particularly wanted greater access to Mexican markets, which had been growing rapidly. Second, American businesses expected that NAFTA would strengthen the industrial ties between the United States and Mexico, allowing them to employ abundant and cheaper Mexican labor, thus increasing their competitiveness in global markets. Third, the United States expected that NAFTA would further encourage Mexican economic growth, which would help create political stabilization in the nation, especially in areas along the U.S.–Mexican border, where many U.S. manufacturers had their factories and other facilities.

As a short-term motive, the upcoming presidential election in the United States was a key reason for the proactive stance of the U.S. As the Democratic candidate, Bill

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<sup>4</sup> For a detailed analysis of the NAFTA negotiations, see, for example, Cameron and Tomlin 2000.

Clinton, took the lead, the Bush camp attempted to gain more support from the Hispanic constituency by showing a strong commitment to strengthening ties with Mexico. Another motive lay in the international politics of trade: U.S. trade officials attempted to use NAFTA as a lever to give greater momentum to the Uruguay Round of multilateral negotiations, which had started in 1986 and still seemed to be going nowhere in the early 1990s. The United States had insisted in the GATT talks that multilateral rules should be established on investment, intellectual property and other new trade-related issues, while other members, especially the developing countries, had resisted even discussing such concerns. The U.S. government expected that NAFTA could be a showcase for tackling these new issues, and was thus sending a warning to the world trade community that the United States would go its own way through regional arrangements if the GATT continued to reject U.S. proposals.

Mexico, for its part, also had strong motives to follow the United States in forming NAFTA (Rosas 2002). The Mexican economy had been suffering from an ever-increasing trade deficit. The government and industries in Mexico expected that NAFTA would boost Mexican exports to the United States, which was Mexico's most important trading partner. Mexico also expected an expansion of inward foreign direct investment. While Mexico had already set preferential tax zones along its border with the United States to attract foreign (mostly U.S.) manufacturers, investment from Europe and Japan had been slowing down in the early 1990s. In the investment provisions of NAFTA, Mexico made the assurance that it would give non-discriminative treatment to all North American firms and other investors, and that it would remove many of the restrictions on their business activities in Mexico. Not all actors in Mexico were happy about this deal, but its supporters expected that NAFTA would draw in more investment, create more jobs, and encourage the sustainable growth of the Mexican economy.<sup>5</sup>

In contrast, Canada seemed to be less enthusiastic in forming NAFTA than the other two member countries. Canada already had a bilateral FTA with the United States: the Canada–U.S. Free Trade Agreement, established in 1988. Trade with Mexico was of much smaller importance, so Canadian industries in general were not particularly interested in forming a new trilateral FTA. Canadian participation was rather defensive:

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<sup>5</sup> See Kingsolver 2001 for a detailed analysis of fears and hopes in Mexico regarding NAFTA.

it feared that a U.S.–Mexican FTA, once established, might jeopardize Canadian business interests in U.S. markets if Mexican industries were given more favorable treatment. A trilateral FTA, in which Canada could have a say, therefore, was preferable to no say at all. Of course, some Canadian businesses did expect to gain from the expansion of the North American market.

Ultimately, the driving force for NAFTA was based on the economic gains that the United States, Mexico, and Canada, jointly and separately, expected from a new trilateral FTA. Although the policy preferences of the three nations differed in many respects, something which was especially apparent when the final provisions of the agreement were drafted, all three nations wanted NAFTA as a vehicle to support pro-globalization business interests. Consequently, NAFTA contained a wide range of provisions which were intended to maximize the benefits of freer trade and economic liberalization, an achievement that took it well beyond the GATT/WTO framework.

For example, within the region, virtually all *tariffs* on manufactured goods (including on the controversial textile and apparel products) were to be eliminated either immediately or gradually over 5-, 10-, or 15-year periods. The NAFTA chapter on *investment* (Chapter Eleven) guaranteed the principle of national treatment in the region, and prohibited investment-related performance requirements that required foreign-owned companies to produce a certain amount of exports, use local contents, or transfer technology to the local economies. The result was a far-reaching agreement that went considerably beyond the multilateral TRIM agreements later achieved at the Uruguay Round. Overall, the United States was able to achieve with NAFTA the investment agreement it could not get at other institutions, which was thanks in part to Mexico's determination to do whatever it took to attract foreign investment (Cameron and Tomlin 2000: 41).

