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**AMERICAN TRADE STRATEGY:
DOMESTIC AND FOREIGN EFFORTS IN THE
PURSUIT OF FREE TRADE**

by

Mauro Angelo Ceschin, B.A.

**A thesis submitted to
the Faculty of Graduate Studies and Research
in partial fulfillment of
the requirements for the degree of**

Master of Arts

Department of Political Science

Carleton University

Ottawa, Ontario

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COPE WITH RELATIVE ECONOMIC DECLINE

submitted by

Mauro Ceschin, B.A. (Hons.)

in partial fulfilment of the requirements

for the degree of Master of Arts

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ABSTRACT

The American state has been using a new trade strategy since the 1970s to deal with its relative economic decline, and continue to influence other countries in pursuit of liberal economic policies. The Congress has delegated authority, and changed administrative procedures to increase its ability to resist domestic protectionist pressures. The increased freedom of the American state vis-à-vis its society permitted it to embark on a three-track trade strategy that has combined unilateral threats, bilateral free trade arrangements, and multilateralism. Unilateralism and bilateralism have been tools the American state has used to increase its credibility with Japan and the European Union, and win concessions from them in trade negotiations. The main objectives of the United States have been the strengthening of the General Agreement on Tariffs and Trade, and reducing free-riding. By ending unfair trade practices, the United States hopes to revive its economy.

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Mauro Angelo Ceschin,
Montreal, May 1994.

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List of Acronyms

ASEAN	Association of South East Asian Nations
CAP	Common Agricultural Policy
EAI	Enterprise for the Americas Initiative
EC	European Community
EFTA	European Free Trade Area
EU	European Union
FDI	Foreign Direct Investment
FTA	(U.S.-Canada) Free Trade Agreement
FTAA	(U.S.-Israel) Free Trade Area Agreement
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Produce
GNP	Gross National Produce
ITC	(United States) International Trade Commission
MFN	Most Favoured Nation
MTN	Multilateral Trade Negotiation
MOSS	Market Oriented Sector Specific
NAFTA	North American Free Trade Agreement
NIC	Newly Industrialized Country
NTB	Non-Tariff Barrier
OMA	Orderly Marketing Agreement
ROW	Rest of the World
RTAA	Reciprocal Trade Agreements Act
SII	(U.S.-Japan) Structural Impediments Initiative
STR	Special Trade Representative
TRIM	Trade Related Investment Measure
USTR	United States Trade Representative
VER	Voluntary Export Restraint

CHAPTER 1

INTRODUCTION: THE AMERICAN CHALLENGE

The United States (U.S.) has been a supporter of free trade, and minimal interventionist economic policies for the better part of the twentieth century. This has been the case despite strong protectionist pressure on Congress from special interest groups. Despite these demands for protection and intervention, the American state has continued its attempts to liberalize the world economy, and enforce and expand the rules of the General Agreement on Tariffs and Trade (GATT). The U.S. has used GATT as a primary tool, to achieve prosperity for the American economy as a whole.

The U.S. has not always been a proponent of free trade. Before 1934, the U.S. pursued an erratic course in its trade practices. The reason for this was that the U.S. state was in a weak position in relation to American society. The Congress, in particular, was vulnerable to demands from constituents, and interest groups which demanded either protection or free trade. The policy implemented depended on which group had more power at that point in time.

In 1934 everything changed. Congress and the Presidency learned a hard lesson because protectionism was permitted to run rampant. This prompted them to change the way trade politics was conducted in the U.S. With regard to the conduct of trade policy, the American state changed practices, procedures and behaviour. The state, referring to the Congress and the President, began to insulate itself from protectionist demands. The insulation permitted freedom in the conduct of trade policy. An erratic trade policy was replaced by a steady policy of promoting free trade throughout the world, a policy that has continued to the present day.

When the U.S. was the hegemon from 1945 to the late-1960s, it dictated to the rest of the world what the trade rules were, and ensured that tariff levels would be periodically reduced. The U.S. had been using a multilateral orientation which involved GATT primarily. By the 1970s, the U.S. began to weaken in relation to other countries.¹ By the 1980s, the U.S. could no longer dictate to the entire world. America, however, still had the desire to lead. The United States remained the strongest individual country. As C. Fred Bergsten, an economist, has stated: "America can neither

¹ Susan Strange has argued that the decline of American hegemony has been a 'myth'. Since economic factors in the state-system have become increasingly important, structural power has become more important than relational power. Structural power includes the ability to exercise control over the security of other countries, production of goods and services, finance and credit, and knowledge. In these terms, American structural power has increased. For example, many of the largest high technology companies in the world are still American. "The Persistent Myth of Lost Hegemony," International Organization 41, no. 4 (Autumn 1987), 551.

dominate nor abdicate, but must find a new leadership role that is consistent with its current needs and relative power position."²

Beginning in the early-1980s, the United States took up the challenge of maintaining its leadership role. The fact that the U.S. had become a smaller player required a change in strategy for dealing with the world. A new orientation had to emerge. One may call this new orientation a three-track trade strategy.

1.1 THE HYPOTHESIS

The main question this study attempts to answer is: How has the American state, during the latter twentieth century, been able to pursue free trade in light of rising domestic protectionist political pressure, relative economic decline that reduced U.S. foreign influence, and the deterioration of the GATT regime? It might well seem that the U.S. state should have surrendered to demands for protectionism, or at least to have begun to pursue a strategic trade policy (discussed below). Determining why the U.S. state was able to resist the protectionist demands, and how it was able to deal with its reduced influence in order to continue to promote international free trade is the focus of this study.

The main thesis is that the U.S. has attempted to maintain, and strengthen the multilateral free trade regime by shifting toward a three-track trade strategy. The change in trade strategy was needed to permit the U.S. to cope with its relative decline in

² C. Fred Bergsten, America in the World Economy: A Strategy for the 1990s (Washington, D.C.: Institute for International Economics, 1988), 3.

power and continue to influence other countries. The U.S. has been able to implement such a strategy because of the freedom that the American state had acquired from society since 1934. The freedom of state action is critical to understanding why it was possible for the U.S. to implement the three-track trade strategy. The reason is that the new strategy requires that the U.S. implement many socially unpopular decisions (e.g., the North American Free Trade Agreement). For this reason a great deal of attention is focused on how the state attained this freedom.

1.2 THESIS EXPOSITION

Evidence to support the thesis will be presented as follows. First, there is a survey of literature which discusses state-society relations, and how these affect foreign economic policymaking. Arguments claiming that the state has little freedom from society in formulating policies are valid for pre-1934 trade history, but not for the period of time since then. In addition, arguments that ignore society and emphasize the international systemic constraints placed upon the state are shown to be inadequate as well. It is argued that the state-centric perspective best explains American state behaviour in trade politics since 1934.

Second, having shown that the state-centric perspective is valid, the theoretical framework is then developed in detail. First, some basic terms and concepts are defined. Second, there is a discussion of strategic behaviour which is concerned with influencing the choices that other actors will make. Finally, the three-track trade strategy of the U.S. which combines unilateralism, bilateralism, and multilateralism is explained.

It is argued that unilateral protectionist threats, and rhetoric from Congress have been intended to relieve pressures from protectionist groups on Representatives and Senators. In addition, they have also been intended as signals to countries to encourage the creation of a free trade area (i.e., Canada and Mexico), and to encourage the Europeans and Japanese to become more cooperative in trade negotiations.

Bilateralism here refers to the creation of free trade areas, and serves several purposes. First, it serves as an example to multilateral round talks of how a relatively good trade agreement can be concluded on issues previously excluded from the trade regime. Second, bilateralism solves disputes with important trading partners of the U.S. Third, it serves as threats to the Europeans and Japan which imply that if they do not cooperate with the U.S. at the multilateral level then the U.S. has other options. Thus, unilateralism and bilateralism are intended to achieve progress at the multilateral level.

The main objective of the U.S. has been to maintain and strengthen the multilateral free trade regime. Since the U.S. experienced a relative decline in power, it has had to rely more on cunning and less on brute power to help maintain the GATT regime. Nonetheless, the best weapon in the American arsenal is the threat to cut off the market access other countries have to the U.S., although it is argued that the U.S. has no intention of actually implementing this action. The reason for this is that U.S. actions are limited by the GATT rules. If the U.S. violated the rules it has been attempting to enforce, this would send a wrong signal to the world.

Third, demonstrating that the American state has freedom from society is important to the entire argument. The reason for this is that strategic behaviour by a

state means that there is a logic, and consistency being pursued to achieve a long-term objective. If the state does not have freedom from society, the state is vulnerable to interest groups, and erratic policies may follow. If sufficient freedom had not been established, the three-track trade strategy might never have come about. The U.S. would then have had no choice but to implement protectionist policies. U.S. trade history from the creation of GATT to 1979 is examined in detail in chapter four to highlight how the state has been able to create a degree of freedom from society.

Surveying American trade history shows that when interest groups had strong influence over the state prior to 1934, American policy did not follow any clear course, other than granting product-specific protection to protect U.S. firms. The U.S. state meandered between protectionism and free trade. Only after 1934 did U.S. trade policy consistently choose the path of free trade. One of the main reasons that a free trade policy was maintained was that the U.S. state was able to place the focus on export politics, and not on restricting imports.

Fourth, case studies examine contemporary U.S. trade strategy. They explore how U.S. trade practices, and efforts to maintain a free trade regime have worked in practice. An examination of Congressional unilateralism since the early-1980s reveals that there have been contradictory signals coming out of the U.S. government. On the one hand, there has been a lot of protectionist rhetoric. However, very little actual protectionism has occurred. It is argued that this has been an important aspect of the three-track trade strategy.

Trade legislation has two faces. It has a threatening side designed to act as a signal to other countries and to sooth the demands of protectionist constituents, and a benign side that empowers the Presidency to negotiate bilateral free trade agreements with other countries. To show how unilateralism facilitated the attaining of bilateral agreements, case studies involving Canada and Mexico are explored.

American trade relations with Japan and the European Community are also examined. The U.S. has attempted to pursue a bilateral strategy with Japan designed to help reduce its deficit with that country. However, the conclusion drawn is that the bilateral strategy pursued with the Japanese has been a failure. Since the European Community has been one of the most important actors which delayed the Uruguay Round, the U.S. required increased credibility to urge the Europeans to cooperate. It is argued that this was a major motivation behind the free trade agreements with Canada and Mexico. How the Uruguay Round concluded is then briefly examined. These case studies are intended to exemplify how the U.S. has used unilateralism and bilateralism to encourage progress at the multilateral level, and how the U.S. has treated economic rivals in the process.

1.3 GATT BACKGROUND

This thesis is about how the U.S. has been able to manipulate other countries and get them to conform to a set of rules that are to be binding on all. This set of rules is GATT. Some background on GATT is required at this point.

The post-World War II trade regime, GATT, has been mainly intended to reduce tariffs. Signatory countries have received most-favoured-nation (MFN) status. MFN meant that concessions made to one country would also be made to all the GATT member countries. The GATT trade regime, however, never achieved completely free trade. Agriculture, services, the movement of labour, and non-tariff barriers were excluded from the GATT rules.³ For example, one of the ramifications which has occurred from the exclusion of agriculture has been the proliferation of national agricultural policies. These policies have distorted prices, production, and the trade patterns of primary food commodities.⁴

The GATT system was created around four main premises. First, multilateral negotiations were preferable to bilateral or regional negotiations. Second, trade would be carried out by private actors with prices being established by supply and demand. Third, free trade would increase world economic efficiency and benefit all countries. Fourth, intervention by governments in the market was intended to distort natural economic domestic adjustments resulting from free market signals. These premises have

³ Agriculture was excluded from GATT during the 1950s at the insistence of the United States. The U.S. did not want its domestic agricultural policies to be subjected to international constraints. Loukas Tsoukalis, "Euro-American and Global Economic Interdependence," Loukas Tsoukalis, ed., Europe, America and the World Economy (New York: Basil Blackwell, 1986), 3.

⁴ The subsidy war that resulted between the U.S. and the European Community cost the former \$1 billion and the latter \$11 billion, during 1988 alone. United States President, Economic Report of the President: Transmitted to the Congress, February 1992, (Washington, D.C.: United States Government Printing Office, 1992), 200.

continued, to the present, to be important factors in the formulation of American economic policies.

Beginning in the 1970s, the GATT rules came to be increasingly violated. Trade restricting policies increased while world trade continued to expand at a rapid rate. Discriminatory trade practices became an almost common occurrence. The term 'managed trade' came into vogue, with voluntary export restraints (VERs) being used as a main tool. There was a proliferation of national economic policies. Governments began to intervene to protect threatened industries from foreign competition. There were orderly marketing agreements (OMAs), quotas, and other non-tariff barriers designed to designate market shares among competing countries.⁵ The issues not covered by GATT became more difficult to treat within the GATT framework.⁶ The U.S. therefore had to begin to remedy the problems.

1.4 TRADE STRATEGY VERSUS STRATEGIC TRADE POLICY

Some clarification is required at this point. A distinction is drawn between trade strategy, and strategic trade policy. It is trade strategy that is being discussed in this study. Trade strategy refers to the processes of creating freedom for state action, and the practices and manner of bargaining and negotiation that have been used by the

⁵ The erosion of GATT principles, since the 1970s, has been called the 'new protectionism.'

⁶ Charles Lipson, "The Transformation of Trade: The Sources and Effects of Regime Change," International Organization 36, no. 2 (Spring 1982), 452.

American state to influence other countries into complying with a multilateral free trade regime.⁷

Strategic trade policy refers to government intervention to promote certain sectors and firms over others. Governments implement policies that promote exports, research and development, protect home markets while opening foreign markets, and create skills training programs. Governments are supposed to help domestic firms increase their economies of scale, adopt new technology, and innovate. All these have been advocated by strategic trade policy scholars, in order to change competitive advantage.⁸ Most major countries that have pursued a strategic trade policy have been East Asian and West European. The U.S., having a liberal ideology and an inherent fear of economic intervention, has not been as quick to implement such policies.

Market distortions, caused by the strategic trade policies of European and East Asian countries, have harmed the U.S. economy. Foreign subsidies, in violation of GATT, have reduced the cost of foreign commodities. The result has been that the U.S. has imported more, and exported less partly due to the market distortions. The U.S. has attempted to influence countries to change their practices to policies that do not distort the international market. Thus, American trade strategy has attempted to change the strategic trade policies of other countries.

⁷ David A. Lake, "The State and American Trade Strategy in the Pre-Hegemonic Era," International Organization 42, no. 1 (Winter 1988), 33.

⁸ Paul R. Krugman, "Introduction: New Thinking About Trade Policy," Paul R. Krugman, ed. Strategic Trade Policy and the New International Economics (Cambridge: MIT Press, 1986). 5-12.

The U.S. has pursued not only free trade, but fair trade, which means that every country plays by the same rules. Once the playing field has been levelled, many American political leaders believe, the U.S. economy will benefit. This will occur because the U.S. has been a leader in technology and in most important industrial sectors. The U.S. does not need a strategic trade or industrial policy because its economy is already structured in a satisfactory way. The U.S. does not have to catch up to more advanced countries because it is the most economically advanced country.

A further reason why the U.S. has attempted to bring some control over the strategic trade policies of other countries, and has not implemented its own strategic trade policy, is the following. If all countries pursue their strategic trade policies freely, there is the possibility that beggar-thy-neighbour policies may emerge.⁹

The U.S. has realized that it cannot remain passive while other countries intervene extensively in the market economy. Therefore, the U.S. has been pursuing a trade strategy designed to manipulate other countries to change their strategic trade policies by removing what Americans view as the most objectionable practices. In other words, the U.S. has been trying to get the Japanese and the Europeans to play by the rules the U.S. prefers. These rules are free trade, and minimal intervention in the economy.¹⁰

⁹ Krugman, *op. cit.*, 19.

¹⁰ For the remainder of the study, the term 'strategic trade policy' is being used with the meaning of 'trade strategy' in mind. The two terms are thus interchangeable with reference to U.S. trade practices.

The following chapter presents a literature review that focuses on how much freedom the state enjoys vis-à-vis society. One of its purposes is to justify the selection of the state as the main unit of analysis. It is argued that states can develop considerable freedom from society, if they take the appropriate measures.

CHAPTER 2

LITERATURE REVIEW: STATE FREEDOM AND FOREIGN ECONOMIC POLICYMAKING

Policymaking has been an exercise in the art of the possible. Various theoretical perspectives have argued that political actors have had different amounts of freedom in policy formulation. Most of the perspectives have placed emphasis on either domestic factors, or on foreign factors that influence the state. However, domestic and foreign factors are both important in determining how much freedom a state has when formulating foreign trade policy. Emphasis placed only on one factor does not adequately explain trade policy formulation.

The literature on policymaking has been highly complex. Many perspectives and approaches overlap or show similarities, in addition to differences. This review of the literature on foreign economic policymaking has been organized according to the amount of freedom different perspectives have claimed political actors have had in making choices with regard to trade policy. Freedom of state action has been used as the organizational concept to show that the American state has been free to implement

policies that limit domestic protectionist demands, and influence the policies of other countries toward liberalism. The intended result of the American state is to benefit the United States economy overall by maintaining a free trade regime.

2.1 THEORETICAL APPROACH: DEVELOPING THE CONCEPT OF FREEDOM

The concept of freedom has changed somewhat throughout history. Ancient Greek philosophers assumed that freedom was only found in the realm of politics.¹ Life was divided into a private sphere (consisting of the household and economic activity necessary for survival) and a public sphere (consisting of the political realm or the polis). Freedom meant "not to be subject to the necessity of life or to the command of another and not to be in command oneself."²

With the coming of modernity, the concept of the societal realm emerged (which encompassed both the private and public realms). The ancient distinction between public and private was blurred.³ People and political communities were seen in "the image of a family whose everyday affairs have to be taken care of by a gigantic, nation-wide

¹ Hannah Arendt, The Human Condition (Chicago: The University of Chicago Press, 1958), 31.

² Ibid., 32 (emphasis in original).

³ According to Arendt (28-29), the social science most associated with the study of the politics and economics of a modern country is not political science but "'national economy' or 'social economy' or *Volkswirtschaft*, all of which indicate a kind of 'collective housekeeping'; the collective of families economically organized into the facsimile of one super-human family is what we call 'society,' and its political form of organization is called 'nation.'" For the ancient Greeks, the term 'political economy' is an inherent contradiction. As Arendt has stated: "whatever was 'economic,' related to the life of the individual and the survival of the species, was a non-political, household affair by definition."

administration of housekeeping."⁴ With the emergence of society, economic activity was elevated to the public realm.

Today, politics and policymaking are not just a reflection of popular demands, or the outcome of lobbying by the most powerful groups in society. Governments, agencies, politicians, and bureaucrats (or in another word -- the state) have their own agenda as well. As Hannah Arendt has written:

That politics is nothing but a function of society, that action, speech, and thought are primarily superstructures upon social interest . . . is among the axiomatic assumptions . . . from the political economists of the modern age.⁵

This is not to say, that governments get their way in implementing their ideal policies and strategies all of the time. With the emergence of society, everything previously associated with the private sphere did become a collective concern.

This study places its emphasis on, what Arendt has called, 'action'. Action is the "activity that goes on directly between men without the intermediary of things or matter, corresponds to the human condition of plurality, to the fact that men, not Man, live on the earth and inhabit the world."⁶ Arendt has claimed that plurality is the condition of all political life. Action "always establishes relationships and therefore has an inherent tendency to force open all limitations and cut across all boundaries."⁷ However, states can try partially to separate the private and the public realms. States

⁴ Ibid., 28.

⁵ Ibid., 33.

⁶ Ibid., 7.

⁷ Ibid., 190.

try to do this in order to maximize their freedom of action so that they can implement policies that benefit the entire country, and not just a part of it.

Five main perspectives have been identified. These theoretical perspectives may be labeled (1) the radical perspective, (2) the market perspective, (3) the cognitive perspective, (4) international system-centric literature, and (5) the state-centric perspective. The organization of the following perspectives begins with those that argue that decisionmakers have little freedom in implementing policies, and it ends with those that claim that states have a great deal of freedom in policymaking. Figure 1 shows how much freedom each perspective, in general, claims the state has, as well as what sources of influence have greatest sway over the state.

Figure 1. -- State freedom of action and influences.

Sources of Influence	Inter- national		System- Centric	
			Cognitive	State- Centric
	Domestic	Market; Radical		
		Low		High
		State Freedom to Act		

2.2.1 THE RADICAL PERSPECTIVE

The radical perspective uses classes as the unit of analysis. The interests of the capitalist class and the working class are opposite. The capitalists tend to have control

over or at least easy access to the state. As a result, the state mainly serves the interests of capitalists and has little or no independent freedom of action. There are within this perspective five traditions: instrumentalist theory, structuralist theory, the world system approach, the materialists' approach, and the Hegelian-Marxist approach to the state. Each will be briefly discussed.

An older tradition within the radical perspective consists of the power structure based upon work of C. Wright Mills and the instrumentalist theory of Ralph Miliband. This perspective argues that the capitalist class uses the state as a tool to achieve its objectives. According to Miliband, the state exists to serve the interests of the capitalist class.⁸ The capitalist class has control over the state, because of its participation within it.⁹ Therefore, the foreign economic policies of the state are those advocated by the capitalists.

John Mollenkopf claims that policymaking is dominated by large corporations and that all other groups are subordinate. Many state institutions are used by the corporations to create a common capitalist position. From the dominant capitalist groups emerge foreign economic policies. The state implements these policies by way of an old boys' club. Since the decisionmakers within the state are mainly drawn from the

⁸ Ralph Miliband, The State in Capitalist Society (London and New York: Basic Books, 1969), 22.

⁹ Pat McGowan and Stephen G. Walker, "Radical and Conventional Models of U.S. Foreign Economic Policy Making." World Politics 33, no. 3 (April 1981), 349.

capitalist class, they are easily influenced by corporate interests. The state is not autonomous, since power comes from wealth.¹⁰

The second tradition, linked with Nicos Poulantzas, is the structuralist theory which places importance upon relative state autonomy. This tradition holds that the inherent contradictions of capitalism shape the state structure,¹¹ which in turn results in policy actions.¹² State activity is determined by social structures.¹³ The state has relative autonomy from the economic structures and the dominant class. An autonomous state is more capable of keeping the working class divided than if members of the capitalist class were the ruling class as well. In addition, capitalist class unity is increased because not every member of the capitalist class is a member of the government.¹⁴

Erik Olin Wright has sought to explain global structural causality.¹⁵ Wright

¹⁰ John Mollenkopf, "Theories of the State and Power Structure Research," The Insurgent Sociologist 4, no. 3 (Summer 1975), 345-64.

¹¹ Structure has been defined as "a level of reality invisible but present behind the visible social relations [emphasis in original]." Maurice Godelier, "Structure and Contradictions in Capital," Robin Blackburn, ed., Ideology in Social Science (London: Fontana, 1972), 336.

¹² McGowan and Walker, op. cit., 350.

¹³ David A. Gold, Clarence Y. H. Lo, and Erik Olin Wright, "Recent Development in Marxist Theories of the State," Monthly Review 27, no. 5 (October 1975), 36.

¹⁴ McGowan and Walker, op. cit., 357.

¹⁵ Structural causality is an abstract notion and has been difficult to use in empirical research. No satisfactory definition has been put forward. Instead, analogies have been used to explain the concept. Structural causality can best be explained as an attempt to understand the levers that control what appears to be reality. It is an attempt to "penetrate the veil of appearances to discover the hidden essence of things, the web of

says that American and global capital economic structures limit U.S. foreign economic policy. American trade policy mainly attempts to lower domestic and foreign tariffs and non-tariff barriers to permit the continued expansion of capital.¹⁶ The state in a capitalist society attempts to reproduce capitalist economic relations. Foreign economic policy is "the external pursuit of the policies of a given ruling class", since it is the capitalist class that benefits most from capitalism.¹⁷ Foreign economic policy is, thus, based upon classes, and it attempts to reproduce capitalism and the capitalist state.

A third but related tradition to structuralism is the world system approach of Immanuel Wallerstein. Wallerstein argues that structure acts as a constraint on state actions and policies. Therefore, the contradictions and processes found within capitalism shape the formulation of foreign economic policies. The difference between the world system theory and that of the structuralists is that the former place emphasis on the world capitalist system, but the latter place emphasis on domestic capital. Wallerstein and his followers have examined the structure of the world system, which is based on "a states system, a single long-distance division of labor, and the capitalist mode of production."¹⁸ The world system approach defines the actions of states, which it

relations that is the 'real' ground of reality and not the surface manifestations that are its facade." Robert L. Heilbroner, Marxism: For and Against (New York: Norton, 1980), 49 (fn. 45).

¹⁶ Erik Olin Wright, Class, Crisis, and the State (London: New Left Books, 1978), 15-16.

¹⁷ Goran Therborn, What Does the Ruling Class Do When It Rules? (New York: Schocken, 1978), 97.

¹⁸ Cited in McGowan and Walker, op. cit., 350.

divides into "core," "peripheral," and "semi-peripheral." Advocates of the world system model argue that the world market has been the tool used by the developed countries for the economic exploitation of the developing countries.

The fourth radical tradition consists of the materialists. The materialists seek "to 'derive' the state as a political form from the nature of the capitalist relations of production, as a first step towards constructing a materialist theory of the bourgeois state and its development."¹⁹ Materialists claim that their work critiques instrumentalists and structuralists. According to materialist thought, state autonomy is limited by capitalism because its contradictions influence politics and class struggle. The need for continual accumulation of capital requires the state to engage in activities that aid domestic capital.

The final tradition is based on the work of such scholars as Antonio Gramsci, Herbert Marcuse, and Claus Offe. This tradition may be called the Hegelian-Marxist approach to the state. This approach places emphasis on ideology and consciousness. Advocates of this approach claim that the state has come to exist and maintain itself because it has been able to legitimize itself through its control of the media, religion, and education. Alan Wolfe shows that "'consensus' is built for policy options that in fact benefit but certain sectors of society."²⁰

To summarize, the radical perspective arguments are class-centric. The majority of the radical perspective arguments claim that the state has little or no freedom in

¹⁹ Ibid., 351.

²⁰ Ibid.

policymaking. The state is an agent of the capitalist class. The capitalist class prefers that the state pursue economic policies (i.e., free trade) which help to reproduce the capitalist economy by continuing the accumulation of capital.

A major problem with the radical perspective is that workers and capitalists do not always have opposite interests with regard to protectionism and free trade. In other words, "classes often do not behave as units in trade politics."²¹ To take an example from American history, Republican Administrations, more closely tied to capital, have been more protectionist than the Democrats who have been more closely tied to the interests of labour. Although American trade policy prior to 1934 can be explained by the radical perspective, U.S. trade policies since then cannot (this is shown in chapter four). The fact that reality does not reflect the premisses (which on their own appear solid) throws considerable doubt on radical perspective arguments.

2.2.2 THE MARKET PERSPECTIVE

The market perspective is society-centric. The policy implemented is a product of the wishes of a dominant group, which has emerged victorious over the wishes of competing groups within the society. The government is a virtually passive brokerage within this approach. Government officials and institutions are relatively unimportant in the policymaking process. The government merely acts as a referee and broker for the competing groups. Society-centred explanations of trade policy look mainly at the

²¹ John S. Odell, "Understanding International Trade Policies: An Emerging Synthesis," World Politics, 43, no. 1 (October 1990), 144.

demand side, while virtually ignoring the supply side. Trade policy is basically a product of the outcomes of domestic politics. The state has almost no freedom to act in policy formulation. The market perspective assumes that policies preferred by sectors or individual firms change over time in relation to their specific economic well-being and position within the world economy.²² The market perspective can be subdivided into variants: such as the interest group variant, public choice, and the exchange rate hypothesis.

The interest group variant within this perspective dominates in the explanation of foreign economic policy. This variant argues that policy is largely the result of a struggle between competing groups. Governmental institutions mainly provide a forum within which the various groups compete. Market conditions tend to be an important factor in influencing the outcomes of trade policy. Although free trade benefits a country overall, certain sectors may be adversely affected. Sectors weakened by a free trade policy band together at the political level to obtain protectionist legislation.²³

The study of the 1930 Smoot-Hawley tariff by E. E. Schattschneider exemplifies the interest group variant.²⁴ He explains the 1930 tariff as being the result of victory by import-competing groups over groups advocating free trade. Schattschneider only attempts to explain how the 1930 Smoot-Hawley tariff came about, and does not attempt to put forward a predictive theory.

²² Odell, op. cit., 143.

²³ Ibid., 141.

²⁴ E.E. Schattschneider, Politics, Pressures, and the Tariff (New York: Prentice-Hall, 1935).

During the 1970s, public choice advocates began to build a predictive theory. Public choice theory assumes that politics and policy formulation arise through interactions among individuals who are pursuing their own short-term self-interest.²⁵ Governments are utility maximizers. At times governments act as unitary actors, while at other times they are factions of interest-maximizing individual politicians and bureaucrats who react to the demands from the political market within the confines of the political institutions.²⁶

Stephen P. Magee and Leslie Young try to explain twentieth century U.S. import policy. Assuming the existence of an open economy, Magee and Young add lobbies, political parties, and voters who provide the political demands to which politicians must respond.²⁷ During periods of economic prosperity, producers remain outside the political process. When economic decline occurs, politicization increases as people seek to bring about new policies that favour their sectors.²⁸ The market of a country changes over time, because of structural changes in factor endowments. Magee and Young claim that labour has benefited unequally from protectionism, in the past. They speculate that as labour becomes weaker in the political system (which results from reduced employment) protectionism will decline.

²⁵ Odell, op. cit., 142.

²⁶ Ibid.

²⁷ Stephen P. Maggie and Leslie Young, "Endogenous Protection in the United States, 1900-1984," Robert M. Stern, ed., U.S. Trade Policies in a Changing World Economy (Cambridge: MIT Press, 1987).

²⁸ Ibid., 161.

Robert E. Baldwin assumes that free trade is the best policy to be pursued. Complementing the argument of Magee and Young, he claims that protective policies emerge due to political-economic market imperfections.²⁹ Baldwin also supplies evidence that government has been responsive to the demands of import-sensitive sectors. However, he concludes that to explain trade policy behaviour it is necessary to accept that politicians do not simply react to demands, but frequently also pursue their own public policy goals.³⁰

Helen Milner examines how trade policy is made within specific states. Contrary to David A. Lake (whom we examine below), Milner places her emphasis on domestic politics. Milner criticizes the hegemonic argument. She notes that a comparison of the 1920s and 1970s reveals contradictory evidence. The economic position of the U.S. in the world was similar during both periods. However, the two periods produced different outcomes. The 1920s ended with a trade war, but the 1970s did not. Milner explains that changes in market conditions, and rational choices by American corporations were responsible for the different results. Throughout the twentieth century, American corporations became increasingly reliant upon exports. This fact progressively hindered the implementation of protectionist American trade policies.³¹ "Increased international

²⁹ Robert E. Baldwin, The Political Economy of U.S. Import Policy (Cambridge: MIT Press, 1985).

³⁰ Ibid., 13.

³¹ Helen V. Milner, Resisting Protectionism: Global Industries and the Politics of International Trade (Princeton: Princeton University Press, 1988).

An article by Helen V. Milner and David B. Yoffie argues that corporations have a third option they can demand from the government in addition to free trade and protectionism. The third option is the pursuit of a strategic trade policy which demands

economic interdependence in the post-World War II period helped prevent the spread of protectionism in the 1970s and early 1980s."³²

Rudiger Dornbusch and Jeffrey A. Frankel advocate the exchange rate hypothesis. They hold that macroeconomic change is tied to changes in exchange rates and trade flows. These in turn result in changes in output and employment levels, which finally result in political demands for protectionism. They argue that the increase in value of the U.S. dollar made American exports less competitive, while increasing the competitiveness of imports. As imports increased, the demands for protectionism also increased.³³

In brief, the market perspective is society-centric. Politics is supply and demand. Trade policy is an outcome of the domestic politics between competing groups (i.e., labour and import competitors versus consumers and exporters). The state is a passive referee. The government merely acts as a forum where the competition occurs. In other words, the state has no freedom or only very little freedom to act vis-à-vis society.

trade barriers for the domestic market, if a foreign market is protected. This type of demand appeals to the concept of fairness which the U.S. government has, and so they argue that it may have an important impact on policy. Milner and Yoffie proceed to explain that changes in industry economics, amount of foreign government intervention, and differences in industry structure determine what demands are made. "Between Free Trade and Protectionism: Strategic Trade Policy and a Theory of Corporate Demands," International Organization 43, no. 2 (Spring 1989), 239-241.

³² Milner, Resisting Protectionism, 15.

³³ Rudiger Dornbusch and Jeffrey A. Frankel, "Macroeconomics and Protection," Robert M. Stern, ed., U.S. Trade Policies in a Changing World Economy (Cambridge: MIT Press, 1987), 77-130.

Although market conditions are important in the selection of economic policies, they do not serve adequately as a complete explanation. The main problem with this perspective is that politics is not a market, and governments are not mere "auctioneer[s] responding to society."³⁴ Political institutions, and the authority they wield, can influence the interests and choices of individuals and groups. Therefore, the state does have some freedom to act and influence elements within society. The market perspective overlooks many internal political factors and almost completely ignores international relations (i.e., relative power and wealth, trade wars, international organizations, and trade negotiations for increasing liberalization).³⁵

Critiques of the interest group approach have claimed that it has little predictive capability. For example, the dominant group is only known after a policy has been implemented. Interest group explanations present a depiction of trade policymaking as being irrational and short sighted.³⁶

Joanne Gowa says that the amount of influence the state and society have over the policymaking process depends on whether or not the issue is "susceptible to collective action."³⁷ Whether the issue is susceptible depends on the public interest in

³⁴ Odell, op. cit., 148.

³⁵ Ibid., 149.

³⁶ David A. Lake, "The State and American Trade Strategy in the Pre-Hegemonic Era," International Organization 42, no. 1 (Winter 1988), 33-34.

³⁷ Quoted in G. John Ikenberry, David A. Lake, and Michael Mastanduno, "Introduction: Approaches to Explaining American Foreign Economic Policy," International Organization 42, no. 1 (Winter 1988), 9.

and understanding of the issue, and how the state institutions are structured.³⁸ There are thus serious weaknesses with the arguments of the market perspective.

2.2.3 THE COGNITIVE PERSPECTIVE

The cognitive perspective assumes that political behaviour is a result of the values possessed by leaders and the public, and policy beliefs and ideologies. Changes in these bring about changes in policies.³⁹ Max Weber originated this argument. Weber maintained that policies, although influenced by material interests, cannot be reduced to them. Values and beliefs have important impacts upon policies.⁴⁰ The cognitive perspective attempts to go beyond description, and towards explaining policymaking and why policy changes occur.⁴¹

Charles Kindleberger explains the spread of free trade across Europe during the mid-nineteenth century through ideology. He finds ideological factors to have been more important than economic interests. British political economists first persuaded the

³⁸ For example, trade policy is easily understood by the general population, since it has a clear link with employment. Monetary policy, on the other hand, tends to be ignored, and its effects are not really understood by the general population.

³⁹ Odell, *op. cit.*, 149.

⁴⁰ Max Weber, From Max Weber: Essays in Sociology, with an introduction by H.H. Gerth and C. Wright Mills (New York: Oxford University Press, 1946), 63-64.

⁴¹ Odell, *op. cit.*, 149.

British state of the benefits of free trade. That state then persuaded the rest of Europe.⁴²

According to Raymond A. Bauer, et al., the position taken by an individual business person cannot be solely determined by what that individual manufactures. The individual preference between isolationism and internationalism, travel experience, and degree of influence of other industries and politicians must be taken into account.⁴³

John Ruggie argues that regimes are a reflection of the power structure, and constitute "a configuration of dominant social purpose."⁴⁴ A hegemon must be committed to the idea of liberalism, if a free trade regime is to be established. The national distribution of power and social purpose of the hegemon must be inclined toward a liberal international order. He also claims that the other powerful countries in the international system must be inclined toward liberalism, and be willing to abide by the rules of the hegemon.⁴⁵ Ruggie recounts that the common idea of 'embedded liberalism' emerged among the industrialized countries after the Great Depression.⁴⁶

⁴² Charles Kindleberger, Economic Response: Comparative Studies in Trade, Finance and Growth (Cambridge: Harvard University Press, 1978), 65.

⁴³ Raymond Bauer, Ithiel de Sola Pool, and Anthony Dexter, American Business and Public Policy: The Politics of Foreign Trade (New York: Aldine, 1972).

⁴⁴ John Gerard Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," International Organization 36, no. 2 (Spring 1982), 382.

⁴⁵ Ibid.

⁴⁶ The liberal belief which has existed among the major economic powers would be referred to as "ideological hegemony" by Gramsci.

Judith Goldstein suggests that liberal ideology has become institutionalized to such an extent that there has been created an inherent inclination to cooperate even when defection would be a more rational short-term choice.⁴⁷ Goldstein also contributes the observation that during different historical periods, U.S. policy ideas became institutionalized into law and bureaucratic practices. Thus, old ideas have been able to continue to be influential, even when other ideas have become more popular.⁴⁸

To recap, the cognitive perspective holds that trade policy is a result of the values, ideas, beliefs, and ideologies possessed by the leaders and the public. Ideology is more important than economic factors in the explanation of trade policy. The ideas possessed by people within the decisionmaking framework of the state determine foreign trade policy. The state is a vehicle for the implementation of ideas into policy. This perspective suggests that the state has freedom to act in implementing the prevailing ideas, but that the state has limited freedom in selecting which ideas are to be implemented into policy.

The cognitive approach's main strength lies in explanation. Past ideas are important in explaining past cooperation and regime creation. However, cognition studies do not usually have much predictive value. They tend to be case specific. Ideas that do not yet exist make prediction impossible.⁴⁹ In addition, the approach lacks

⁴⁷ Judith Goldstein, "The Political Economy of Trade: Institutions of Protection," American Political Science Review 80, no. 1 (March 1986), 161-84.

⁴⁸ Judith Goldstein, "Ideas, Institutions, and American Trade Policy." International Organization 42, no. 1 (Winter 1988), 179-217.

⁴⁹ Stephen Haggard and Beth A. Simmons, "Theories of International Regimes," International Organization 41, no. 3 (Summer 1987), 511.

general propositions that help explain why some ideas have become predominant over others.⁵⁰ More importantly, domestic actors and foreign influences are mostly excluded from the model.

2.2.4 INTERNATIONAL SYSTEM-CENTRIC LITERATURE

The international system is important for the analysis of policies. Robert Keohane says that analysis at the international level is

a **precondition** for effective comparative analysis Understanding the constraints imposed by the world political economy allows us to distinguish the effects of common international forces from those of distinctive national ones.⁵¹

The international systemic literature, in general, claims that the main influences and constraints on the freedom of state action are foreign factors. Constraints upon state freedom of action by societal groups are not examined within this perspective. This literature divides into two main groups. The first group examines international regimes, and how they contribute to international cooperation. The second group focuses on hegemonic stability theory and its variants. Hegemonic stability theory explains how regimes come about, endure, and weaken.

⁵⁰ Odell, op. cit., 152.

⁵¹ Robert Keohane, "The World Political Economy and the Crisis of Embedded Liberalism," John H. Goldthorpe, ed., Order and Conflict in Contemporary Capitalism (Oxford: Clarendon Press, 1984), 16 (emphasis in original).

2.2.4.1 INTERNATIONAL REGIMES

Regime theorists start from the assumption that international norms and rules influence the actions of states. The norms and rules that govern the behaviour of states are assumed to be compatible with national interests. International regime literature claims that regimes, by limiting the freedom of action that individual states have, result in increased cooperation at the international level.