Chapter Seventeen on *intellectual property* secured improved protection for copyrights, patents, trademarks, and industrial designs. The issue of copyrights, including computer software and digital databases, was one of the key agendas that the United States had advanced very aggressively at the Uruguay Round. The comprehensive requirements of NAFTA obliged Mexico to accept considerable new commitments, since Mexico had only a rudimentary domestic legal system dealing with intellectual property rights. It also expanded the scope of the existing Canada–U.S. FTA,

which did not have a comparable chapter on intellectual property rights.

With the inclusion of Chapter Ten on *government procurement*, purchases above the threshold of U.S.\$50,000 for federal government agencies were opened to competition in the region. Although the United States and Canada had already been signatories to the Government Procurement Code made at the GATT Tokyo Round (1973–79), Mexico had not committed itself to the multilateral rules on this issue. The chapter was more good news for U.S. businesses, because they could expect greater chances to win Mexican government procurements, which were to expand rapidly due to the nation's ambitious construction and developmental plans. Canadian and Mexican industries, for their part, could expect greater chances in the United States, which was the largest procurement market in the region. The procurement provisions of NAFTA went beyond those of the Canada–U.S. FTA, covering both goods and services, and partly removing the Buy America requirements in U.S. trade acts that the U.S. federal and local governments had used to exclude non-U.S. suppliers.

From the beginning, however, the idea of forming NAFTA met with unprecedented resistance from anti-globalization forces in the United States. Organized labor argued that NAFTA would cause American workers' rights and labor standards to deteriorate. According to their claims, Mexico had only rudimentary labor laws and standards, which enabled firms in Mexico to exploit their workers. It was feared that NAFTA would encourage U.S. firms to move their facilities to Mexico in order to reduce production costs, thus putting downward pressure on wages and labor standards in the United States. The differences between the two nations in terms of wage levels, labor laws, labor markets, and employer-employee relations, it was argued, were too wide. Moreover, the average real wages for unskilled workers in the United States had been decreasing since the 1980s; NAFTA, it was feared, would further degrade workers' lives. Organized labor remained "a potent force at local, state, and regional levels" despite its declining influence in national politics (Wiarda 1994: 179).

Environmentalists insisted that NAFTA would induce U.S. firms to move their less costly (thus less environment-friendly) factories to Mexico. They were especially concerned about the environmental degradation in areas along the U.S.–Mexican border. These areas had already witnessed a rapid accumulation of factories and shabby houses for unskilled workers and their families as U.S.–Mexican trade expanded. Toxic waste

from factories, agricultural chemicals, garbage, and poor sewage systems would pollute the air and water in the area and would spill over to the United States. Environmental NGOs in the United States activated anti-NAFTA campaigns.

These anti-globalization groups grew influential enough to jeopardize the prospect of ratification of NAFTA in the U.S. Congress. The debate between the pros and cons of NAFTA revealed that “new issues” had now become a central part of U.S. trade policy. The government was forced to deal with these issues.

The result was the inclusion of the Supplemental Accords on labor and the environment in NAFTA. These side-deal negotiations, which began on 17 March 1993 in Washington, D.C., were required by the Clinton administration to secure congressional ratification. The three nations reached an agreement on labor and environmental cooperation on August 12, 1993 in Ottawa.

The labor accord required the three countries to cooperate in improving labor standards and enforcing labor laws. For this purpose, they established a trilateral commission headed by the labor ministries of the three nations, whose tasks included collaborating to improve workers’ health, safety, minimum wages, workers’ rights, and worker-owner relationships. They also established a dispute settlement mechanism on labor issues.

The environmental accord defined its purpose as the pursuit of “sustainable development” in the North American region – achieving economic growth without deteriorating the environment. The accord established a trilateral commission headed by the environmental ministries of the three countries. Another trilateral body was established to include environmental NGOs in the region. Each nation was obliged to improve its environmental protection laws and their enforcement. A dispute settlement mechanism was also set. No other FTA had compatible provisions on environmental regulations.

After signing NAFTA in 1992, the three nations had to spend most of the following year in negotiations to appease labor and environmental groups in the United States. Negotiations were complicated for two reasons. First, Canada and especially Mexico were reluctant to accept the new obligations that the U.S. government proposed to satisfy its domestic constituents. Nevertheless, Mexico was unable to walk away from NAFTA, and thus accepted the accords eventually after getting some concessions

from the United States. For Canada, the side deals were a relatively minor issue because it already had labor and environmental regulations similar to those of the United States. But Canada strongly opposed the U.S. proposal to include sanction measures in the accord (sanctions were dropped in the final agreement). Second, stricter regulations on labor and the environment were opposed by U.S. industries. They feared that those restrictions would hamper business activities and thus damage the expected benefits of trade liberalization through NAFTA.

The final provisions and supplemental accords of NAFTA were, therefore, a compromise between pro-globalization and anti-globalization interests. Although NAFTA was certainly one of the most comprehensive FTAs covering “new issues” in trade, neither labor nor environmentalists found it satisfactory. The dilemma in U.S. trade policy remained, and even grew, as will be shown in the next section.

NAFTA also reflected the U.S. dilemma to strike a balance between multilateralism and regionalism. The United States is the nation that has led the creation and development of the GATT/WTO system. Due to its political and economic power, U.S. trade policy can have enormous effects on the success or failure of multilateral institutions, a fact which is well recognized by U.S. trade policymakers. At least rhetorically, the U.S. government has consistently given priority to multilateralism over regionalism: regional arrangements such as NAFTA have been described as stepping-stones for multilateral freer trade.

The actual effect of FTAs on multilateralism is, however, ambiguous. First, while FTAs can encourage trade expansion within the region, the effect on trade between the region and the rest of the world is not so clear. NAFTA, for example, contains provisions on rules of origin which could exclude Japanese and European automobiles from the North American market more than previously: the local-content requirement for autos was increased from 50 percent in the Canada–U.S. FTA to 62.5 percent in NAFTA. The United States pushed the increase over strong Canadian and Mexican objections.

Second, the effect of FTAs on some critical new issues is also ambiguous. NAFTA was a pioneering agreement on investment, intellectual property rights and other WTO-plus issues, and subsequently the United States was able to use it as a lever

to conclude TRIMs and TRIPs at the final stage of the Uruguay Round. U.S. aggressiveness, however, has induced strong resentment in many countries against U.S.-led rule-making, and most developing nations later refused to conduct further talks on those issues in WTO meetings. “No more Uruguay Rounds” has since been the common feeling amongst many developing nations. U.S. power and leadership, ironically, has hindered the further development of multilateral regimes in the late 1990s.

To explore further the dilemma between multilateralism and regionalism in U.S. trade policy, it is necessary to examine the current U.S. project to enlarge NAFTA to cover the entire Western Hemisphere – the Free Trade Area of the Americas (FTAA).

#### **IV. U.S. Regionalism in the FTAA**

In December 1994, the heads of thirty-four countries in North, Central, and South America gathered at the Summit of the Americas, hosted in Miami by President Clinton. They agreed to conclude negotiations on a comprehensive free trade area in the Western Hemisphere no later than 2005. In April 1998, the Second Summit of the Americas was held in Santiago, Chile, where the leaders reiterated the Miami declaration and instructed that formal negotiations should be initiated. Later in June, nine Negotiating Groups (Agriculture, Market Access, Investment, Government Procurement, Services, Dispute Settlement, Intellectual Property, Competition Policy, and Subsidies, Anti-dumping, and Countervailing Duties) were established.

At the ministerial meeting in Toronto in November 1999, trade ministers of the thirty-four countries instructed the nine Negotiating Groups to prepare an initial draft. The draft text of the nine chapters of the FTAA was published in July 2001<sup>6</sup> after the Third Summit of the Americas was held in Quebec in April. The draft, reflecting the different positions of the thirty-four members, still contained two, three, or even more alternative proposals on many controversial issues.

U.S. policymakers pushed the project for several reasons, economic and political.

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<sup>6</sup> The draft can be downloaded as an MSWord document at [http://www.ftaa-alca.org/alca\\_e.asp](http://www.ftaa-alca.org/alca_e.asp) (accessed February 9, 2002).