An international regime is said to exist "when patterned state behaviour results from joint rather than independent decision making."⁵² Writers of this literature have not agreed on a definition of international regimes. Currently there are three main definitions of a regime.

Donald Puchala and Raymond Hopkins write:

a regime exists in every substantive issue-area in international relations Wherever there is regularity in behaviour, some kind of principles, norms or rules must exist to account for it.⁵³

Such a general definition assumes that all patterned behaviour means the existence of a regime.⁵⁴ This, however, may not always be the case.⁵⁵

⁵² Arthur A. Stein, "Coordination and Collaboration: Regimes in an Anarchic World," Stephen D. Krasner, ed., International Regimes (Ithaca: Cornell University Press, 1983), 301.

⁵³ Donald J. Puchala and Raymond F. Hopkins, "International Regimes: Lessons from Inductive Analysis," Krasner, op. cit., 61-91.

⁵⁴ Regimes not only define what may and may not be done, but frequently also contain procedures for changing the regime. Haggard and Simmons, op. cit., 495.

⁵⁵ Ibid., 493.

Stephen D. Krasner formulated a definition of regime which sought to alleviate the generality problem. Krasner defines a regime as "implicit or explicit principles, norms, rules and decisionmaking procedures around which actors' expectations converge in a given area of international relations."⁵⁶ Krasner's definition has, perhaps, become the most popular.

The third definition is more specific than the previous two, since it considers a regime to consist of multilateral agreements between states attempting to control national actions in a specific issue-area. Oran Young has advocated such a definition. Young states that regimes are "social institutions and their constituent behavioral conventions constitute a response to coordination problems or situations in which the pursuit of interests defined in narrow individual terms characteristically leads to socially undesirable outcomes."⁵⁷

The literature on international regimes may be divided into three branches: structural, game-theoretic, and functional.⁵⁸ Most of the theories within these three branches tend to assume that states are rational and unified actors. Structuralists argue that international conditions determine the chances for cooperation. According to Kenneth Waltz, structures strongly influence the behaviour of states "towards a common

⁵⁶ Stephen D. Krasner, "Structural Causes and Regime Consequences: Regimes as Intervening Variables," Krasner, *op. cit.*, 1-21.

⁵⁷ Oran R. Young, "Regime Dynamics: The Rise and Fall of International Regimes," International Organization 36, no. 2 (Spring 1982), 281.

⁵⁸ Haggard and Simmons, *op. cit.*, 498.

quality of outcomes even though the efforts and aims of agents and agencies vary."⁵⁹ Game-theory introduced the ranking of preferential choices. Game-theorists take into account domestic constraints, but their research has demonstrated that the inter-state game structure has been the main constraint on actors.⁶⁰ Strategic and game-theoretic approaches emerged to explain "how cooperation can evolve under anarchic conditions which lack supranational authority to enforce compliance."⁶¹

Functional theories advocated by Keohane assume rational actors, but also take into account market imperfections, transactions, and information costs and uncertainty.⁶² Functional theories use effects to explain international institutions and behaviour. Regime adherence will increase if the regime lowers information and transaction costs among its members.⁶³ When the regime no longer reduces costs sufficiently, it becomes weaker as adherence declines. Functional theories help explain why a regime may continue to exist even when the reasons for its creation are no longer relevant. One of the criticisms of functional theories has been that they present an

⁵⁹ Kenneth Waltz, Theory of International Politics (Reading, Mass.: Addison-Wesley, 1979), 74.

⁶⁰ Haggard and Simmons, op. cit., 499.

⁶¹ Ibid., 504.

⁶² Robert Keohane, After Hegemony: Cooperation and Discord in the World Political Economy (Princeton: Princeton University Press, 1985).

⁶³ Haggard and Simmons, op. cit., 506.

insight into when a regime may be required, but do not say how the regime will be implemented.⁶⁴

To outline the literature on international regimes, international norms and structures influence state behaviour. The international system is the unit of analysis, and states are assumed to be rational and unified actors. States have limited freedom in their selection of which trade policy to pursue. Domestic structures and processes place few constraints on foreign policy. The international norms and rules limit the policies that states can pursue. However, regimes increase the understanding of the actions of states and reduce transaction costs. This results in more international cooperation, which serves national interests.

All three branches of regime literature minimize the importance of the notion, put forward by interdependence theorists, that foreign policy is closely related to domestic structures and processes.⁶⁵ That domestic politics are sidelined is the greatest weakness of this perspective.

2.2.4.2 HEGEMONIC STABILITY THEORY

Hegemonic stability theory has mainly attempted to explain the rise and fall of international regimes. The relative position of a country within the international system, strongly influences its foreign economic policy. Relative power, therefore, determines how much freedom a state has in formulating policy. The theory of hegemonic stability

⁶⁴ Ibid.

⁶⁵ Ibid., 499.

puts forward the idea that the creation, and maintenance of a regime require the existence of a dominant power.⁶⁶ Dominant countries have the ability, due to their possession of significant power and wealth, to establish and protect a regime. When the dominant power weakens, the regime weakens.⁶⁷

Trade policy is seen as being a result of influences from the international system. One could explain American trade policy as being a product of "the attributes or capabilities of the United States relative to other nation-states."⁶⁸ Officials within the U.S. government attempt to maximize that nation's self-interest.

There are two main versions of hegemonic stability theory. One version claims that the hegemon is benign, and was pioneered by Kindleberger. The other version views the hegemon as malign, and is associated with Robert Gilpin.

The first contemporary advocate of hegemonic stability theory was Kindleberger. Kindleberger argues that an open and liberal international economy (free exchange of goods, capital, and services) will be most likely to occur when a hegemonic power (the

⁶⁶ Keohane speculates that the concept of worldwide hegemony by one dominant country may no longer be possible in contemporary times. Instead, hegemony may be exclusive to only one sector. In other words, the U.S. may be the hegemon in certain sectors still, but not in other sectors. Robert Keohane, "Hegemonic Leadership and U.S. Foreign Economic Policy," William P. Avery and David P. Rapkin, eds., America in a Changing World Political Economy (New York: Longman, 1982), 49-76.

⁶⁷ Bruce Russett has argued that hegemonic stability theory would be better served if it emphasized "control over outcomes" instead of placing an emphasis upon "power base." Even as the U.S. power base declined relatively, American control over outcomes remained strong. As Russett stated, "The puzzle [of declining hegemony] stems from trying to explain a phenomenon that has not really occurred." "The Mysterious Case of Vanishing Hegemony; Or, Is Mark Twain Really Dead?," International Organization 39, no. 2 (Spring 1985), 207-209, & 231.

⁶⁸ Ikenberry, Lake, and Mastanduno, op. cit., 1.

strongest country) is present to provide stability, and create a strong regime.⁶⁹ The dominant country uses the provision of an open international market economy, which is seen as a collective good, to persuade other countries to fall in line.

Kindleberger asserts, that the world economy requires a "stabilizer". A stabilizer is a country that

would undertake to provide a market for distress goods, a steady if not countercyclical flow of capital, and a rediscount mechanism for providing liquidity when the monetary system is frozen in panic.⁷⁰

The hegemon must prevent countries that have monopoly power from exploiting others. A hegemon must encourage countries to remove trade barriers, even if they would initially suffer costs from free trade.

A liberal world economy is always threatened by the inclination toward cheating by some countries. The hegemon attempts to prevent free-riders from engaging in such activities by acting as a policing power.⁷¹ If the hegemon is not able to enforce the rules, because it is weakening relative to other countries, the regime weakens.

⁶⁹ Fred Lawson suggests that "free trade arises in conditions of competition rather than hegemony." "Hegemony and the Structure of International Trade Reassessed: A View from Arabia," International Organization 37, no. 2 (Spring 1983), 330.

⁷⁰ Charles Kindleberger, "Dominance and Leadership in the International Economy: Exploitation, Public Goods, and Free Rides," International Studies Quarterly 25, no. 2 (June 1981), 242-54.

⁷¹ Albert O. Hirschman has contended that a characteristic of economic power is the ability to disrupt commercial transactions. The hegemon can influence the policies of other states by opening or closing its market to those states, depending on what their specific trade policies may be. Economic interdependence, therefore, facilitates the ability of the hegemon to govern and manage the international economic system. National Power and the Structure of Foreign Trade (Berkeley: University of California Press, 1945), 16.

Kindleberger suggests that in order to reestablish economic stability a new hegemon is required, or a new set of rules binding on all countries (including the weakened hegemon) must be put into place, or there must at least be continuous economic policy coordination by the major economic powers.⁷² Alternatively, the weakened hegemon may seek to reassert its hegemony upon the world. Failure of any of these options to occur results in an ever increasing amount of economic conflict in the world economy.

Gilpin modifies Kindleberger's argument with the caveat that hegemons have created liberal trade regimes due to their own self-interest in open markets. Gilpin continues by claiming that there are two aspects to the power of a hegemon -- economic efficiency and political/military strength. Since the hegemon has the most efficient economy, it will benefit the most from a liberal trade regime. Due to the political power the hegemon possesses, it can force other countries to pursue liberal trade policies.

Gilpin also claims that the presence of a hegemon "is a necessary (albeit not a sufficient) condition for the full development of a world market economy."⁷³ In the long term, a system based on hegemonic stability is unstable. The market brings about changes in economic activity, and international economic power is redistributed. Eventually the hegemon loses the will, resolve, and ability, to maintain the system. The

⁷² Kindleberger, "Dominance and Leadership in the International Economy," 251-52.

⁷³ Robert Gilpin, The Political Economy of International Relations (Princeton: Princeton University Press, 1987), 86.

costs of acting as the hegemon begin to exceed the benefits received. The hegemon perceives that rival countries are gaining from the liberal system, at its own expense.⁷⁴

Lake redefines the two dimensions of power presented by Gilpin. He claims that power would be better represented by 'relative size' and 'relative productivity'.⁷⁵ Lake agrees with Kindleberger and Gilpin that there are three main categories of countries (the hegemonic leader, spoilers, and free-riders), but he also identifies a fourth category -- the supporter.⁷⁶ The categories correlate with the policies the various countries are pursuing in the international system. The main goals of states are to increase power and wealth. The use of protectionism and free trade as policies is designed to achieve these national goals.⁷⁷

Arthur Stein argues that open international trade regimes have not, and will not, come about solely due to the policies of one dominant state.⁷⁸ The hegemon must be able to convince other major trading countries (even if the levels of power are lopsided) to lower their tariff barriers. The liberalization of trade is the "product of tariff

⁷⁴ Robert Gilpin, War and Change in World Politics (New York: Cambridge University Press, 1981).

⁷⁵ David A. Lake, "International Economic Structures and American Foreign Economic Policy, 1887-1934," World Politics 35, no. 1 (October 1982), 521.

⁷⁶ *Ibid.*, 521-22.

⁷⁷ David A. Lake, Power, Protectionism, and Free Trade: International Sources of U.S. Commercial Strategy, 1887-1939 (Ithaca: Cornell University Press, 1988), 29-30.

⁷⁸ Arthur A. Stein, "The Hegemon's Dilemma: Great Britain, the United States, and the International Economic Order," International Organization 38, no. 2 (Spring 1984), 358.

bargains."⁷⁹ If there are no agreements, there is no regime. Reaching agreements may require concessions from the hegemon. This is done to convince other countries to follow its leadership. As Stein states, "liberal trade regimes . . . were founded on asymmetrical bargains that permitted discrimination, especially against the hegemon."⁸⁰

Stein, unlike other hegemonic stability theorists, claims that the foreign economic policymaking of a hegemonic state is limited by domestic factors. A dominant state may not be able to afford free trade. The reason for this is that the state must be able to generate revenue. One of the means of generating revenue is to control foreign access to its market. Protectionism by the hegemon may occur at the same time as increased trade liberalization is sought. The successful pursuit of liberalization, therefore, also requires "internal strength on the part of the government."⁸¹ Only strong states are able to extract resources from their population, while weak states rely on customs duties for revenue. Having alternative sources of revenue is an important factor in determining whether or not tariff barriers will be lowered.⁸²

Stein also argues that the decline of hegemony does not have to mean the collapse of an open trade regime. Hegemonic decline usually occurs because of different rates of economic growth. This in turn affects the nature of the international trade order, and the set of interests possessed by domestic groups and countries internationally. He

⁷⁹ Ibid.

⁸⁰ Ibid., 358-59.

⁸¹ Ibid., 359.

⁸² Ibid., 360.

argues that hegemonic decline may increase cooperation rather than reduce it. A regime will be "maintained as long as the patterns of interest that gave rise to them remain."⁸³

Hegemonic stability theory, to summarize, explains the rise and fall of regimes. The theory asserts that a dominant power is needed to create and maintain a regime. The freedom that a state has is a result of the influences from the international system. Every country competes against all other countries in the pursuit of maximizing benefits and minimizing costs. The freedom of action a state has depends on the power it possesses with respect to other states. In general, the dominant country has the most freedom to act, and the weakest countries the least freedom to act. The majority of hegemonic stability theorists ignore domestic politics.

One of the main problems with hegemonic stability theory, according to Duncan Snidal, is that it is limited to 'special conditions.' He claims that hegemonic stability theory is frequently accepted mainly due to "an equally widespread sloppiness in 'applying' the theory than any general . . . validity."⁸⁴ Attempts have been made to 'plug the holes' in the theory of hegemonic stability. For example, to explain why the contemporary economic regime has not disintegrated quickly in the presence of American hegemonic decline, a 'leadership lag' argument has been put forward.⁸⁵ Snidal asserts that such 'patchwork theory' only attempts "to plug the gaps between the

⁸³ Arthur A. Stein, "Coordination and Collaboration: Regimes in an Anarchic World," 137.

⁸⁴ Duncan Snidal, "The Limits of Hegemonic Stability Theory," International Organization 39, no. 4 (Autumn 1985), 579.

⁸⁵ The 'leadership lag' argument suggests that cooperation continues in the post-hegemonic decline period due to the "inertia of the existing regimes." Ibid., 584.

static theory and the empirical reality with plausible, and almost nonfalsifiable, theoretical filter."⁸⁶

John A. C. Conybeare has added to other criticisms of hegemonic stability theory the possibility that the presence of a hegemon may not be enough to create and maintain a liberal international economic order. He argues that "the purely economic interest of hegemons is better served by restricting, rather than maintaining, the freedom of international economic transactions."⁸⁷

Hegemonic stability theory mainly examines only the international constraints which limit state freedom of action. By ignoring domestic politics, the theory does not take into account the need of the state to acquire freedom from society to permit it to act in the international system (this point is discussed in chapters three and four). Hegemonic stability theory cannot by itself explain the foreign economic policy of the United States.⁸⁸

2.2.5 THE STATE-CENTRIC PERSPECTIVE

State-centric approaches focus on the supply-side. This perspective has attempted to bring the state back as the main unit of analysis. Emphasis is placed on political institutions, politicians, and bureaucrats. Although the government does not completely ignore societal demands, the state has a great deal of freedom of action and is itself

⁸⁶ Ibid., 585.

⁸⁷ John A. C. Conybeare, Trade Wars: The Theory and Practice of International Commercial Rivalry (New York: Columbia University Press, 1987), xi.

⁸⁸ Ikenberry, Lake, and Mastanduno, op. cit., 1.

active in policymaking. Therefore, the state has its own agenda and makes its own decisions. The state-centric perspective proposes that "domestic institutional relationships" place constraints upon foreign economic policy.⁸⁹

This perspective emphasizes that it has been institutions which have created and maintained property rights, and the economic order within which commercial transactions occur. Individuals and corporations react to the limitations and potential gains imposed upon them by institutions.⁹⁰ In the long run, institutions can change due to changes in the market, the international system, or the prevalence of new ideas, but this may take a very long time. Two approaches have developed within this perspective.

The institutional approach (also known as the domestic structures approach) is the first one. It views the state as "an organizational structure, or set of laws and institutional arrangements shaped by previous events."⁹¹ Once formed, institutions are viewed as enduring. Even after the prevailing ideas and groups that initially formed them have weakened, institutions continue to influence policy. The state's institutional structures, therefore, influence the policymaking process, and the capability of politicians and bureaucrats to make and initiate foreign economic policy.⁹²

Peter Katzenstein has been a proponent of the domestic structures approach. He argues that since different states have different institutional structures, they differ in the

⁸⁹ Ibid., 2.

⁹⁰ Odell, op. cit., 152-153.

⁹¹ Ikenberry, Lake, and Mastanduno, op. cit., 10.

⁹² Peter Katzenstein, "Introduction: Domestic and International Forces and Strategies of Foreign Economic Policy," International Organization 31, no. 4 (Autumn 1977), 606.

range of ability to conduct successful foreign economic policy due to different levels of autonomy a state has vis-à-vis society. Therefore, states can be ranked on a scale which ranges from weak to strong with respect to their societies. The prevailing view of the American state is that it is weak, because it consists of decentralized and fragmented bureaucracies and institutions. The executive, therefore, is limited in its ability to influence policy.⁹³

The second approach places emphasis on bureaucrats and politicians in the executive branch of government who are independent actors with their own agendas in the policymaking process. This approach differs from the previous one in that it places emphasis on people, while the former placed emphasis on governmental institutions. In the attempt to achieve their goals in the area of policy outcomes, executives seek to deal with internal and external limitations placed upon them. The policy preferences of the executive are generally in the national interest, while the parochial interests reside with societal actors and specific institutions.

Executives have used three strategies to maximize their freedom of action in the policymaking process (strategies used by the American state are discussed in the following chapters).⁹⁴ Haggard suggests that while retaining the old institutions, state

⁹³ Peter J. Katzenstein, ed., Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States (Madison: University of Wisconsin Press, 1978).

⁹⁴ The conclusion that three strategies have been used to increase the influence of states was made by Ikenberry, Lake, and Mastanduno, op. cit., 12-13.

officials can create new institutions to change the governmental distribution of power.⁹⁵ Second, the executive lies at the point of merger of the national and international political economies. The state is the main actor with responsibilities to direct foreign policy. This gives the executive branch of government legitimacy to create and implement foreign economic policy (e.g., Lake; Mastanduno; and Ikenberry).⁹⁶ Third, the state can attempt to mobilize and form alliances with social groups that have similar interests.

Lake divides the state into two main parts: the representative aspect of the state and the foreign policy executive. The representative part of the state consists of the legislature, which ties together the government and the society and the 'constituent' agencies (e.g., Departments of Agriculture and Commerce). The agencies are "easily 'captured' by the interests they are designed to serve."⁹⁷ Members of the legislatures are reactive to the demands from society, since they are mostly interested in being re-elected. The legislature is the least autonomous side of the state, since it reflects the interests of society.

⁹⁵ Stephen Haggard, "The Institutional Foundations of Hegemony: Explaining the Reciprocal Trade Agreements Act of 1934," International Organization 42, no. 1 (Winter 1988), 91-119.

⁹⁶ David A. Lake, "The State and American Trade Strategy in the Pre-Hegemonic Era," 33-58; Michael Mastanduno, "Trade as a Strategic Weapon: American and Alliance Export Control Policy in the Early Postwar Period," International Organization 42, no. 1 (Winter 1988), 121-150; G. John Ikenberry, "Market Solutions for State Problems: The International and Domestic Politics of American Oil Decontrol," International Organization 42, no. 1 (Winter 1988), 151-177.

⁹⁷ Lake, Power, Protectionism, and Free Trade, 70.

The foreign policy executive consists of high level bureaucrats and executive members. The executive deals with defense and foreign affairs, and must deal with the interaction between the domestic and international political systems. The foreign policy executive is the actor charged with the task of managing the nation's position (with regard to wealth and power) within the international system.⁹⁸

Lake argues that societal and strategic interests tend to differ. He says that societal interests tend to be narrowly focused and, therefore, cannot be the same as national interests. There is no single social group which has an incentive to maximize the country's relative power and wealth.⁹⁹

Since trade has an impact on society, foreign policy leaders require the backing, or at least tolerance of the representatives. Bargaining between the executive and the representatives is necessary to achieve economic objectives. The bargaining process is influenced by the state structure.¹⁰⁰ The state structure (i.e., distribution of authority) establishes parameters for the bargaining process.