First, it is expected that the FTAA will help open the Latin American and Caribbean markets to U.S. businesses and farmers by reducing tariffs which have been much higher in these markets than those applied by the United States in its own market. The relative importance of these markets for the United States has also been increasing in recent years, as the export of U.S. goods and services to Latin America is growing faster than the export of goods and services to the rest of the world. Goods exported to Latin America grew 137 percent from 1990 to 2000, compared with 99 percent for those exported to the rest of the world; the export of services to the region grew 96 percent from 1990 to 2000, compared with 86 percent to the rest of the world.<sup>7</sup>

Second, the FTAA will enlarge the geographical area where the WTO-plus issues are covered by common rules. These issues have been discussed extensively in the nine Negotiating Groups. For the U.S. high-tech business community, which has vital interests in securing protection for their intellectual property rights and foreign investment – the wider the area the better. Their ultimate goal is, of course, to set “global” rules; but in the late 1990s when the prospects for a new WTO Round were not promising, the FTAA was seen as a substitute and a lever with which to push WTO members along.

Third, the FTAA will create a single set of trade rules amongst 34 countries who will abide by a maze of rules. The Declaration of Principles adopted at the Miami Summit in December 1994 stated that the FTAA members “will build on existing subregional and bilateral arrangements in order to broaden and deepen hemispheric economic integration and to bring the agreements together.”<sup>8</sup> In other words, the FTAA aims to ease the “spaghetti bowl effects”<sup>9</sup> that a complex web of FTAs can cause. A number of bilateral and sub-regional FTAs already exist in the Western Hemisphere; the most notable of these is the Southern Cone Common Market (MERCOSUR), which was established in January 1995 by Brazil, Argentina, Uruguay and Paraguay to form a common market with a population of about 200 million (44 percent of the Latin American population).<sup>10</sup> Mexico, Venezuela, and Colombia, with a total population of

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<sup>7</sup> USTR press release, July 3, 2001, <http://www.ustr.gov/releases/2001/07/01-51.htm> (accessed February 9, 2002).

<sup>8</sup> Summit of the Americas, *Declaration of Principles*, December 1994, [http://www.ftaa-alca.org/ministerials/miami\\_e.asp](http://www.ftaa-alca.org/ministerials/miami_e.asp) (accessed February 14, 2002)

<sup>9</sup> Bhagwati (1995).

<sup>10</sup> For MERCOSUR, see Roett 1999 and Behar 2000.

approximately 150 million, set up the G3 and began reducing tariffs in 1995. The G3 has scheduled to complete a free trade area by 2005. Jamaica, the Dominican Republic and other Caribbean nations have their own FTA (CARIFTA), so do the Andes nations (ANCOM). There are also a number of bilateral FTAs, many of which have been concluded by Chile. It is expected that the FTAA will integrate these sub-regional agreements into a single hemispheric-wide agreement.

Fourth, the FTAA reflects U.S. attempts to counterbalance the growing regionalism in Europe and Asia. The FTAA will form a free trade area much larger than the European common market: the total GDP in the 34 FTAA nations amounts to \$8.3 trillion, compared with \$6.8 trillion in the EU.<sup>11</sup> With the stalemate in WTO meetings since the late 1990s, Washington's commitment to regional free trade has been a bargaining chip in broader trade negotiations with Europe and Asia.

Fifth, for the United States, the FTAA is also part of a broader political project for the management of hemispheric affairs, including democratization, illegal drugs, and the environment (Mace 1999: 20). The debt crises in Latin America in the 1980s sparked a region-wide movement toward economic liberalization and political democratization. Consequently, U.S. decision-makers feel that there has been a "convergence of values" between the United States and Latin America, and they see this convergence as a "window of opportunity" to expand hemispheric cooperation (Mace 1999, 30-1). Such recognition is reflected in the Miami Declaration, which stated that the heads of the 34 nations of the Americas "are committed to advance the prosperity, democratic values and institutions, and security of our Hemisphere. For the first time in history, the Americas are a community of democratic societies."<sup>12</sup>

Nevertheless, the 34 nations have faced many difficulties in their talks on the FTAA. More than seven years have passed since the Miami Declaration, and the negotiations still seem to be in a maze. The first difficulty is rooted in the problem of large numbers: the differences in economic development, political institutions, and socio-cultural values between the 34 nations are far wider than those between the United States, Canada, and Mexico. Their policy preferences differ accordingly, especially in new issues concerning labor and the environment. From the U.S. point of

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<sup>11</sup> As of 1994.

<sup>12</sup> *Declaration of Principles*, op.cit. An exception to such "a community of democratic societies" is Cuba, which has been excluded from the FTAA negotiations.

view, NAFTA requirements should apply in all areas under negotiation, but Latin American nations disagree. The difficulty is illustrated by the fact that the existing nine Negotiation Groups include neither labor nor environmental concerns, as such controversial issues were put aside at the early stage of negotiations.

The second difficulty is attributable to the existing web of bilateral and subregional FTAs. There are currently an enormous number of FTAs in the region, and the number is only increasing. The 34 nations will find that coordinating their FTA provisions will not be easy.

The third difficulty concerns the absence of enthusiastic followers. In the NAFTA negotiations, Mexico was desperate to reach an agreement and so accepted most of the U.S. proposals; however, none of the nations are so far showing such a strong desire to conclude the FTAA. Members of MERCOSUR, especially Brazil, may prefer a pan-Latin American FTA to a U.S.-led hemisphere-wide FTAA if the latter is perceived to be disadvantageous to their national interests (Soares de Lima 1999).

The fourth difficulty has arisen from domestic politics in the United States; domestic support for the FTAA has weakened, while the opposition has increased. Organized labor and environmentalists, finding no reason to support the FTAA, have strongly resisted it, especially since their concerns are excluded from the current negotiations. As a result, they have pushed Congress to be more cautious about further trade liberalization, and some members of Congress have withdrawn their support for regional freer trade, claiming that, contrary to their expectations, NAFTA has done more harm than good to the United States.

Dissatisfaction is extremely strong regarding the labor issue. In 1995, one year after NAFTA came into effect, Representative James Traficant of Ohio said, "The biggest export for NAFTA has been American jobs." According to Traficant (and his supporters), NAFTA is working only for Mexico. While Mexican exports to the United States have increased by 10 percent, the United States lost 250,000 jobs in 1995 alone: Lockheed has laid off 15,000 employees; ATT, 8,500; Boeing, 12,000; General Motors, 5,000; and Kodak, 4,000.<sup>13</sup> Anti-NAFTA sentiment grew especially after the Mexican peso crisis of December 1994. The crisis led to a 35 percent devaluation of the peso against the U.S. dollar. Critics warned that U.S. exports to Mexico would slow while

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<sup>13</sup> *Congressional Record* 1995, H13941 and H14026, cited in Lemelin 1999, 125.

Mexico's exports to the U.S. would rise.

Environmentalists also evaluated the effectiveness of NAFTA after 1994 and were disappointed. They found that the North American Commission on Environmental Cooperation, which was established to implement and monitor compliance with the NAFTA side agreements, has not led to a strengthened Mexican enforcement of its environmental regulations. As a result of post-NAFTA disappointments, environmental opposition to trade liberalization has broadened and hardened. Groups that fought against NAFTA have become more outspoken; those that supported the agreement have either withdrawn from the debate entirely or have rebuilt alliances with opposition groups. They also lobby Congress (Destler and Balint 1999: 31–2).

Reflecting such discontent, the U.S. Congress, which was generally supportive at the time of the 1993 NAFTA ratification, turned “from warmth to coolness” with regard to regional free trade areas (Lemelin 1999). The coolness was best exemplified by Capitol Hill's attitude toward Chile. In 1994 President Clinton invited Chile to join NAFTA. However, in the fall of 1995, the U.S. Congress, to the great disappointment of the business community, refused to renew Clinton's fast track authority to speed up Chile's admission (Lemelin 1999: 127). In November 1997, the Clinton administration withdrew a fast-track bill from a scheduled vote, and in September 1998, a similar bill was defeated in the House of Representatives.