The American state is decentralized, and Congress holds constitutional authority over international commerce. The U.S. president has been isolated from the making of trade policy. From time to time, the Congress has granted temporary authority over international commerce to the executive. Lake writes that the "American foreign policy executive is expected to use its position to appeal to the public, define the political

⁹⁸ Lake, "The State and American Trade Strategy in the Pre-Hegemonic Era," 36-37.

⁹⁹ Ibid., 37-38.

¹⁰⁰ Ibid., 38.

debate, and conduct foreign policy to build support for its strategic goals."¹⁰¹ He obviously places more importance on the American executive than on the Congress in explaining American trade policy.¹⁰²

According to I. M. Destler, the fiasco of Congress' experiment with protectionism during the 1930s permitted liberalization of international trade after World War II. With the 1934 Reciprocal Trade Agreements Act, Congress voluntarily delegated authority over international commerce to the Presidency. Destler claims that this change occurred so that Congress could protect itself from the forces of protectionism.¹⁰³ Congress sought to insulate itself from interest groups that would otherwise attempt to influence it into implementing legislation harmful to the American economy and world trade. Eventually the executive had to begin to form coalitions with anti-protectionist societal groups, to counter demands from protectionist groups. Delegating responsibility provided Congress with the desired protection.

In sum, as the label suggests, the state-centric perspective uses the state as its unit of analysis. Governments are relatively autonomous, and have significant freedom of action in policymaking. Although societal demands are not completely ignored, the state does have its own agenda. Individuals and corporations mainly react to the policies imposed on them by governments. Domestic governmental institutional relationships are the cause of state constraint in foreign economic policy formulation. The executive

¹⁰¹ Ibid., 39.

¹⁰² Ibid., 57.

¹⁰³ I.M. Destler, American Trade Politics: System Under Stress, (Washington, D.C.: Institute for International Economics, 1986), 12.

branch of government acts in the national interest, while the legislature mainly acts parochially.

The main problem with the state-centric approach is that there tends to be a division of emphasis on either the legislature or the executive. Both major institutions that constitute the state should be examined, since they are both important. It is argued in the following chapters that the American state has not been weak, and that Congress has made a positive contribution to trade. Since 1934, Congress and the President have worked together to conduct a new trade strategy.

2.3 STATE FREEDOM AND U.S. TRADE STRATEGY

This literature review has attempted to demonstrate that domestic and foreign factors must be examined simultaneously to explain the trade policy of a country. Although the state may be able to achieve a degree of freedom from society, it cannot ignore society. In addition, foreign factors such as international regimes, relative power, and the activities of other countries influence the actions of a state.

It has been established that arguments claiming the state is not free to act in the formulation of policies are not necessarily correct. The U.S. state has been able to protect itself from society by seeking societal allies and changing political and governmental processes that have increased its freedom from parochial protectionist demands. Increased freedom has permitted the U.S. state to pursue a consistent trade strategy that attempts to strengthen the multilateral trade regime. State freedom, therefore, has meant that policies which benefit the entire country are implemented. If

the U.S. state were not free to act, with regard to interest groups, no consistent trade strategy could be pursued. Instead, there would be a shifting between protectionist policies and free trade, as occurred prior to 1934.

Establishing that the state is relatively free to formulate policies independent of society has been the main objective of this chapter. Chapters three and four will examine how the American state has gone about attaining its freedom, and what it has accomplished, and hopes to accomplish, with its freedom of action.

CHAPTER 3

UNITED STATES TRADE STRATEGY: A THEORETICAL FRAMEWORK

United States (U.S.) foreign trade strategy has changed since the 1970s. The shift has been from a mostly multilateral orientation toward a three-track orientation combining unilateralism, bilateralism, and multilateralism. The change occurred because the U.S. experienced a relative decline in power, and required a new strategy to continue to influence other countries. The end goal of the U.S. continued to be world trade liberalization and strengthening the multilateral trade regime.

Since there have been interests within the U.S. opposed to freer trade, the American state has had to maximize its freedom vis-à-vis society. Only by freeing itself first from domestic constraints could an American foreign economic strategy based on liberalization endure. The American Congress has played a key role in bringing about this change, and has thus helped to achieve the objectives of U.S. Administrations (although not necessarily by systematic collaboration). This chapter will first define various key concepts and then explain, at a theoretical level, American trade strategy.

3.1 AMERICAN FOREIGN ECONOMIC POLICY

American foreign economic policy, as defined by Robert A. Pastor, "encompasses the totality of U.S. Government actions intended to affect the international economic environment either directly or by adjusting the way the U.S. economy [has] related to it."¹ The study of American foreign economic policy is important because it helps one to understand how the United States has been coping with its relative decline in power and wealth within the international system, and with increasing interdependence.²

Interdependence is defined as "societal, economic and political sensitivity to events from other countries."³ Interdependence has increased because of expanding foreign economic interactions and rising domestic demands placed on governments. Interdependence has had an important impact on trade policy.

Trade policy may be defined as "the sum total of actions by the state intended to affect the extent, composition, and direction of its imports and exports of goods and services."⁴ Trade strategy "refers to government policies that are contingent upon the actions of other nation-states or intended to manipulate the preferences and policies of

¹ Robert A. Pastor, Congress and the Politics of U.S. Foreign Economic Policy: 1929-1976 (Berkeley: University of Los Angeles Press, 1980), 12.

² Ibid., 13.

³ Ibid.

⁴ Benjamin J. Cohen, ed., American Foreign Economic Policy: Essays and Comments (New York: Harper and Row, 1968), 20.

others."⁵ The U.S. is still a big enough actor in world trade to be able to pursue a strategy that maintains and strengthens the free trade regime. The U.S. has been letting other countries know how America will react, if those countries choose certain policies over others. The purpose of such American actions in the international economic system has been to deal with the deterioration of the GATT regime.

International regimes regulate international behaviour and protect countries from an excessive amount of self-interest maximizing behaviour. If a country pursues a trade policy that attempts to maximize its benefits and minimize its costs at the expense of other countries, all countries may be harmed. When a regime becomes weakened, anarchy may reign supreme -- and potentially result in 'beggar-thy-neighbour policies.' The American state has been attempting to strengthen and expand the GATT regime. Before turning to the main argument, an explanation of how the term 'state' is being used will be given.

3.1.1 DEFINING THE STATE AND ITS ROLE IN TRADE POLICY

States are the principle actors within the international system. A state may be defined, according to Max Weber, as a "compulsory organization with a territorial

⁵ Note that strategic trade policy, as defined here, is **not** being used at a microeconomic level (in reference to the targeting of specific economic sectors within a country in order to change or create comparative advantage). David A. Lake, Power, Protection, and Free Trade: International Sources of U.S. Commercial Strategy, 1887-1939 (Ithaca: Cornell University Press, 1988), 4.

basis".⁶ That is, the state has a monopoly on the use of force. The state is the "institution which interprets, more or less correctly, national needs."⁷ Therefore, "the state is a governing apparatus which is distinct from and superordinate to society."⁸ The state has a significant amount of independence in the formulation of public policy vis-à-vis society. The state has the authority to impose its decisions on society, even if important elements within society are opposed to the decisions. Different agencies, branches, departments, and offices exist for different purposes, and carry specific functions within the government. What may appear at a superficial level to be a random set of actions performed by the various actors that constitute the state, may actually display a pattern when more closely examined.

For the purposes of this study, the American state is composed of the executive branch and the legislative branch. The relationship between the executive and the legislature helps explain the formulation of American trade strategy.⁹ The best way to understand this relationship is to view the protagonists as **"two institutions with distinct sets of institutional biases or predispositions relating to one another."**¹⁰ In the trade issue-area, both branches view the maintenance of a liberal trade system and

⁶ Max Weber, Economy and Society, 2 vols., Guenther Roth and Claus Wittich, eds., (Berkeley: University of California Press, 1978), 56.

⁷ Judith Goldstein, "Ideas, Institutions, and American Trade Policy," International Organization 42, no. 1 (Winter 1988), 185.

⁸ Lake, op. cit., 67.

⁹ Pastor, op. cit., 53.

¹⁰ Ibid., (emphasis in original).

creation of domestic jobs as important objectives. The executive, however, may place slightly more importance upon the former, while the legislature may place more importance on the latter. The two branches attempt to pursue both objectives simultaneously, often having to negotiate compromises.

One purpose of the state is to maximize the power and wealth of a country. Free trade and protectionism, also known as trade intervention, are instruments used by states to achieve national objectives.¹¹ Although trade intervention may benefit one state at the expense of others, it can also be used to avoid being exploited by other states.¹² Trade intervention, or its threat, is a tool to achieve policy changes in other countries. A country may implement policies that attempt to 'manipulate' other countries, and get them to change their own policies on a 'voluntary' basis (i.e., voluntary export restraints).

This type of behaviour may be termed strategic behaviour. The most important objective that has been behind American strategic trade behaviour has been the maintenance of a liberal international economic regime. It is the discussion of strategic behaviour to which we now turn.

¹¹ Lake, *op. cit.*, 2.

¹² Alan V. Deardorff and Robert M. Stern, "Current Issues in Trade Policy: A: Overview," Robert M. Stern, ed., U.S. Trade Policies in a Changing World Economy (Cambridge: MIT Press, 1987), 54.

3.1.2 STRATEGIC BEHAVIOUR AND THE PRISONERS' DILEMMA

Strategic behaviour, according to Thomas Schelling, is "concerned with influencing the choices that another party will make, and doing it [by] influencing his expectations of how we [in this case the U.S.] will behave [in response]."¹³ Schelling identified three strategy initiatives: commitments, threats (i.e., sticks), and promises (i.e., carrots).

A commitment is "an unconditional, irreversible prior policy choice."¹⁴ Other countries then react to the choice which has been made. Threats and promises are "prior choices of contingent policy rules."¹⁵ The specific action that will in fact be implemented depends on what other countries do after the threat or promise is made known. A threat could involve the implementation of a countervailing duty unless there is change in the policy of the targeted country. An example of a promise would be a reciprocal cut in tariffs if the target country lowers its tariffs. The U.S. has used a combination of all three in its trade strategy.

Threats can be subdivided into deterrent and compellent ones. A deterrent threat is one which seeks to prevent a country from using a certain policy (e.g., subsidies). A

¹³ Quoted in Avinash Dixit, "How Should the United States Respond to Other Countries' Trade Policies," Robert M. Stern, ed., U.S. Trade Policies in a Changing World Economy (Cambridge: MIT Press, 1987), 268.

¹⁴ Quoted in Ibid., 268.

¹⁵ Quoted in Ibid., 269.

compellent threat warns of severe actions, unless the target quickly acts upon the demand.¹⁶

If carried through, a threat to initiate a trade war will be damaging to all parties involved. However, if the targeted country or group of countries perceives that the initiator is willing to carry through that action, regardless of costs, then it may not pursue the policies that could trigger a trade war. Credibility is important for the threat to succeed and achieve the desired result for the initiator. If the target does not believe the initiator is willing to implement its threat, the threat will fail.

An important way to establish credibility, according to Schelling, is to be the first to establish clearly either the commitment, threat, or promise.¹⁷ A second way to establish credibility is for the commitment to take the form of a legal document that may be difficult to reverse if implemented (e.g., a congressional act). A third way to establish credibility is the "use of mandated agents, whose instructions cannot be changed during the process of negotiation" (e.g., the U.S. Trade Representative).¹⁸ Fourth, credibility can also be increased if the possibility exists to implement the commitment, threat or promise. Prolonged relations with the target can achieve this result (i.e., a tit-for-tat strategy). The U.S. has used a combination of these means to increase its credibility and get targeted countries to respond with regard to trade issues.

¹⁶ Ibid.

¹⁷ Ibid., 270.

¹⁸ Ibid.

Trade issues may be seen in the perspective of the classic Prisoners' Dilemma game. To begin with, it is assumed that there are two countries involved (referred to as players). Both players have an incentive to act (by intervening in trade) at the expense of the other. However, if both act (by intervening in trade) both lose. It is in the interest of both players not to act (by not intervening in trade). A player will intervene in trade only if it perceives that its own intervention will not provoke retaliation.¹⁹ If there is a strong perception that retaliation is likely, the free trade option will be the preferable one. This has been the rationale behind U.S. actions to retaliate, or threaten retaliation against 'unfair trade' practices of other countries.²⁰ Countries that intervene in trade will forgo intervention if they believe that the U.S. will retaliate if they do not change their behaviour.²¹

¹⁹ Deardorff and Stern, op. cit., 55.

²⁰ The concept of 'fair trade' constitutes more than subjective preferences and normative prescriptions. In the words of Phedon Nicolaides, fair trade also tries to "express objectives and expectations about the conduct of international economic relations." The fair trade concept, therefore, has been concerned with the equitable treatment of all trading countries. In addition, the fair trade concept connotes that a problem resides in the general international economic system and/or the policies of specific countries. "How Fair is Fair Trade?," Journal of World Trade Law 21, no. 4 (August 1987), 147-149.

²¹ The U.S. has been 'explaining' its situation to the major economic units of the world. The U.S. has been saying that other countries must end unfair trade practices because they have been harming the American economy. Failure to end unfair trade practices will result in the U.S. initiating discriminatory trade practices. "Explanation," therefore, is "the transmission of information on the direct consequences of actions." In other words, "I'll do what you want if you do what I want." Kenneth A. Oye, Economic Discrimination and Political Exchange: World Political Economy in the 1930s and 1980s (Princeton: Princeton University Press, 1992), 37.

Robert Axelrod has concluded that the optimal strategy to pursue for winning the game is a tit-for-tat strategy.²² A tit-for-tat strategy means to cooperate if the rival cooperates, and to punish if the rival is uncooperative. In such a strategy, a country (i.e., the U.S.) acts exploitatively only in response to exploitative actions by its opponent, on a single preceding play of the game. Punishing, or at least threatening to punish, by intervening in trade whenever trading partners intervene in their economies, may be the best strategy for bringing about freer trade.

This argument is shown in Figure 2. In a two-country model, each country has access to a policy of intervention. Intervening, in the short term, promotes domestic welfare, but reduces the welfare of the other country. Cooperating means not using interventionism. Defecting means using interventionism. The payoff to each player depends on its own actions and the actions of the target. The payoff is ranked on a scale of 'one' to 'ten', with 'one' being the worst result and 'ten' being the best. In each cell, the first number represents the payoff to country A and the second number the payoff to country B.

²² Deardorff and Stern, *op. cit.*, 55.

Figure 2. -- Payoffs in a two-country model.

		Country B	
		Cooperate	Defect
Country A	Cooperate	8,8	1,10
	Defect	10,1	2,2

The highest total benefit for both countries occurs when there is cooperation on both sides. If both sides defect, then the worst possible total score occurs. An interventionist policy can only be successful for the predatory country if the other country remains passive.

States try to determine the costs and benefits of maintaining an action or policy. When the costs exceed the benefits of a policy, countries change actions and policies. In more tangible terms, the Japanese and the European Community (E.C.) will increase cooperation when the U.S. can present them with a credible potential cost that exceeds the benefits of maintaining their policies.

3.2 AMERICAN TRADE STRATEGY

Ideas possessed by American leaders have been important in American trade policy. Since the Great Depression there has been a common western belief that free trade is beneficial to the world political economy.²³ Presidents and many members of Congress have believed that a correlation exists between trade barriers, exports,

²³ Pastor, op. cit., 196.

economic growth, and free trade. In other words, freer trade increases domestic and international prosperity.

Until the 1970s, the United States acted mainly on the principles of nondiscrimination and multilateralism. During the 1980s the U.S. began to realize that pursuing a mainly multilateral trade policy would not prevent free-riding from occurring. In light of relative American decline the U.S. had to initiate a new trade strategy that would permit it to influence other players (which had grown in relative power and wealth vis-à-vis the U.S.). The United States began to use a three-track trade strategy. U.S. trade policy has increasingly made use of unilateralism and bilateralism.²⁴

The main multilateral trade objectives of the U.S. have been to include agriculture, intellectual property rights, services, and textiles in GATT; open foreign markets; create rules governing the use of trade remedies (e.g., anti-dumping and countervail); and to strengthen dispute settlement procedures.²⁵ The U.S. has viewed the failure of a multilateral trade round as potentially leading to "an increase in trade disputes and a proliferation of retaliatory tariffs, voluntary restraint agreements, and other restrictions on trade, which could lead to a period of contracted world economic growth."²⁶

²⁴ Kenneth Oye has called this strategy "economic discrimination". Op. cit., 6.

²⁵ United States President, Economic Report of the President: Transmitted to Congress, January 1993 (Washington, D.C.: United States Government Printing Office, 1993), 210-220.

²⁶ United States President, Economic Report of the President, February 1992, 193.

Although the principal interests of the U.S. have remained global, many important negotiations have been bilateral or regional.²⁷ As stated in the Economic Report of the President:

Regional integration such as NAFTA can further promote free trade. The administration's objective is to expand open and transparent trade worldwide. Government policies should be aimed at opening rather than closing markets. Multilateral, regional, and bilateral trade agreements are instruments to realize such an objective. Multilateral integration is the most important, with regional integration and bilateral agreements fulfilling a complementary role.²⁸

As trade issues became increasingly complicated, the task of negotiating became more complicated as well. Getting more than one hundred GATT member countries (which are not at all like-minded) all to agree at the same time became a close to impossible task. This could be seen in the difficulty required finally to reach some type of agreement over the Uruguay Round negotiations. Fewer countries involved in negotiations simplified the achievement of an agreement.

²⁷ The U.S. has formed bilateral agreements with various countries throughout the postwar period. However, most agreements made prior to the early-1980s were made primarily for national security reasons (i.e., political or economic reasons related to the cold war). For example, the 1955 U.S.-Japan trade agreement was intended to increase the economic viability and political stability of Japan. The U.S. made unilateral reductions in tariffs, so as to increase Japanese exports. The Japanese were the ones who benefited, not the U.S. Only from the 1980s onward did the U.S. mainly pursue bilateral trade agreements for economic reasons unrelated to national security. Nonetheless, there are exceptions still. For example, trade relations with China have strong political and human rights motivations. Alfred E. Eckes, "Trading American Interests," Foreign Affairs 71, no. 4 (Fall 1992), 139-140, & 151.

²⁸ United States President, Economic Report of the President, January 1993, 321-322.

The intention behind U.S. strategy has been to attempt to strengthen the American economy, and preserve a liberal international trade regime. However, American policy could only be implemented if the state was freed from the constraints of society. If parochial societal constraints could not be removed, then a trade liberalization strategy could not be pursued, and protectionism may have become more prevalent in the United States.

Congress, being vulnerable to parochial interests, has had a difficult time in the overt and explicit promotion of liberal trade policies. Congress has sought to limit or at least change, its role in trade policymaking. There have been efforts to insulate the legislature, and later the executive, from interest group pressures throughout the twentieth century (see Chapter 4).

Congress found a way to promote trade liberalization and limit the demands for protectionism placed on it. Congress has consistently granted the executive the authority to conduct trade negotiations. Meanwhile, interest groups have been left with complicated and slow methods for seeking relief (e.g., voluntary export restraints and countervail cases).²⁹ As John Ikenberry et al. have written: "Both the 'push' of Congress and the 'pull' of the executive have conspired to shape the labyrinth of

²⁹ This argument has been made by I.M. Destler. He also places importance on the building of anti-protectionist coalitions in order to counter demands for trade relief. American Trade Politics: System Under Stress (Washington, D.C.: Institute for International Economics, 1986).

administrative procedures, substantive standards, and the institutional channels of policymaking in the trade area."³⁰

The American state has been using a strategy of threatening,³¹ or implementing actions upon offending countries so as to encourage or force those countries to change their economic policies and liberalize trade.³² A key aspect to this strategy has been the role of Congress. Congress has tended to send unilateral protectionist signals (e.g., by threatening protectionist legislation) to a targeted country (and frequently all countries received the signal not just the intended target). The congressional signal may be seen as threatening the target's access to the U.S. market (i.e., the stick).³³ To prevent this situation from occurring, the target may then begin to negotiate a free trade agreement (i.e., the carrot), or remove the trade policy or action that was annoying the U.S. Which option is chosen depends on the intentions of the U.S., and on the specific

³⁰ G. John Ikenberry, David A. Lake, and Michael Mastanduno, "Manufacturing Consensus: The Institutionalization of American Private Interests in the Tokyo Trade Round," Comparative Politics 21, no. 3 (April 1989), 296.

³¹ This may be called "strategic threat policy". C. Michael Aho and Sylvia Ostry, "Regional Trading Blocs: Pragmatic or Problematic Policy?," William E. Brock and Robert D. Hormats, eds., The Global Economy: America's Role in the Decade Ahead (New York: Norton, 1990), 155.

³² John Conybeare has called such actions -- trade conflicts and trade wars (which are more intense than conflicts). Most trade conflicts and trade wars are political, since they try to influence the behaviour of other countries. Trade wars are defined as "conflicts in which both the means and the ends are primarily economic." Trade Wars: The Theory and Practice of International Commercial Rivalry, (New York: Columbia University Press, 1987), 3-4.

³³ One reason why the U.S. has had significant bargaining power has been that Asian and European countries want and need to have continued access to the single largest market in the world. Peter F. Cowhey and Jonathan D. Aronson, "A New Trade Order," Foreign Affairs 72, no. 1 (America and the World 1992/93), 191.

target involved. When the targets were Canada and Mexico, free trade arrangements have been the Americans' end goal.³⁴ In these two cases, unilateralism was intended to bring about bilateralism. If the targets were Japan or the E.C., then the intention was to have a specific trade practice removed, or to encourage progress at the multilateral trade negotiations.

It is important to distinguish "between the initiation of a bill and the passage of a law, between the emission of a signal and the commitment of a policy."³⁵ The congressional signal is directed toward affected groups, the executive, and foreign governments. With reference to the 1988 Omnibus Trade Act, U.S. Trade Representative Carla Hills stated "retaliation cannot be the goal of our policy, the credible threat of retaliation provides essential leverage in our market-opening efforts."³⁶ This American practice has been an attempt to use the threatened passage of potentially protectionist Congressional legislation, or its actual passage, either to make a threat credible, or to demonstrate a commitment to possible future action. By threatening protectionism, Congress placates the demands of its protectionist constituents and sends a signal to other countries. Congress has been careful, however,

³⁴ A free trade area removes the majority of trade barriers between member countries (e.g., NAFTA). Each member retains its trade barriers vis-à-vis non-member countries. However, a customs union (e.g., the E.C.) eliminates trade barriers among member countries and establishes a common external tariff for the commodities of non-member countries.

³⁵ Pastor, *op. cit.*, 192.

³⁶ Cited in Aho and Ostry, "Regional Trading Blocs," 156.

to include means of stepping back from protectionist 'brinkmanship' by also authorizing the Administration to lower trade barriers through bilateral negotiation.

Candidate countries that the U.S. has targeted for free trade arrangements (FTAs) have common objectives. They see the FTA as a defensive action to counter the American protectionist threats.³⁷ Jeffrey J. Schott has noted two commonalities:

- 1) They all seek to maintain access to the U.S. market. To do so has required gaining an exemption from future American trade law; and
- 2) A FTA with the U.S. will increase American attention (economically and politically) toward that bilateral relationship.³⁸

Free trade arrangements have had three uses to the U.S. First, free trade arrangements have permitted the U.S. to "tailor trade" so as to achieve American economic objectives.³⁹ Second, they have been a way to remove trade barriers to American exports, and to eliminate unfair trade practices with important trade partners. Third, free trade arrangements have been a threat the U.S. can use toward the European Community and Japan -- whereby if multilateral trade talks fail the Americans have 'other options' which are **credible**. In other words, the U.S. has been warning the E.C. to avoid the creation of 'fortress Europe;' otherwise the U.S. would create 'fortress western hemisphere.'⁴⁰ With regard to the Japanese, the U.S. has been demonstrating

³⁷ Jeffrey J. Schott, More Free Trade Areas? (Washington, D.C.: Institute for International Economics, 1989), 32.

³⁸ Ibid., 32-33.

³⁹ Ibid., 11.

⁴⁰ Ibid., 12.

that 'Japan needs America more than America needs Japan.' If actualized, the U.S. threat to exclude Japan from the American market would hurt Japan more than the U.S.

The U.S. has been discriminating against certain countries in order to increase liberalization. As Kenneth A. Oye has argued, "economic discrimination and political exchange can promote economic openness."⁴¹ This occurs only when there are existing barriers to trade. In such a case, countries are encouraged to negotiate. If the international trade system is mostly open, economic discrimination will place limits on the movement of commodities.⁴² Bilateral (and regional) agreements increase the benefits of countries participating in the agreement, while imposing costs upon non-participating countries. The benefits and costs occur because participating countries tend to discriminate in favour of each other, and against non-participants.⁴³

Threats of discrimination by the U.S. may prod export-oriented sectors in discriminated countries to crusade against protection for their import-competing sectors. Bilateral discrimination increases the power of anti-protectionist forces within the countries involved.⁴⁴ In this way domestic biases in favour of protectionism and opposition to free trade arrangements (in the cases of Canada and Mexico) can be

⁴¹ The increased liberalization of Japanese agriculture during the 1980s and the 1987 Canada-U.S. Free Trade Agreement are examples of discrimination facilitating bilateral trade agreements. Oye, *op. cit.*, 4.

⁴² *Ibid.*, 6.

⁴³ During the 1930s and 1980s, some bilateral agreements only diverted trade flows and did not necessarily create new trade flows or increase economic openness. However, this was not true in every case. *Ibid.*, 27.

⁴⁴ *Ibid.*, 143.

neutralized, or at least reduced.⁴⁵ "By offsetting domestic biases toward protection, discriminatory international bargaining strategies are an important force for economic liberalization."⁴⁶

Economic discrimination may also persuade countries excluded from a bilateral or regional agreement to try to become members or create a new regional agreement.⁴⁷ In this manner, economic discrimination can increase openness in the trade system.⁴⁸ Therefore, one set of negotiations acts as a trigger towards other countries to enter into a new set of negotiations. Finally, countries not included in a regional free trade area may become more inclined toward ensuring the success of multilateral trade talks.⁴⁹

3.3 SUMMARY

To summarize the argument (see Figure 3), Congress has played a complementary role with the Administration in trade strategy and international negotiation efforts. Prior to the 1980s, Congress and the Presidency set up insulation around themselves, to protect themselves from protectionist demands (represented by

⁴⁵ The American executive has gained private sector allies in this manner, both domestic and foreign, in order to counter the interests that promote protection. Ibid., 27.

⁴⁶ Ibid., 143.

⁴⁷ For example, the Japanese-U.S. bilateral trade liberalization, the Canada-U.S. Free Trade Agreement, and the European Single Integrated Market Agreement were "mutually reinforcing". Ibid., 27.

⁴⁸ Ibid.

⁴⁹ United States President, Economic Report of the President, January 1993, 322.

the broken wall between domestic demands and the American state in Figure 3). The insulation reduced the amount of protectionist pressure placed on the American state. It permitted the American state to pursue a liberal, multilateral trade policy during its hegemonic period. The insulation that was previously created also permitted the U.S. to pursue a new strategy to try to continue to influence other countries (in light of America's relative decline), during the 1980s.

Figure 3. -- American trade strategy.

Unilateral actions by the U.S. were directed towards a target, in order to bring about a desired goal (e.g., bilateral or regional free trade arrangements). The target then was pressured to react in the desired manner. Bilateral arrangements, if reached, could then be seen as consisting as a signal threatening 'economic discrimination' directed towards the E.C. and Japan in trade negotiations at the multilateral level. Responses from targets would then result in responses by the American state (i.e., tit-for-tat). Actions by the E.C. and Japan (i.e., trade liberalization or retaliation) also had an impact on the general American population (e.g., more or fewer jobs). How the U.S.

population was affected then caused new amounts of protectionist demands (either more or less) to be placed on the U.S. state. The state then responded with new insulation, if needed, and/or new foreign trade initiatives.

Unilateralism and bilateralism have been part of a strategy that has complemented multilateralism.⁵⁰ According to Cohen, American foreign economic policy attempts to embrace "the acceptable, not necessarily the excellent."⁵¹ What will follow will be first, a general view of past American trade policy, and the crucial role of Congress and the Presidency within U.S. trade strategy (Chapter 4). Second, U.S. trade strategy toward Canada, Mexico, Japan, and the E.C. within the Uruguay Round will be examined (Chapter 5).

⁵⁰ Schott, op. cit., 5.

⁵¹ Stephen D. Cohen, The Making of United States International Economic Policy: Principles, Problems, and Proposals for Reform (New York: Praeger, 1988), 41.

CHAPTER 4

AMERICAN TRADE HISTORY: EVOLUTION, BREAKDOWN, AND TRANSFORMATIONS

American post-World War Two foreign trade policy was strongly influenced by the passing of the protectionist 1930 Smoot-Hawley Bill, which helped to bring about the collapse of world trade and the Great Depression. Until the early-1930s, Congress placed priority upon protecting U.S. firms. Due to the nature of the American political system, individuals and interest groups introduced their complaints, and demands by lobbying their congressional legislators. Congress was used by interest groups to limit executive actions in trade policy.¹

After 1934, Congress "legislated itself out of the business of making product-specific trade law."² Congressional members placed priority upon protecting themselves

¹ Raymond Vernon and Debora L. Spar, Beyond Globalism: Remaking American Foreign Economic Policy. (New York: The Free Press, 1989), 59.

² I.M. Destler, American Trade Politics: System Under Stress, (Washington D.C.: Institute for International Economics, 1986), 11.

from the special interests, which had led them to formulate and implement unwise trade policies.³ Special interest protectionist pressures were channeled away from Congress and toward other government institutions. The executive became the main overt promoter of U.S. liberal trade policies, and formed coalitions with anti-protectionist forces. Congress favoured executive leadership, and sought to concentrate the formulation of trade policy in an institution that would take into account domestic and international concerns.⁴

In 1947, the U.S. led the creation of a liberal world trade regime. Within the American state, "liberalism became ingrained as a policy bias because the return to abundance and growth was interpreted . . . to be a result of the successive, although incremental, policy of reducing barriers to trade."⁵ Until the late-1960s, the U.S. was prosperous and the unchallenged economic leader of the world.

Beginning in 1974, Congress began to become more assertive in trade issues. Congress once again faced its old problem which had initially led it to delegate power. The problem was whether to act with respect to specific firms and products in its trade policy, or continue to act as the final decisionmaker on approving or rejecting a trade agreement.

What follows is an examination of the evolution, breakdown, and transformations of American trade policymaking. Although the bulk of this chapter is

³ Ibid., 12.

⁴ Ibid., 87.

⁵ Judith Goldstein, "The Political Economy of Trade: Institutions of Protection," American Political Science Review 80, no. 1, (March 1986), 165.

concerned with American trade policy since the 1930s, there is a brief survey of U.S. trade from 1789 to 1929.

4.1 EVOLUTION: THE EMERGENCE OF U.S. TRADE INTERVENTION

The American state has a separation of powers in the area of foreign policy. While the principle prerogative of the executive is in foreign affairs, the main prerogative of the Congress is in foreign commerce. The U.S. Constitution gave the power to Congress "to lay and collect Taxes, Duties, Imposts and Excises," and "to regulate commerce with foreign Nations and among the several States . . ." (Art. I, Sec. 8). The Constitution empowered the legislative branch to write U.S. trade laws, and permitted the executive branch only to conduct international trade negotiations within the parameters laid down by Congress.

From 1789 to 1887 tariffs were perceived as being solely a domestic issue. The U.S. had high tariff levels to encourage industrialization, and contribute to government revenue.⁶ The agricultural sector was promised a large and stable domestic market for its produce. Manufacturers, meanwhile, did not view exports as particularly important.⁷

⁶ From 1837 to 1861, tariffs accounted for ninety percent of all U.S. federal revenue. By the late 1960s, this scenario had changed drastically, with tariff revenue accounting for only one percent of the total. Robert A. Pastor, Congress and the Politics of U.S. Foreign Economic Policy: 1929-1976 (Berkeley: University of Los Angeles Press, 1980), 73.

⁷ David A. Lake, "International Economic Structures and American Foreign Economic Policy, 1887-1934," World Politics 35, no. 1 (October 1982), 521.

Between 1887 and 1894 the U.S. pursued a strategy of export expansion and import protection. The tariff came to be seen as a tool of foreign economic policy. The changing of tariff levels was used to increase American exports (especially to Latin America).⁸ Tariffs were mainly reduced on foreign raw materials, while industrial tariffs were maintained at higher levels.⁹ The American decisionmakers had attempted to divert Latin American trade with Great Britain toward the U.S. By giving minor trade concessions to Latin American raw material exports to the U.S., those countries would in return increase their importing of U.S. goods.¹⁰

The internationalization of the tariff was first promoted in 1868 by David Ames Wells. Wells argued that manufacturers and farmers in the U.S. suffered from an over production problem. Wells went on to predict that frequent depressions would occur, unless exports were increased to provide an outlet for surpluses. He asserted that increasing exports required decreases in American tariff levels. In other words, low tariff levels would result in a larger foreign market for American products. The reasons cited by Wells to back this claim were that lower tariffs facilitated the transaction of goods and services, and lowered the cost of imported raw material for the manufacturing process.¹¹

⁸ Ibid., 527.

⁹ David A. Lake. "The State and American Trade Strategy in the Pre-Hegemonic Era," International Organization 42, no. 1 (Winter 1988), 40.

¹⁰ Ibid., 41.

¹¹ Lake, "International Economic Structures," 528.

The U.S. was able to pursue, simultaneously, export expansion and the protection of domestic industries because of British hegemony. Britain preferred free trade, and led by example. Britain did not retaliate when a country deviated from the liberal regime. This British policy permitted the U.S., and other countries, to free-ride.

Although a push for complete reduction of tariffs met with opposition in the Senate, a compromise was reached. James G. Blaine suggested that tariff reciprocity treaties could be negotiated with other countries. This view of reciprocity was first enacted in the 1890 McKinley Tariff Act.¹²

In 1899, a change in U.S. policy began. The U.S. issued the 'Open Door' notes. The Open Door policy dealt with access to the Chinese market. The U.S. took up the role of advocating open trade, when Great Britain began moving away from such a policy. Most importantly, the U.S. began shifting away from the policy of reciprocity in trade, and toward the principle of non-discrimination.¹³

The 1909 Payne-Aldrich Act instituted minimum and maximum tariff levels. The Act empowered the President to place a tariff as much as 25 percent higher than the minimum tariff level on the goods of countries that discriminated against U.S. exports. Despite the increased emphasis on non-discrimination, the U.S. did not completely remove its own tariff barriers.

By 1912, the U.S. could no longer free-ride on British hegemony. The British had realized that their relative position within the international system had significantly

¹² Ibid.

¹³ Ibid., 530-31.

declined. The forces of protectionism within Britain had become increasingly influential. Britain undertook a policy similar to the past American policy, of restricting imports while promoting exports.

To avoid a direct confrontation with Britain, which could have resulted in further protectionism, the U.S. began to reduce its protection for domestic industries and continue export expansionism.¹⁴ In 1913, the Underwood Tariff Act was enacted. The Underwood Act reduced the average import duty rate to 8.8 percent. This Act was an important initiative by the U.S., since it represented an orientation toward an open international economy.¹⁵

The main effort to increase liberalization of the world economy by the U.S., during this period, was the Forney-McCumber Act of 1922 (also called the 'bargaining tariff'). The Act of 1922 empowered the Presidency to levy duties upon countries that discriminated against U.S. goods. The Act also granted the President, while negotiating bilateral agreements, the authority to lower tariff levels by as much as fifty percent at the recommendation of the U.S. Tariff Commission (which decided if an industry was entitled to trade relief). The 1922 Act authorized the executive to use reciprocity to obtain trade concessions from other countries. The 'bargaining' tariff introduced the interests of exporters into trade policymaking, since lowering tariffs could be claimed to be opening new foreign markets for U.S. exports. Increasing the clout of the export interests created a counterweight to the interests of protectionist sectors.

¹⁴ Lake, "The State and American Trade Strategy," 50.

¹⁵ Lake, "International Economic Structures," 533.

4.2 BREAKDOWN: THE 1930 SMOOT-HAWLEY ACT

Despite these liberalization efforts, the American trade policymaking system remained flawed, trade policy continued to be dominated by interest groups. The implementation of tariffs was highly politicized. In many cases, tariffs were implemented to protect industries that did not require protection, while industries that legitimately required protection did not receive it.¹⁶

Following the 1929 stock-market crash, economic panic swept through the U.S. economy. Banks reduced their loans to businesses, which in turn reduced production. As a result, unemployment soared and consumers reduced their spending, which caused lower production and more unemployment. The American economy sank into the Great Depression. It was in this context that demands for protection increased dramatically. Congress gave in to the demands.

Under the 1930 Smoot-Hawley Act, the average *ad valorem* rate on dutiable imports soared to 52.8 percent.¹⁷ If countries retaliated against U.S. goods, a surcharge of fifty percent would be imposed on top of the already high tariffs. Smoot-Hawley was

¹⁶ Pastor, *op. cit.*, 79.

¹⁷ The following exchange, between two Senators, exemplifies the severity of the Smoot-Hawley Tariff:

"I might suggest that we have taxed everything in this bill except gall," said Senator Caraway from Arkansas.

"Yes," Senator Glass replied, "and a tax on that would bring in a considerable revenue."

Quoted in *Ibid.*, 77.

designed like this because the import competing sectors did not want their protection traded away. Smoot-Hawley rendered the U.S. government politically impotent in the issue-area of international trade. Every major trading country had adopted discriminatory trade policies, except for the U.S. The Americans had chosen a non-discriminatory trade policy.¹⁸ Smoot-Hawley was designed to be non-negotiable. There was no provision for concessions to be made to other countries that might have reduced barriers to trade for American goods.

The result of Smoot-Hawley was a sharp decline in the U.S. share of world exports (see Table 1). Within a few months, Canada, France, Mexico, Italy, Spain, Cuba, Australia, and New Zealand raised their tariffs in retaliation. By 1932, Great Britain established the Ottawa system of Imperial tariff preferences and thus formally abandoned free trade.

¹⁸ Kenneth A. Oye has argued that because the U.S. implemented the Smoot-Hawley legislation without discrimination the collapse of world trade was accelerated. The non-discriminatory legislation "foreclosed international political exchange" The U.S. had placed the costs of the 1930 Tariff Act on all of its trade partners. Economic Discrimination and Political Exchange: World Political Economy in the 1930s and 1980s (Princeton: Princeton University Press, 1992), 4.

Table 1. -- World trade, U.S. trade, and share of U.S. trade,
1929-1933 (in millions of dollars).

	1929	1930	1931	1932	1933
World imports	35,606	29,083	20,847	13,885	11,937
World exports	33,035	26,492	18,992	12,726	11,119
U.S. imports	4,339	3,114	2,088	1,330	1,122
U.S. exports	5,157	3,781	2,378	1,577	1,149
U.S. surplus	818	667	290	247	27
U.S. import %	12.2	10.7	10.0	9.6	9.4
U.S. export %	15.6	14.3	12.6	12.4	10.3

Source: Kenneth A. Oye, Economic Discrimination and Political Exchange: World Political Economy in the 1930s and 1980s (Princeton: Princeton University Press, 1992), 92.

In 1929, U.S. exports had been worth \$5.2 billion and imports had been valued at \$4.3 billion. By 1933, American exports had declined to only \$1.1 billion while imports fell to \$1.1 billion. U.S. officials realized they would have to do something to bring an end to the downward spiral.