President George W. Bush proposed his fast track authority bill to Congress on May 10, 2001, and requested that the legislatures pass it by the end of the year. The bill again met with strong domestic opposition. In July, the AFL-CIO ran a television advertisement to call on members of Congress to vote “No.” The union pointed out that under the fast track scheme, Congress would have no ability to add safeguards to protect workers' rights. Similarly, the Global Trade Watch division of Public Citizens – a consumers' union founded by Ralph Nader – argued that “Fast Track legislation has not required the president to include enforceable protections for the environment and workers' rights in our trade agreements, lacks adequate procedures for consultation with Congress and the public, harms independent farmers and limits democratic debate about trade policy.”<sup>14</sup>

The Sierra Club, an influential environmental NGO, called for a change from fast

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<sup>14</sup> Global Trade Watch, Public Citizen, “Fast Track,” <http://www.citizen.org/trade/fasttrack/index.cfm#pres>

track to “right track.” By limiting normal democratic procedures, the organization maintained, fast track paved the way for trade deals that would undercut the nation’s environmental, health, and safety laws. Instead, the proposed “right track” would: require negotiators to develop trade rules that cannot undercut environmental laws; require negotiators to ensure that environmental and labor provisions for future trade deals be enforced with the same mechanism as commercial provisions; preserve congress’ normal legislative role in trade legislation; and ensure stronger public participation and democratic oversight in trade policymaking, including through effective environmental reviews.<sup>15</sup>

Just like policymakers in the executive branch, members on Capital Hill have been forced to balance the pros and cons of trade liberalization. The House of Representatives was literally split in two. On December 6, 2001, the House passed the fast track bill by a margin of *only* one vote – 215 versus 214. Among the 215 members who supported the bill, 194 were Republicans and 21 were Democrats. Among the 214 members who rejected it, 23 were Republicans, 189 were Democrats, and 2 were independents.<sup>16</sup> On December 12, the Senate Committee on Finance passed a similar bill. Voting by the entire Senate is scheduled for 2002, although at the time of writing (March 2002), the Senate has yet to take it up.

Even if Congress approves the fast track bill, it will not guarantee the successful conclusion of the FTAA negotiations. The domestic opposition to FTAA is by no means weaker than that to fast track. The Teamsters union has denounced the FTAA, arguing that “[t]he goal of the FTAA is to impose the failed NAFTA model of increased privatization and deregulation hemisphere-wide. Imposition of these rules would empower corporations to constrain governments from setting standards to safeguard their workers, protect public health and safety, and ensure that corporations do not pollute the communities in which they operate.”<sup>17</sup> Labor is furious especially because “FTAA negotiators are not discussing protections for workers’ rights at all – in fact,

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s (accessed March 7, 2002).

<sup>15</sup> Sierra Club, “No to Fast Track!” [http://www.sierraclub.org/trade/fasttrack/fasttrack\\_factsheet.pdf](http://www.sierraclub.org/trade/fasttrack/fasttrack_factsheet.pdf) (accessed March 7, 2002).

<sup>16</sup> The bill was called the *Trade Promotion Authority Act* (H.R. 3005).

<sup>17</sup> “Impact of the Free Trade Area of the Americas,” *Teamsters Online*, April 15, 2001, <http://www.teamster.org/nafta/ftaa/0104ftaa.htm> (accessed March 7, 2002).

they have refused even to form a study group on the issue.”<sup>18</sup> The Sierra Club points out “five environmental reasons to oppose the FTAA.” They are: 1) the FTAA will remove controls to protect natural resources and human health; 2) the FTAA will lower environmental standards; 3) the FTAA will not contain enforceable environmental rules; 4) the FTAA will reward the polluter; and 5) the FTAA will remove public participation and democracy.<sup>19</sup>

Simply put, the Democrats in Congress generally support the concerns of labor and environmental groups, while the Republicans back the interests of businesses. The House vote on the fast track bill in December 2001 exemplified such a partisan split. As shown above, most Democrats rejected the bill, while most Republicans supported it. Democrats insisted that the bill should have required the President to include labor and environmental issues in the upcoming trade talks for both the FTAA and the WTO. Republicans opposed such an idea, fearing that stricter regulations would hamper business interests.<sup>20</sup>

In the future FTAA talks, therefore, the U.S. government will be obliged to push for the inclusion of labor and environmental issues along with the pro-business issues (especially investment and intellectual property). But all of these issues may induce other participating countries, especially the South American MERCOSUR members, to oppose any U.S. attempts at enlarging “U.S. standards” into “global standards.” The dilemma facing the U.S. administration is clear: the greater the attention it pays to the voices of domestic groups (both pro- and anti-globalization), the greater the difficulties it will face as it attempts to enlarge – or “multilateralize” – the existing FTAs.