4.3 TRANSFORMATION: U.S. LEADERSHIP AND STATE PROTECTION

America's global economic leadership may be said to have begun in 1933. The executive, led by Secretary of State Cordell Hull, pursued an initiative based on bilateral

trade agreements rooted in the concept of reciprocity and the most-favoured-nation (MFN) principle.¹⁹ Hull argued:

unless the Executive is given authority to deal with the existing great emergency somewhat on a parity with that exercised by the executive departments of so many other governments for purposes of negotiating and carrying into effect trade agreements, it will not be practicable or possible for the U.S. to pursue with any degree of success the proposed policy of restoring our lost international trade.²⁰

In addition, American export-oriented sectors harmed by the discriminatory policies of European countries (which singled out the U.S. for retaliation) began a crusade against Smoot-Hawley.

The Congress, agreeing with the executive, realized it was not in a satisfactory position to set tariff levels. Since trade actions could bring penalties as well as rewards, those who made the decisions wanted to avoid risk. A way to avoid risk was to delegate authority.

The congressional rationale for delegating power was to link tariff levels with international negotiations, which was the responsibility of the executive. The executive became a **broker**.²¹ The U.S. went from "an inflexible, statutory tariff to a 'bargaining tariff'."²² By leaving the trade debate, and the selection of winners and losers to the

¹⁹ The U.S. had been forced into this new policy by the discriminatory practices (in contrast to the non-discriminatory practices of the U.S.) of other countries. Oye, *op. cit.*, 103.

²⁰ Pastor, *op. cit.*, 88-89.

²¹ Destler, *op. cit.*, 16.

²² *Ibid.*, 14.

executive, Congress buffered itself from interest groups.²³ Congress had transferred protectionist pressure to the executive.

The process of delegating authority began with the 1934 Reciprocal Trade Agreements Act (RTAA). The 1934 Act empowered the President to determine who would and would not receive trade relief, and to negotiate trade agreements that could reduce American tariffs by fifty percent of the levels established by Smoot-Hawley. The RTAA tied American domestic economic policies to international negotiations. It was the first time that Congress would not write tariffs into law on an item-by-item basis.

By transferring authority over tariffs to the executive, the U.S. increased its credibility in making commitments, and took advantage of its market power to pry open foreign markets.²⁴ The 1934 Act dealt with trade policy at the national level, rather than at a parochial interest group level. The RTAA made demands for 'protection' to be viewed as "an argument of exception rather than principle."²⁵ The shift was from import politics to export politics. The "Congress empowered the president to trade market access for market access."²⁶

The RTAA resulted in lower American tariffs. Another result of the RTAA was that many foreign governments expressed interest in negotiating trade agreements with

²³ Vernon and Spar, op. cit., 59-60.

²⁴ Stephen Haggard, "The Institutional Foundations of Hegemony: Explaining the Reciprocal Trade Agreements Act of 1934," International Organization 42, no. 1 (Winter 1988), 91.

²⁵ Pastor, op. cit., 92.

²⁶ Oye, op. cit., 89.

the U.S.²⁷ American and world trade was finally restored (see Table 2). The Act marked the beginning of world-wide gradual, and reciprocal reductions in trade barriers that have continued to the present day.

Table 2. -- Increase in U.S. trade from 1934-1939
(percentages).

	RTAA Countries	Non-RTAA Countries
Increase U.S. exports	62.8	31.7
Increase U.S. imports	21.6	12.5

Source: Kenneth A. Oye, *Economic Discrimination and Political Exchange: World Political Economy in the 1930s and 1980s* (Princeton: Princeton University Press, 1992), 101.

Robert A. Pastor has written: "the conclusion that emerges from a study of the 1934 trade act is one of a strong Congress shaping trade policy in accordance with its institutional imperative."²⁸ In particular, there were three areas where Congress either directly or indirectly influenced changes to the RTAA. First, bilateral negotiations constituted a compromise solution. The executive had preferred multilateral negotiations or unilateral reductions in trade barriers. Congress and public opinion did not favour

²⁷ The U.S. negotiated reciprocal trade treaties with: Cuba (1934); Brazil, Colombia, Haiti, and Honduras (1935); Costa Rica, France, Guatemala, and Nicaragua (1936); El Salvador (1937), and Argentina (1939). In 1938, bilateral agreements were made with Canada and Britain. Between 1934 and 1945, 28 reciprocal trade agreements had been negotiated.

²⁸ Pastor, *op. cit.*, 92.

those options.²⁹ Second, Congress also wanted affected interests to be able to present their arguments before barriers to trade were reduced. Congress also obtained a 'promise' from the executive that industries that could be seriously injured by trade barrier reductions would receive continued protection.³⁰ Finally, President Roosevelt had sought permanent negotiating authority. Congress limited the authority of the President to negotiate trade agreements to three years. The purpose of the time limit was to ensure that the President would have to return to Congress to receive new authority. Congress did not want to forfeit its authority over foreign commercial policy.

Congress continued to establish guidelines, regulated the manner and by how much the levels of tariffs could change, and made protectionist threats. Senators and representatives, on an individual basis, engaged in trade rhetoric and tabled many trade restricting bills, which would win them favour and votes in their constituencies. Nonetheless, there was a lack of legislation which was product-specific.³¹ The key factor to Congressional trade restraint was the ability of legislative leaders to prevent floor votes on product-specific restrictions, which would otherwise force legislators to vote in the manner their constituents wanted them to (i.e., protectionism).

²⁹ Ibid., 188.

³⁰ The escape clause, as a form of trade relief, emerged from a provision found in the 1930 Act. The provision guaranteed an opportunity for groups to put forward their perspective to the President before any bilateral negotiations were completed. If an industry could demonstrate that a concession on an item would cause 'serious injury,' the President would not grant a concession on that item.

³¹ Destler, *op. cit.*, 57.

Members of Congress could also seek refuge from the forces of protectionism behind the Senate Finance Committee and the House Ways and Means Committee.³² The main task of both committees, whose members were "hired to put a damper on particularism in tax and tariff matters", was to protect Congress from special interests.³³ The Ways and Means leader (before the 1970s) had significant influence, and could almost guarantee that the entire House of Representatives would only vote on trade proposals that the committee placed before it. Since the power of these two committees was well known among the public and special interests, individual legislators could appease their constituents by claiming that they were 'powerless' against the committees.³⁴

The return of trade did not last long during the 1930s before it was disrupted again -- this time by World War II. The main objectives of the U.S. immediately after the war were to restore world trade, and to establish a liberal international economic regime. The U.S. pursued such an agenda because it promised to benefit the U.S. economically. In addition, the liberal ideology of American decisionmakers led them to believe a liberal regime would promote prosperity, and peace throughout the world.³⁵

³² Their jurisdiction over foreign commerce emerged from the revenue function of the tariff.

³³ Destler, *op. cit.*, 58.

³⁴ Vernon and Spar, *op. cit.*, 60

³⁵ Stephen D. Krasner, "U.S. Commercial and Monetary Policies: Unravelling the Paradox of External Strength and Internal Weakness," International Organization 31, no. 4 (Autumn 1977), 636.

2

PM-1 3½"x4" PHOTOGRAPHIC MICROCOPY TARGET
NBS 1010a ANSI/ISO #2 EQUIVALENT

PRECISIONSM RESOLUTION TARGETS

In 1946, the U.S. and twenty-two other countries began the first round of multilateral trade negotiations (MTNs). By late-1947, a General Agreement was concluded and signed. The GATT required members to adhere to the MFN principle and a liberal trading system.³⁶ Article I of GATT stated:

any advantage, favor, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating or destined for the territory of all other contracting parties.

Article XXIV permitted customs unions and free trade areas, as long as:

- 1) trade barriers imposed upon non-members are not higher than the previous level;
- 2) trade barriers for almost all of the goods produced by the members are removed; and
- 3) arrangements to permit scheduling the customs union or free trade area have to be carried over a reasonable period of time.

The rapid emergence of the cold war changed the purpose of free trade and GATT. No longer were they only needed to prevent 'beggar-thy-neighbour' policies, but also to bolster the western alliance and help contain communism. Trade concessions were used by the U.S. to relieve stress between allies, caused by security issues. The U.S. accepted foreign trade practices that discriminated against it. This was required for the purposes of rebuilding and strengthening the western European and Japanese economies and politics. Between 1947 and 1961, five rounds of tariff negotiations were

³⁶ The GATT was initially intended to be a part of the International Trade Organization (ITO). The ITO was to be a permanent institution that enforced international trade rules. The Charter of the ITO was comprehensive. Too many exceptions for other countries and too many demands placed upon the U.S. made the State Department realize that the Charter would most likely not be ratified by the American Senate. The Charter was never submitted to the Senate for this reason. GATT was then transformed from a temporary agreement into a trade regime. GATT was intended to deal with tariffs.

conducted. The cumulative effects of these negotiations reduced the average tariff from more than forty percent in 1947 down to just over twenty percent in 1961 (see Table 3).³⁷

Table 3. -- The GATT Rounds and U.S. tariff rates.

Year	Event	Imports Dutiable (%)	Imports Total (%)
1930	Hawley-Smoot Trade Act	53.0	18.0
1956	Four initial GATT rounds	25.0	9.0
1961	Dillon round concluded	22.5	8.1
1967	Kennedy round concluded	12.0	7.0
1979	Tokyo round concluded	8.3	6.2
1987	Tokyo round implemented	5.8	4.3

Source: Kenneth A. Oye, Economic Discrimination and Political Exchange: World Political Economy in the 1930s and 1980s (Princeton: Princeton University Press, 1992), 145.

The RTAA from the 1930s to the early 1960s was extended eleven times. At the eleventh expiration of the RTAA, President Kennedy did not seek renewal. Instead, Kennedy wanted a new bill to replace it. The reason for this decision was the creation

³⁷ C. Michael Aho and Jonathan David Aronson, Trade Talks: America Better Listen! (New York: Council on Foreign Relations, 1985), 18.

of the European Common Market.³⁸ There was fear that the Common Market might become protectionist. The 1962 Trade Expansion Act was the result.³⁹

The 1962 Trade Act granted to the executive a five year authority to reduce tariffs by as much as fifty percent. With regard to products traded mainly between the U.S. and the Common Market, tariffs could be completely removed. The 1962 Act was important for another reason as well, it created the position of the President's Special Representative for Trade Negotiations. The Special Trade Representative (STR) was responsible to the executive, and dealt with all trade negotiations. The State Department, which had been responsible for trade negotiations until then, lost some of its power.⁴⁰

As the executive branch increasingly dealt with trade matters, it was credited with successes and blamed for failures. Presidents began attracting special interests. The administration in power had to deal with ever rising expectations. The 1962 Act permitted the President to delegate responsibility to the STR. The domestic political role of the STR was that of "executive broker."⁴¹

³⁸ The Common Market consisted of Belgium, France, Italy, Luxembourg, the Netherlands, and West Germany. Cecil V. Crabb Jr. and Pat M. Holt, Invitation to Struggle: Congress, the Presidency, and Foreign Policy (Washington, D.C.: Congressional Quarterly Press, 1992), 201.

³⁹ It was feared at the time that the bill would not pass, but it did. The 1962 Trade Act has obtained a permanent role in American trade policy. Ibid.

⁴⁰ The reason State lost its authority to negotiate trade matters was that it was seen to have been ignoring domestic economic interests too much for gains in diplomacy and good relations with other countries. Alfred E. Eckes, "Trading American Interests," Foreign Affairs 71, no. 4 (Fall 1992), 139-142.

⁴¹ Destler, op. cit., 89.

The STR was intended to be a negotiator who would be responsible toward both foreign and domestic clients. The STR was to act as a bridge between Congress and the President, domestic and international interests, and between all other interested parties. The STR was an instrument for continuing to divert pressure from Congress and placing it upon the executive branch, but not on the Presidency itself.

Although the STR placed importance upon American domestic interests in negotiations, its role within U.S. trade policy was to minimize protectionism, and to deal with the trade problems of specific firms and industries with market expanding solutions.⁴² The STR continued to place the focus upon 'export politics,' rather than restricting imports. The STR attempted to strengthen domestic interests which sought export expansion, and therefore countered protectionist interests. The STR had an important role in creating coalitions with anti-protectionist elements of society and thus countering the demands of protectionists.

In 1967, the Kennedy Round was concluded with average tariffs being reduced 36-39 percent.⁴³ During the same year the 1962 Trade Act expired. President Johnson asked for an extension until 1970, but Congress refused. For the first time, since 1934, the President had no negotiating authority. The reason for this was that the mood of Congress was changing. In 1969, the Congress wrote a trade bill designed to place

⁴² As an example: When STR Robert Strauss received complaints about the loss of two hundred jobs due to the import of Danish butter cookies, he shouted "I'm not running a butter cookie program, I'm trying to conduct a national trade policy." Miles Kahler, "America's Foreign Economic Policy: Is the Old-Time Religion Good Enough?," International Affairs 56, no. 3 (Summer 1980), 466.

⁴³ Aho, Trade Talks, 18.

quotas and non-tariff barriers (NTBs) on various products. Although the bill did not pass, it showed that Congress had come to life again in the area of trade policy.

4.4 TRANSFORMATION -- ONCE AGAIN

During the early-1970s, the American state became increasingly discontented about the international economic order. In 1971, President Nixon ended convertibility of the dollar into gold on official accounts, and imposed a ten percent surcharge on almost all dutiable imports. These actions came to be called the 'Nixon shocks.' The steadily deteriorating balance of payments situation of the U.S., beginning in 1970, was the immediate trigger to these actions (see Figure 4). Viewed from a strategic perspective, the 'Nixon shocks' could be seen as an attempt to force the E.C. and Japan to begin trade negotiations, and to improve the American balance of payments.⁴⁴ American officials claimed that the reasons why the U.S. was beginning to run a trade deficit were an over-valued dollar, and 'unfair' trade practices by other countries (see Figure 5).⁴⁵ The E.C. in particular was a main offender due to the Common Agricultural Policy (CAP), preferential trading arrangements with developing countries, and the increased use of NTBs.

Three factors stand out as accounting for these changes. First, the U.S. economy had become less isolated from the world economy, and experienced a relative economic

⁴⁴ Joseph M. Grieco, Cooperation Among Nations: Europe, America, and Non-Tariff Barriers to Trade (Ithaca: Cornell University Press, 1990), 52.

⁴⁵ Ibid., 52-53.

decline (see Table 4). There was a need for new policies to deal with increased interdependence and world competition. Second, there was a shift from the issue of tariffs toward NTBs. Third, and most importantly, Congress as a legislative institution was transformed.

Table 4. -- Change in U.S. GNP, imports, exports and tariffs, 1948-1982 (percentages).

Years	GNP	Imports	Exports	Imports*	Tariff**
1948-58	74	80	42	66	-20
1958-68	93	160	93	176	+2
1968-78	146	423	313	336	-47
1972-82	162	339	325	274	-42

Source: Judith Goldstein, "The Political Economy of Trade: Institutions of Protection," American Political Science Review 80, no. 1 (March 1986), 167.

* Imports excluding petroleum.

** Duties collected as percentage of dutied imports.

Prior to the 1970s, legislators owed winning their elections mostly to their parties. The legislator would then serve as an apprentice for the twenty to thirty years it would take to rise within the ranks to the chair of an important committee. By the mid-1970s, U.S. politics had become increasingly democratic. Legislators "did not want to run the turtle's race between seniority and senility."⁴⁶ Legislators began to win elections on

⁴⁶ Destler, op. cit., 59.

their own personal initiatives. They could assume important positions almost immediately.

Congress also became more democratic in decisionmaking. The Congressional leaders lost influence, while individual legislators assumed more prominent, individualistic, and independent roles. Reformers voted out several committee chairs, and reduced the powers of several important committees. There was a decline in the importance of seniority, and there was the rise of subcommittees. The powers of the Senate Finance and House Ways and Means Committees were reduced. This occurred due to the reduction of the importance of tariffs, which meant less revenue from tariffs, and therefore reduced jurisdiction for the two committees.⁴⁷ Congress moved beyond the effective close control of Committee leaders.

Congressional business came to be conducted increasingly in the public forum (especially once debate became televised), and so legislators had to 'look good' for their constituents. Congress became increasingly involved in making, and influencing, American international economic policies.⁴⁸ Representatives had to respond more

⁴⁷ The increased use of non-tariff barriers made other committees more important in trade policy, however. Ibid., 62.

⁴⁸ As an example of increased congressional involvement, there were 24 committees and 199 members of Congress (or one-third) participating in the last conference of the 1988 Omnibus and Competitiveness Trade Act. As international trade and barriers to trade become increasingly more complex, more committees find their authority extends to matters of trade. Joan E. Spero, "The Mid-Life Crisis of American Trade Policy," The World Today 45, no. 1 (January 1989), 11.

frequently to parochial protectionist demands from their constituencies.⁴⁹ The ever rising level of economic and political pressure was beginning to shatter the resolve of U.S. governmental institutions to limit protectionism.

Congress experienced pressure from workers and businesses seeking protection from foreign competition, and from demands to reduce the trade deficit. Throughout the post-war period, an increasing number of firms and workers had become exposed to foreign competition. Foreign competition became an increasingly sensitive issue, as the relative position of the U.S. began to decline vis-à-vis other countries. There was also rising concern about the subsidization other countries gave to their industries. Many Americans began to view the world economy as 'unfair.' The new concept of a 'level playing field' was coined.

Although most members of Congress remained personally sympathetic to liberalism, the opening of Congress required them to appease their constituents.⁵⁰ Special interests became increasingly willing to use the rules created and strengthened by Congress to try to get trade relief. Congress had always been sensitive to the concerns of its constituents and local state industries. Members of Congress have had re-election continually on their minds. Therefore, Congresspeople had to 'please' their

⁴⁹ Jock A. Finlayson, "Canada, Congress and U.S. Foreign Economic Policy," Denis Stairs and Gilbert R. Winham, research coordinators, The Politics of Canada's Economic Relationship with the United States (Toronto: University of Toronto Press, 1985), 140.

⁵⁰ Vernon and Spar, op. cit., 61.

constituents.⁵¹ The preferred method of Congress continued to be to deal with the parochial demands by introducing general bills governing trade matters. Congress did not want to limit the President's ability to negotiate international trade barrier reductions.⁵² Nonetheless, there was a common perception in Congress that the U.S. had to become more aggressive in competing for international business.⁵³

The old American trade policymaking system had become weakened by the two main objectives of legislative reformers -- **decentralization** of power, and **openness** of procedures.⁵⁴ In the past, an open trade policy had occurred because politics had been closed. Legislators had been protected from having to choose between "conviction and constituency."⁵⁵ Reformers changed that system. They wanted policy choices to be made publicly, so that the constituents would know the positions of their legislators. Reformers believed that the 'special interests' had benefited from the closed system. Opening up the system, they believed, would bring benefits in the public interest.⁵⁶

⁵¹ In an anecdote, Francis Orlando Wilcox explained:

If a member is not so concerned, it will be said . . . he 'had great political courage' or that he is 'contemptuous of public opinion.' In either case, it will almost certainly be said of him after not very long that he is a former member of Congress.

Congress, the Executive, and Foreign Policy (New York: Published for the Council on Foreign Relations by Harper and Row, 1971), 96.

⁵² Finlayson, *op. cit.* 152.

⁵³ *Ibid.*, 155.

⁵⁴ Destler, *op. cit.*, 60.

⁵⁵ *Ibid.*

⁵⁶ *Ibid.*

In 1973, the next GATT trade round of talks was ready to begin. The 1974 Trade Act granted the President negotiating authority for reducing barriers to trade for five years. The Act placed emphasis on dealing with NTBs. Tariffs of five percent or less could be eliminated. On higher tariffs, there could be reductions of up to sixty percent. The Act also permitted the President to increase tariffs by twenty percent to fifty percent. The U.S. would continue to seek increased exports and the strengthening of the liberal trade system.

The Trade Act of 1974 increased the independence of the Tariff Commission, and renamed it the U.S. International Trade Commission (ITC). Although the Congress and the President had wanted to protect themselves from protectionist pressures, they had also realized that some type of protectionism was necessary.⁵⁷ An escape clause permitted an adversely affected industry to apply for temporary import relief, if it could demonstrate that it was negatively affected due to American trade concessions.⁵⁸ The escape clause, as a remedy procedure, permitted protectionist groups a method to seek trade relief other than lobbying Congress. The ITC, in this manner, came to function as a buffer between the state and protectionist pressures.

The ITC advised the executive whether aid should be granted, and what nature the aid was to take after "an impartial, nonpartisan investigation based on the merits of

⁵⁷ Ibid., 14.

⁵⁸ The escape clause approach to trade relief was included in Article XIX of the GATT. In 1943 an escape clause was included for the first time in a U.S. treaty with Mexico and was incorporated into American statute in 1951.

petitions for import relief filed by domestic workers or companies."⁵⁹ The ITC has determined whether an industry had been injured in accordance with legislative guidelines. Possible remedies have included a higher tariff, quotas, orderly marketing agreements (OMAs), and adjustment assistance. When the ITC concluded the need for relief existed, the President has had sixty days to grant relief. The escape clause, however, was not intended to provide long-term protection from imports. It was intended to permit industries to adjust to new competition, and has thus placed limits on the amount of time an industry could receive relief.

Obtaining protection under the escape clause has been a long and difficult process. Even once received, continued protection required repeated renewals. Little actual trade relief has come about from the escape clause (see Table 5). The reason for this has been that the executive often either rejected or changed, the escape clause recommendations of the ITC.⁶⁰ Congress permitted the President to alter or reject a recommendation if its implementation would not be "in the national economic interest".⁶¹ Congress never voted to override the President. Congress had thus removed itself from the politicization of trade issues, once again. The escape clauses hindered

⁵⁹ Stephen D. Cohen, The Making of United States International Economic Policy: Principles, Problems, and Proposals for Reform (New York: Praeger, 1988), 73.

⁶⁰ Destler, *op. cit.*, 118.

⁶¹ *Ibid.*

the rise of protectionism and were "symbolic measures to aid industry."⁶² It is the President who makes the final decision on relief and amount.

Table 5. -- Escape clause cases (in effect during 1958-1983).

Year	Average no. petitions/year (total)	ITC acceptance rate	Presidential acceptance rate	
			Approved	Approved with ITC relief
1958-62	11 (56)	.27	.14	.07
1963-74	3 (31)	.30	.13	.03
1975-78	10 (40)	.60	.23	.03
1979-83	4 (18)	.56	.39	.11

Source: Judith Goldstein, "Ideas, Institutions, and American Trade Policy," International Organization 42, no. 1 (Winter 1988), 193.

In 1974, Congress also voted to make the STR a statutory office, within the Executive Office of the President. Congress required the STR to receive "advice from the private sector."⁶³ The STR was to organize general and sectoral committees that would be representative of all interests. Membership on these committees gave industries and labour a place to put forward their concerns. Congress benefited from the advisory committees in that protectionist demands could be diverted away from legislators.

⁶² Judith Goldstein, "Ideas, Institutions, and American Trade Policy," International Organization 42, no. 1 (Winter 1988), 192.

⁶³ Destler, op. cit., 94.

For U.S. trade negotiators to maintain their congressional mandate they had to appear to be promoting and protecting American commercial interests. In other words, American trade negotiators had to appear aggressive for the American audience. Trade negotiators targeted foreign trade barriers that denied potential American trading opportunities. The emphasis, as always, was placed upon export politics.

To increase the credibility of U.S. trade negotiators, the 1974 Trade Act introduced the procedure known as 'fast-track.' This procedure required Congress to act quickly when voting on trade legislation. The President would first consult with the relevant committees and then give at least 90 days advanced notice before entering into any NTB agreement. Once an NTB agreement was reached and the bill submitted, Congress would have 60 days to act under rules prohibiting committee or floor amendments. The vote could only be for or against the legislation. This new procedure not only made international trade negotiations easier, but also brought changes to the domestic policy process.

The new procedure permitted the new 'open' Congress to act more like the old 'closed' Congress.⁶⁴ A process change emerged whereby Congressional representatives would work with the STR to draft the trade legislation.⁶⁵ In exchange for granting this

⁶⁴ Ibid., 65.

⁶⁵ Since scope and time limited the congressional approval of a market opening trade bill, the influence of the Finance and Ways and Means committees was strengthened. The STR required the approval of these two committees if it wanted the bill to pass both Houses. The STR had to compromise and meet at least some of the demands of the committee members. The two trade committees advised on the bill's substance, and an interbranch process would determine the final language of the bill. Ibid.

concession, the executive received widespread congressional approval with regard to the MTN agreements. Much like the 'bargaining tariff,' the fast-track procedure protected most legislators from product-specific pressures.⁶⁶ The executive and the main trade committees took the bulk of the political fall-out, rather than members of Congress at large.

The meetings designed to reach a compromise between Congress and the STR were closed to the public. The purpose of the closure was to "limit the number of legislators and lobbyists who could influence the outcome."⁶⁷ The STR was particularly concerned with preventing the possible formation of a coalition consisting of various protectionist industrial interests. The STR had to simultaneously seek the support of pro-free trade industries and demonstrate sensitivity to the powerful industries that would lose from a liberalizing multilateral trade agreement.⁶⁸ Whenever an industry demanded protection, the government had to seek out the interests that were opposed to the granting of that protection and encouraged them to lobby against the protectionist demands.⁶⁹ Achieving an anti-protectionist coalition permitted the U.S. government to resist harsh demands for protection, and to opt for less extreme import

⁶⁶ Ibid., 67.

⁶⁷ Ibid., 66.

⁶⁸ Ibid., 69.

⁶⁹ Possible allies that the government could form a coalition with against the forces of protectionism included, industrial users of a product, exporters, retailers, and consumers. Multilateral negotiations permitted export interests to be added to the political process. For example, the Uruguay Round targeted opening up the world market for agriculture and services. Therefore the Administration received the support of U.S. farmers and the service industries. Ibid., 200-201.

restrictions. However, the requirement of special deals for losing sectors has been made more important (discussed below).⁷⁰

Therefore the fast-track procedure established a new means of authorizing, and implementing trade expanding legislation. This has meant that the U.S. has been able to continue to negotiate international trade agreements, even in a mainly NTB trade world. Fast-track has permitted all protectionist demands to be dealt with at the same time, and not one at a time.

Last, but not least, the now famous 'Section 301' was introduced with the 1974 Trade Act.⁷¹ Section 301 was intended to combat foreign restrictions imposed on American trade, and to strengthen GATT trade rights by the use of retaliation if necessary. Allegations of unfair trade practices were to be pursued by using the GATT dispute settlement mechanism.⁷²

The Tokyo Round of GATT talks ended successfully in 1979. Tariffs were lowered to an average tariff level of less than five percent.⁷³ The Tokyo Round also resulted in the signing of seven non-tariff barrier codes. The intention of these codes was to begin the process of disciplining the use of subsidies, safety and health

⁷⁰ For example, the textile sector received the strengthening of the Multi-Fiber Arrangement that provided the American's with some protection from Asian producers. VERs also became increasingly popular to limit the protectionist demands of influential losing sectors.

⁷¹ Section 301 was amended in 1984 and 1988.

⁷² The original 301 was compatible with GATT. Between 1974 and 1985, there were 27 cases involving unfair trade barriers under Section 301.

⁷³ Aho, Trade Talks, 19.

standards, government procurement policies, customs valuation, licensing, and dumping. Forty-one countries, which accounted for ninety percent of world trade, signed the final agreements.⁷⁴

The congressional passage of the 1979 Trade Agreements Act (which wrote into U.S. law the Tokyo agreements) took only a few weeks, due to fast-track procedures. The 1979 Trade Act also brought about more organizational changes. The Commerce Department took over, from the Treasury Department, responsibility for countervailing duty and dumping cases. The Commerce Department began to implement the recommendations of the ITC, and to enforce statutes dealing with unfair import competition.⁷⁵ The Department of Commerce, representing the industrial sector in the formulation of international trade and industrial policies, was perceived as being more of a supporter of domestic firms than was the Treasury Department.

In 1979, the STR was reorganized and renamed the U.S. Trade Representative (USTR) by the Carter Administration. The USTR has, in general, provided effective trade policy leadership. The USTR has developed a close relationship with the important trade committees and has established "an interest-balancing, coping mode with private groups" (see Appendices A and B).⁷⁶ The USTR has increased in size, and its mandate in trade policy development, coordination, and negotiation has been

⁷⁴ G. John Ikenberry, David A. Lake, and Michael Mastanduno, "Manufacturing Consensus: The Institutionalization of American Private Interests in the Tokyo Trade Round," Comparative Politics 21, no. 3 (April 1989), 289.

⁷⁵ Destler, *op. cit.*, 125.

⁷⁶ *Ibid.*, 87-88.

strengthened. The USTR assumed tasks previously handled by the State Department in matters of the GATT, bilateral and commodity trade issues, and policy responsibility for trade remedy cases.

The USTR, therefore, has had to formulate policies, while Commerce has had to implement them. The system could only work if both actors accepted their roles, and cooperated.⁷⁷ Commerce had to defer to USTR leadership. By the late-1980s this began to happen. The USTR is now responsible for formulating policy, developing government positions on issues, testifying before Congress, and is the main international negotiator in trade talks. The American state had again changed the rules, to protect itself from political pressure.

During the postwar period, all U.S. Presidents have launched trade policies designed to reduce tariffs and NTBs. At the same time, however, Presidents have also attempted to protect important industries adversely affected by foreign competition. There has thus been a contradiction in U.S. trade policy. On the one hand, the U.S. has been liberalizing its trade barriers. On the other hand, the U.S. has also imposed 'special protection' on behalf of many troubled sectors.⁷⁸

Factors that have helped generate demands for 'special protection' have included an overvalued U.S. dollar and high unemployment in the most affected sectors. Special protection refers to "exceptional restraints on imports, implemented through high tariffs,

⁷⁷ Ibid., 100.

⁷⁸ Gary Clyde Hufbauer, Diane T. Berliner, and Kimberly A. Elliott, Trade Protection in the United States: 31 Case Studies. (Washington, D.C.: Institute for International Economics, 1986), 1.

quota restraints, or other limitations that go well beyond normal tariff or border restrictions."⁷⁹ When especially important industries were involved (i.e., textiles, steel and autos), arrangements were made that would "circumvent both national and international rules." They have been called voluntary export restraints (VERs).⁸⁰ The U.S. has relied strongly on VERs. The reason for this has been that VERs have not been covered by the international trade regime. Their use has not violated GATT, except in spirit.

The implementation of a VER requires the U.S. to negotiate with the government of an exporting country. This fact limited the risk of retaliation. The use of threats to close the U.S. market to a targeted country has tended to result in VER negotiations. Successful negotiations have tended to result in agreements, which limit the quantity of exports into the U.S. for three to five years. VERs have protected the Presidency from protectionist pressures. Meanwhile, the foreign firms that experienced a limitation in market share often made windfall profits, since the price of their goods rose due to excess market demand.

VERs have not been particularly effective agreements. The circumvention of VERs by exporters has been possible. The fact that VERs have not been 'fool proof' has necessitated their periodic renegotiation. These characteristics of VERs help explain

⁷⁹ Ibid., 2.

⁸⁰ Destler, op. cit., 25.

why the U.S. has made so much use of them.⁸¹ They have constituted another tool used to protect the state from protectionist pressures.⁸²

The use of tariffs, according to economists, would have been a more effective means of protecting the home market (if that was the intention).⁸³ Tariffs are simple to put in place, and their use is covered by precise international trade rules. Under Article XIX of GATT, an industry injured by international competition may be protected by its government through the use of tariffs.⁸⁴ However, if the U.S. used tariffs too frequently, this would send the wrong message to the world.⁸⁵

⁸¹ VERs permit foreign exporters to raise the price of their products and therefore generate increased profits. The domestic prices in the importing country rise, but the reason they rise is not as noticeable to consumers as a tariff would be. This pricing camouflage which originates in a foreign country reduces the domestic political costs of price increases. VERs therefore, benefit both countries either economically or politically. John J. Coleman and David B. Yoffie, "Institutional Incentives for Protection: The American Use of Voluntary Export Restraints," Frank J. Macchiarola, ed., International Trade: The Changing Role of the United States (New York: Proceedings of the Academy of Political Science, 1990), 139.

⁸² Ibid., 142-143.

⁸³ Ibid., 139.

⁸⁴ Tariffs must be set on a most-favoured-nation basis. That is, the tariffs must be applied equally to all countries. In addition, the country imposing the tariff must compensate its trading partners. Use of VERs permits the U.S. to select its targets.

⁸⁵ The U.S. does use tariffs to protect its industries. However, the use of tariff protection has been mostly limited to small industries. The cost of small industry tariff protection is small in terms of foreign compensation and foreign relations. Coleman and Yoffie, "Institutional Incentives for Protection," 143.

4.5 CONCLUSION

The main goal of U.S. trade policy, during the postwar period, has been "not to maximize U.S. advantage but openness in general, a trade world where American products and firms could compete as freely as possible with others."⁸⁶ American post-World War II foreign trade policy was strongly influenced by the events that had helped to bring about the collapse of world trade and the Great Depression. The 1934 RTAA initiated the process of American world leadership, and the process of protecting the American state from protectionist pressures. GATT, meanwhile, brought the U.S. truly into the era of multilateral negotiations. From World War II to the end of the 1960s, the U.S. was the dominant economic actor within the international system. Throughout this period, the U.S. oversaw the creation of a liberal world trading system. The U.S. acted on the principles of non-discrimination and multilateralism with regard to world trade. During the 1960s, the tools used for protecting the American state from protectionist pressures were somewhat strengthened.

The 1970s, however, saw changes to the world economy, the American economy, and U.S. political institutions. There was a scramble in the form of two major pieces of congressional trade legislation, which sought to create and strengthen new tools to be used by the state to protect itself from protectionism, and maintain its freedom to act.

American trade policy had to deal with economic and political issues, as well as internal and external needs. The U.S. state had to reach a balance between the forces of domestic political pressure, domestic economic needs, foreign policy objectives, and

⁸⁶ Destler, *op. cit.*, 96.

international economic norms and rules. If a balance could not be reached, unwise trade legislation may have been implemented.

During the 1940s, increasing world trade liberalization meant for the United States the creation of an international trade regime, which would eliminate tariffs on goods. By the 1980s and 1990s, world trade liberalization had come to mean including the service sectors within the international trade regime, and removing non-tariff barriers. What the U.S. has considered to be the main barriers to trade have changed over this fifty year period. What has not changed has been the need to resist the pressures from special interests, which favour protectionism within the U.S.

International trade issues became particularly important to the Americans. The U.S. still continued to advocate non-discrimination and multilateralism. However, the U.S. also realized that such an approach to world trade permitted free-riding to occur. Those two basic principles made it difficult to discipline countries that deviated from the trade regime. With new ways in place to protect the state and assure its freedom of action, a new foreign trade strategy was needed.

CHAPTER 5

CONTEMPORARY AMERICAN TRADE STRATEGY

The successful completion of the Tokyo Round at the time marked the evolution of GATT into a dynamic and responsive organization capable of dealing with all the new, and future issues of world trade. Hoping for further successes, the United States pushed for a new GATT round during the early-1980s. The rest of the world, however, was not very responsive (only in 1986 did the Uruguay Round begin). In hindsight, GATT has not developed in accordance to the hope and promise that existed in 1979. Few countries have abided by the services and non-tariff barrier (NTB) codes, which were left deliberately weak and murky.

Because of the relative decline experienced by the U.S. which had caused a reduction in American influence, a new trade strategy was need. Unilateralism and bilateralism began to play more important roles in trade relations between the U.S. and

other countries. In particular, the U.S. claimed that it was ready to negotiate trade agreements with 'like minded countries'.¹

In 1985, the U.S. entered into a free trade agreement with Israel (see Appendix C) and in 1988 with Canada (discussed below). The ratified agreements with Israel and Canada have been the first major changes in U.S. trade policy since the end of the Second World War. The Reagan Administration conducted studies to examine possible free trade arrangements with Mexico (discussed below), Japan (discussed below), Korea, Taiwan, and the Association of South East Asian Nations (ASEAN). By late 1993, the U.S. had orchestrated the creation of NAFTA.

In 1986, the Uruguay Round began the process of dealing with the issues not covered by GATT. However, the process proved to be slow and characterized by gridlock. The Uruguay Round was two years overdue when it concluded at the end of 1993. In contrast, the Canada-U.S. FTA took only eighteen months to negotiate.

The new strategy was intended to change and strengthen the international trade regime. For multilateral trade negotiations to be successful, the U.S. needed a trade strategy that would spur along more reluctant countries. What follows is a discussion of the contemporary U.S. three-track trade strategy. First, Congressional unilateralism will be examined; followed by bilateralism with Canada, Mexico, and Japan; and finally multilateralism with the E.C. in the Uruguay Round.

¹ Committee for Economic Development, Breaking New Ground in U.S. Trade Policy (Boulder, Colorado: Westview Press, 1991), 1.

5.1 A NEW STRATEGY FOR THE 1980s AND 1990s

The U.S. has been using a strategy of threatening, or implementing actions upon offending countries (as perceived by the U.S.). This has been done to encourage or force countries to change their economic policies so as to be less harmful to American interests. The U.S. has been using unilateralism as a stick, bilateralism as a carrot and a stick (depending on the target), and multilateralism as a carrot in order to liberalize trade further.²

One of the main purposes of using unilateralism and bilateralism has been to send signals to the largest actors in the trade system -- the E.C. and Japan -- in order to prod the multilateral negotiations to a conclusion, and change the trade policies of those targets. According to former U.S. Secretary of State George Shultz:

Bilateral free trade agreements . . . can stimulate trade and strengthen the multilateral system. Free trade arrangements . . . can promote freer trade than the multilateral system is currently prepared to accommodate. Our hope . . . is that the example of greater liberalization -- and the recognition that the United States can pursue another course -- will help motivate a larger group of nations to tackle the job of expanding trade on a global basis.³

Bilateral trade arrangements have been used to send a threat of the possibility that the U.S. could defect from a liberal world trade regime, and close its market (and perhaps the western hemispheric market) to the E.C. and Japan, unless those two actors open

² Jeffrey J. Schott, More Free Trade Areas? (Washington, D.C.: Institute for International Economics, 1989), 2.

³ Quoted in Gilbert R. Winham, "Why Canada Acted," William Diebold Jr., ed., Bilateralism, Multilateralism and Canada in U.S. Trade Policy (Cambridge: Ballinger, 1988), 91.

their markets. However, without unilateralism the E.C. and Japan could not be effectively targeted. Unilateralism has led to bilateralism. It is the discussion of unilateralism, to which we now turn. The following section discusses the role of Congress in U.S. trade strategy.

5.2 AMERICAN UNILATERALISM

When the executive has shown that it has taken the concerns of Congress into account, the latter has tended to support executive initiatives for trade liberalization.⁴ Congress has been able to assume an increasingly active role in this issue-area because of the 'insulation' put into place from 1934 to 1979. During the 1980s, Congressional trade acts began placing increased emphasis on sending signals of threats and promises to other countries.

There has been a huge amount of trade-oriented legislation written in Congress since the early-1980s. However, very little of it has actually passed and become law.⁵ For example, 1983 was a particularly busy year: 4580 bills were introduced in the House of Representatives, but only 88 (2 percent) became law. These bills fell into two different categories. The first type was not very protectionist, but sought to increase American access to foreign markets, and increase the President's authority to enter into

⁴ Jock A. Finlayson, "Canada, Congress and U.S. Foreign Economic Policy," Denis Stairs and Gilbert R. Winham, research coordinators, The Politics of Canada's Economic Relationship with the United States (Toronto: University of Toronto Press, 1985), 151.