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<sup>18</sup> Ibid.

<sup>19</sup> “Five Environmental Reasons to Oppose the FTAA,” materials prepared for the People’s Summit of the Americas, Quebec City, April 2001, <http://www.sierraclub.org/trade/ftaa/fivereasons.pdf> (accessed March 5, 2002).

<sup>20</sup> This does not mean, however, that all Republican members of Congress are pro-free trade. Those who represent the interests of steel, textile, agriculture and other import competing industries have refused to give the President trade-negotiating authority. Some of them supported the bill mainly because President Bush assured them that the U.S. government would defend those industries. For example, in imposing tariffs on much of the steel imported from Europe, Japan and Asia (as a “safeguard” measure in March 2002), Bush reportedly tried to ease the concern of some members of Congress who might have felt obliged to vote against the fast track bill. See Richard W. Stevenson, “Steel Tariffs: a Global Gamble for Bush,” *New York Times*, March 7, 2002.

## **V. A Provisional Assessment**

NAFTA and the FTAA – the two free trade agreements that the United States has pursued most enthusiastically since the 1990s – illustrate the key role of new domestic politics in the evolution of regionalism in U.S. trade policy.

As the U.S. economy has become more intertwined with the global economy, the focus of U.S. trade policy has shifted from “free trade versus protection” to “pro-globalization versus anti-globalization”. While the old protectionism for declining industries has generally waned, it has been replaced by a new aggressiveness aimed at promoting the interests of growing industries. This shift has been well illustrated by the recent U.S. demands for improved access to foreign markets and the strengthened international rules for trade in services, investment, and intellectual property. At the same time, anti-globalization groups – especially organized labor and environmental NGOs – have emerged as new actors who are influential enough to get their concerns high-up on the U.S. trade policy agenda. As such, the government has been forced to balance the pro- and anti-globalization demands. The dilemma is exemplified by the NAFTA negotiations, in which the U.S. government pursued both rules for trade expansion and side-deals on labor and the environment.

In addition, the United States has been faced with another dilemma in pressing regional agreements: the need to balance regionalism and multilateralism. Pro-globalization groups have preferred regional FTAs because of the stalemate in multilateral talks, but their ultimate goal is to establish multilateral (global) regimes which secure their business interests across the globe. Simply, their goal is to transform American rules into global rules. However, the more multilateral the negotiations become, the greater the foreign opposition that will be encountered. In addition, as they have seen the disadvantageous effects that NAFTA has caused, anti-globalization groups inside the United States now oppose free trade agreements more strongly than ever. They are also opposing any attempts to enlarge the existing FTAs, as illustrated by the current FTAA negotiations.

So, how can American regional FTAs be multilateralized? It should be noted that U.S. regionalism has, as discussed above, evolved as a response to changes in domestic politics; the United States has pursued FTAs as a means to ease the tension between

pro- and anti-globalization movements. Yet, unless a multilateral regime can better serve to ease this dilemma than a regional regime, the United States will not turn to multilateralism.

More specifically, it is necessary that the WTO address both the pros and cons of economic globalization. On the one hand, a multilateral trade institution should satisfy the pro-globalization business interests by advancing the negotiations on investment, intellectual property and other new trade-related issues. On the other hand, it should ease the concerns of anti-globalization groups by elaborating ways to protect disadvantaged and marginalized people, to sustain a healthy and safe environment, and to pursue other social values. This means that, however difficult it may prove, the WTO has to deal with the same dilemmas that the United States has already been facing in the global era.



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- Vladimir I. Ivanov and Hirofumi Arai, Economic Research Institute for Northeast Asia (ERINA), *Multilateral Cooperation in Northeast Asia and APEC*.

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New Dilemmas in U.S. Trade Policy**

**by**  
**Atsushi Yamada**

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