⁵ Ibid., 152.

international negotiations. The second type of bill was more protectionist, and dealt with the bilateral reciprocity issue and tried to reduce imports into the U.S.⁶ There has been a tendency for only the first type of bills to pass through Congress and win Administration support. The second type tended to lack general support within Congress.⁷

Most protectionist bills have been introduced because the members of Congress believed that there was no way possible for the bill to pass both the House of Representatives and the Senate, and in addition to receive the President's signature.⁸ In part, such bills were introduced to make legislators 'look good' to protectionist constituents. The other purpose for the protectionist bills was to threaten other countries.

The threat of congressional action has often affected international negotiation efforts.⁹ The executive could use Congress to make other countries compromise by saying 'it will never pass Congress' or 'Congress will initiate protectionist legislation unless you give more concessions.' A threatened action by Congress has been intended to persuade other countries that the U.S. may be inclined to act on its threat. It has been an attempt to increase credibility. This may then increase the leverage of the executive in negotiations with other countries.

⁶ Ibid., 153-154.

⁷ Ibid., 154.

⁸ Ibid., 155.

⁹ Stephen D. Cohen, The Making of United States International Economic Policy: Principles, Problems, and Proposals for Reform (New York: Praeger, 1988), 109.

As Stephen Cohen has written: "More through effective role playing than legislative action, Congress has established for itself a tough-guy image, especially in foreign trade matters."¹⁰ The role of Congress in foreign trade policy has been that of "a fire-breathing, foreign-baiting, issue-oversimplifying institution."¹¹ The role of the executive, on the other hand, has been to be seen as "the enlightened force for moderation and reason."¹² The executive branch may have waved the 'big stick' implicitly or explicitly of: "cut a compromise deal lest the Congress unleash its violent temper and settle the issue in a unilateral, violent way".¹³ Threatened legislative action by Congress can thus be perceived as representing a signal, and not necessarily a commitment to policy.¹⁴

The market expanding trade bills that have become law were carrots to foreign countries. They demonstrated that the U.S. has still wanted to be an open country and that it was willing to negotiate. Congress has remembered the hard-learned lesson of Smoot-Hawley, which did not include a means to negotiate trade barrier reductions. There has thus been a 'push' and 'pull' approach in international trade used by the U.S. state. Sometimes both signals have been included in one massive trade bill. Two occasions when this happened were the 1984 and 1988 Trade Acts.

¹⁰ Ibid., 109-110.

¹¹ Ibid., 110.

¹² Ibid.

¹³ Ibid.

¹⁴ Ibid.

5.2.1 THE 1984 AND 1988 TRADE ACTS

The U.S. Omnibus Trade and Tariff Act of 1984 made it easier for an industry to prove that subsidized imports or dumping caused harm (i.e., the stick). All that the industry had to prove was that damage was being caused by the 'combined' shipments of all foreign producers to the U.S. The 1984 Act also made it more difficult for the International Trade Commission (ITC) to reject trade relief demands. However, the 1984 Act had a more important aspect to it. It gave the U.S. Administration the authority to enter into negotiations with other countries for the creation of free trade areas (i.e., the carrot). The agreement resulting from the negotiations would be voted on by Congress using the fast-track rules.

In 1988, the Congress overhauled American trade law. This was done in the context of a rising national debt, persistent budget deficits, a rising trade deficit, and increasing amounts of 'unfair' trade practices by other countries (see Figure 5). Domestic demands were increasing for the trade deficit to be lowered. The new trade law was the Omnibus Trade and Competitiveness Act of 1988.

By the late-1980s, the perception in Congress was that something had to be done about the ever increasing trade deficit in order to relieve protectionist pressure -- even something that was not effective.¹⁵ The proposed Gephardt amendment to the 1988

¹⁵ Foreign unfair trade practices have been responsible for only a fraction of the U.S. trade deficit. The main factor has been U.S. and foreign macroeconomic policies. During the 1980s, U.S. fiscal expansion raised U.S. interest rates. Meanwhile, Japanese and German fiscal contraction lowered their interest rates. The result was a massive inflow of capital into the U.S., which appreciated the U.S. dollar and thus hurt U.S. exports.

Act was an example of the concern within Congress about foreign 'unfair' trade practices.¹⁶ Although the Reagan Administration was against the Gephardt amendment, it did use that initiative as a means to influence policies of other countries by making them fear being cut off from the American market.¹⁷ To quote President Reagan toward the end of his second term:

We have been using every tool that our existing international commitments allow to pry open foreign markets. We've become the first Administration ever to initiate unfair trade practice cases -- not waiting for the industry to take the first step [W]e've got results. Markets have been opened.

Four decades ago, America accounted for half of the world economy. We were so big compared to everyone else that we could ignore most unfair trade practices abroad. Today we're down to about a quarter [of the world economy]. And it's time for everyone to play by the rules if they want to play with us.¹⁸

The 1988 Omnibus Act set fourth an agenda for the President. The Act called for an improved dispute settlement mechanism in GATT; increased coordination of trade and monetary policies; liberalized trade in agriculture, and the inclusion of services, investment, and intellectual property rights in the Uruguay Round.¹⁹ The 1988 Trade Act also renewed executive authorization for the multilateral negotiations.

¹⁶ The amendment was directed toward countries that had 'excessive' trade surpluses with the U.S. and a 'pattern of unfair trade practices.' If the situation was not solved by negotiations, the executive would have to implement procedures that would have reduced the surplus of the 'offending' country by ten percent every year. The Gephardt amendment was eventually dropped from the 1988 Omnibus Bill.

¹⁷ Committee for Economic Development, op. cit., 31.

¹⁸ Quoted in Ibid., 31-32.

¹⁹ The inclusion of services, investment, and intellectual property rights also permitted the executive to form a coalition with firms interested in these areas, and counter any possible protectionist coalition.

It committed the U.S. to multilateralism, and specified that agreements reached would use fast-track rules in Congress. Any protectionist demands from losing U.S. sectors would be dealt with all at once, and a compromise agreed upon before the bill reached Congress.

The 1988 Omnibus Act also initiated the Super 301 procedure.²⁰ Super 301 was the aggressive side of the Act. It required the U.S. Trade Representative (USTR) to list the major countries that would be targeted for discriminating against American exports. The USTR had to identify countries with "a consistent pattern of import barriers and market distorting practices".²¹ If mandatory negotiations did not remove the offending practices within 15 to 19 months, then sanctions would be implemented. The USTR was free in deciding which countries to name, and what kind of sanctions to impose. As usual, the President could prevent retaliation for 'national economic' or 'national security' reasons. Although the executive was not able to refuse retaliation as easily as before the 1988 Act, there was a benefit given to the President. The White House could increasingly delegate decisions to the USTR and thus relieve protectionist pressure on itself.

The main purpose of the Super 301, which was enacted almost two years after the start of the Uruguay Round, was to prod along the negotiations and speed them up. As the USTR has stated:

²⁰ Super 301 took the place of the Gephardt amendment.

²¹ Pietro S. Nivola, "Trade Policy: Refereeing the Playing Field," Thomas E. Mann, ed., A Question of Balance: The President, Congress, and Foreign Policy (Washington, D.C.: Brookings Institution, 1990). 238.

In implementing Super 301, the United States will aim to eliminate significant trade barriers . . . through multilateral and bilateral negotiations . . . to liberalize trade for all nations The Uruguay Round directly addresses many of the most significant trade barriers and distortions, and provides the best opportunity to expand and strengthen multilateral rules.²²

The 301 has prompted other countries to make specific reforms. The threat of using 301 in economic areas not covered by GATT has prompted targeted countries to be more inclined to increase GATT coverage to the excluded sectors.²³ Nonetheless, there have been long delays in initiating a 301 action. The reason for this has been U.S. reluctance. Actual retaliation would not solve the problem and would instead violate the GATT.²⁴ Thus economic sanctions have been "philosophically repugnant to the USTR and the Administration, for whom free trade is a paramount goal."²⁵

The reaction of actors to the Super 301 varied depending on their relative size vis-à-vis the U.S. Countries that began to negotiate with the U.S. have included Japan, Mexico (discussed below), South Korea, and Taiwan. During May 1990, the USTR used the Super 301 to name Brazil, India, and Japan as offending countries.²⁶ Brazil

²² USTR, "Fact Sheet: Super 301 Trade Liberalization Priorities," (Washington D.C.: Office of the U.S. Trade Representative, 1989), 1 & 5.

²³ United States Congress, Office of Technology Assessment, Competing Economies: America, Europe, and the Pacific Rim (Washington, D.C.: United States Government Printing Office, October 1991), 130.

²⁴ Ibid., 131.

²⁵ Ibid.

²⁶ Brazil was accused of balance of payments limitations and government procurement biases; India was accused of export performance requirements for foreign investors and trade barriers in the service sector; and Japan was cited for barriers on supercomputers and satellites, forest product standards, and trade-related investment

and Japan were eventually dropped from the USTR list. The USTR claimed that both Japan and Brazil had made sufficient trade concessions. Japan, however, has not really been fully cooperative (see below). India remained on the list (and was re-listed in 1991), since it did not lower any of its barriers to trade. However, India and Brazil had also assumed an active role in putting forward the developing countries' view at the multilateral negotiations.²⁷ The listing of India and Brazil may be viewed as threats to prompt them not to derail the negotiations.

The E.C., however, has refused to deal with the U.S. and has claimed that U.S. unilateralism and the Super 301 violated international trade law. The E.C. threatened to retaliate if the U.S. should place economic sanctions on it under the Super 301. The E.C. has warned the U.S. that continuing to claim that Community economic policies constituted unfair trade practices, would result in a GATT challenge to the legality of the 1988 Trade Act.²⁸

The E.C. (and Japan) would have to be dealt with at the multilateral level. The problem with large actors has been that they have not believed that the Americans would carry through with their threats. That is, the U.S. threats have lacked credibility to them. This fact has required the U.S. to pursue a strategy at the bilateral level, so as to become more credible to the E.C. at the multilateral level.

measures (TRIMs).

²⁷ In the end it was the U.S. and the E.C. which posed the main barriers to an agreement.

²⁸ Nicolas V. Gianaris, The European Community and the United States: Economic Relations (New York: Praeger, 1991), 128.

5.3 AMERICAN BILATERALISM IN THE WESTERN HEMISPHERE

In contemporary GATT negotiations new ways to place credible pressure on uncooperative countries, or groups, have been necessary. The existence of parallel negotiations, or arrangements at a regional level, may have encouraged foot draggers to speed up -- or at least to reach a satisfactory conclusion -- to the GATT negotiating process. American bilateralism with Canada and Mexico has been an attempt by the U.S. to increase its credibility with the E.C. and Japan. The threat to both these actors is the potential creation of 'fortress North America.'

5.3.1 FREE TRADE WITH CANADA

For the past one hundred years both Canada and the U.S. have flirted with the idea of a trade arrangement between them. Yet one of the two had always backed out. In January 1988, an arrangement was reached in the form of the Canada-U.S. Free Trade Agreement (FTA). Why was success achieved this time, but not at other times? The answer lies with American trade strategy. First, however, a brief history of Canada-U.S. trade relations is required.

In 1854, Canada and the U.S. signed the Reciprocity Treaty. In 1866, the U.S. unilaterally ended it, due to ill-feelings generated toward Canada during the Civil War. In 1874 Canada tried to begin negotiations for another Reciprocity Treaty, but the U.S. was not interested. In 1911 reciprocity reemerged as an issue, this time on an American initiative. A reciprocity agreement was reached but never implemented. Anti-reciprocity forces in Canada invoked nationalism, to oppose it. In 1922 and 1923 the Canadian

government attempted to interest the U.S. into entering trade negotiations, but failed. In 1934 the American Reciprocal Trade Agreements Act reduced tariffs on Canadian products. The Second World War greatly increased economic cooperation between the two countries. The 1941 Hyde Park Agreement appeared to be a move in the direction of economic integration. However after the war Canadian Prime Minister Mackenzie King ended the negotiations that would have led to a free trade agreement.

Only in 1983 did the Trudeau government begin to consider seriously a discussion with the U.S. for free trade in certain industries. In 1984, Congress passed the Omnibus Trade Bill which threatened Canada with U.S. protectionism, and at the same time authorized the negotiation of a free trade agreement with Canada. Only after this bill passed did public statements begin to emerge from Canada about the desirability of negotiating some type of trade arrangement with the U.S.

The Americans realized that in the past, whenever they had taken the initiative, there was a similar pattern:

some Canadians became persuaded of the advantages of negotiating a free trade arrangement with the United States, and then other Canadians rejected the idea on the grounds that it would result in American dominance, Canadian economic decline and . . . the political and cultural absorption of the nation.²⁹

Therefore the U.S. had to urge Canada to take an 'initiative' at a time that the American state wanted free trade arrangements. The U.S. government wanted to achieve a FTA with Canada. The U.S. made Canada believe that the initiation of negotiations was 'its

²⁹ William Diebold Jr., "The History and the Issues," William Diebold Jr., ed., op. cit., 27.

initiative' in order to increase the chances of success. The 'initiatives' (of both Trudeau and Mulroney) really were a response to signals coming out of the Congress of potential increased protectionism and denial of the U.S. market.

The U.S. promised Canada to negotiate a trade agreement that would guarantee Canadian access to the U.S. market. To this end Congress had granted the executive authority to negotiate a FTA with Canada. The promise was combined with the alternative (i.e., the threat) of increased U.S. protectionism. The U.S. Congress established credibility, by being the first to establish a clear threat and an offsetting promise through the use of congressional legislation.

After establishing credibility the U.S. Administration did nothing but wait. If the Americans took a 'public' initiative it would create fear among the Canadian isolationists and protectionists. Before there had been any tangible result the Canadian Liberal government lost power. The new Conservative government of Brian Mulroney at first, was uncertain as to what to do, but eventually decided to begin free trade negotiations with the U.S.

There were three main factors that prompted the Canadian government to take the 'initiative.' The first factor was the need for Canadian industry to achieve economies of scale (which required access to the large American market).³⁰ Second, trade interdependence (and economic interdependence in general) had been steadily increasing, and American protectionism would have adversely affected this

³⁰ The American government therefore formed an indirect alliance with exporting interests in Canada against the protectionist Canadian interests.

interdependent relationship. Finally, there was the fear that American protectionism would threaten Canadian prosperity.³¹ Canada, therefore, sought to secure access to the American market by ensuring trade liberalization, and increasing certainty about how future U.S. trade legislation would affect Canada.

The U.S. was interested in improving rulemaking with one of its largest trade partners (see Appendix E).³² The U.S. especially wanted improved rules for services and investment.³³ This would then provide a precedent for GATT talks, and for dealing with the E.C. In addition, a free trade area with Canada would increase the credibility of U.S. threats toward Japan (i.e., creation of a North America bloc).

In May 1986, Canada and the U.S. began free trade negotiations (the Uruguay Round started at almost the same time). Congress issued threats during the negotiations. Some threats came in the form of 'unfair' trade cases where an American industry was accusing Canada of subsidizing its exports. Other threats included American actions regarding countervail, anti-dumping, and safe-guarding (see Appendix F).³⁴

One day after negotiations began, the U.S. levied 35 percent tariffs on Canadian shakes and shingles. There was a countervailing duty investigation into Canadian

³¹ Paul Wonnacott, The United States and Canada: An Examination of Selected Issues (Washington, D.C.: Institute for International Economics, 1987), 57-58.

³² Schott, *op. cit.*, 6.

³³ This was needed to bolster the pro-free trade coalition in the U.S. against the interests that did not want a FTA with Canada such as the agricultural sector.

³⁴ Winham, *op. cit.*, 45.

softwood lumber.³⁵ Other Canadian exports involved in U.S. 'unfair' trade actions during the negotiations, included: gas pricing, oil, hogs, uranium, potash, salmon, herring, and flowers. During the spring and summer of 1987 Congress approved two trade bills. Each bill was around 1000 pages long and had clauses that increased the protectionist nature of existing laws. These American action could be seen as threats to ensure Canada stayed in the negotiations. Fears of U.S. actions to counter unfair trade became the major issue for Canada during the negotiations. The perception was created that Canada and the Reagan Administration were trying to reduce protectionism, while the ('bad') Congress was trying to increase it.³⁶ Canada was thus encouraged to reach a successful agreement.

Days before fast-track authority was to expire, Canada walked out of the negotiations. The reason for this action was a lack of U.S. concessions. To prevent the failure of the talks, the U.S. was forced to make concessions to achieve an agreement. Nonetheless, the U.S. strategy served its purpose of getting a FTA with Canada. Both countries considered the Canada-U.S. FTA a success, even though they had failed to reach complete solutions on some important issues (i.e., services, investment, and intellectual property rights).

³⁵ This American investigation occurred despite the fact that a few years before an identical investigation concluded there was no need for a countervailing duty. In the end, Canada agreed to impose a fifteen percent export tax on Canadian softwood lumber to the U.S. to avoid a countervailing duty.

³⁶ Winham, *op. cit.*, 45.

The Canada-U.S. FTA was motivated by the Europe 1992 initiative.³⁷ The FTA has served to counter a potential protectionist trend by the E.C.³⁸ The U.S. wanted to show the rest of the world how a trade agreement could be successfully negotiated. This would set a precedent for the Uruguay Round.³⁹ However, the U.S. required even more credibility in order to get movement on the GATT negotiations. To this end, the Americans shifted attention to their southern neighbour.

5.3.2 FREE TRADE WITH MEXICO AND THE BIRTH OF NAFTA

Just a few years ago, free trade between Mexico and the U.S. was seen as impossible. The Mexican case has been more complicated than the Canadian one. Canada and the U.S. had similar levels of political and economic development. Mexico was a newly industrialized country with low wages. During the early-1990s many Americans were worried that free trade with Mexico would result in extensive job losses. Although most American political leaders have been supportive of free trade with Mexico, mass opinion could not be ignored.⁴⁰ The U.S. government had to deal

³⁷ Gianaris, op. cit., 42.

³⁸ The 'bicycle theory' of trade policy suggests that liberalization must continue in order to maintain forward momentum. If the forward momentum stops then world trade will fall into protectionism.

³⁹ Michael Smith and Stephen Woolcock, Redefining the U.S.-EC Relationship (New York: Council on Foreign Relations Press, 1993), 48.

⁴⁰ Robert A. Pastor, Integration with Mexico: Options for U.S. Policy (New York: The Twentieth Century Fund Press, 1993), 2.

with it in some way, to permit the birth of NAFTA. The U.S. also had to deal with traditional Mexican distrust of the Americans.

In 1848, Mexico had lost more than one-third of its territory to the U.S. in the U.S.-Mexican War. From then on Mexico tried to insulate itself from the U.S. Mexicans believed they could develop their economy and maintain political and cultural identity, only by keeping the U.S. at arms length. Mexican tariffs and foreign investment policies were intended to keep out American goods and investment.

During the 1980s, the traditional Mexican policy toward the U.S. began to change under President Miguel de la Madrid. The collapse of the price of oil, and the subsequent debt crisis led Mexico into a deep depression.⁴¹ To bring an end to the depression a policy change from import substitution to export-oriented industrialization appeared necessary. Mexico joined GATT in 1986. In 1987 Mexico negotiated a 'framework' agreement with the U.S. to consult on reducing barriers to trade and investment.

Carlos Salinas de Gortari became the President of Mexico, in 1988. Salinas continued to liberalize the Mexican economy.⁴² The economic reforms helped to make

⁴¹ Mexico had borrowed extensively from American banks during the 1970s. The August 1982 announcement by the Mexican Finance Minister that Mexico could not service its debt caused a crisis in the American banking sector. Seven out of the nine largest U.S. banks were faced with the possibility of bankruptcy. The Reagan Administration was forced to intervene and help Mexico pay its debts. This event brought to the awareness of the U.S. its growing interdependence with Mexico. Ibid., 14.

⁴² Reforms included the privatization of previously publicly owned enterprises. tariffs were reduced from levels as high as 100 percent to an average tariff of 20 percent. licenses designed to restrict imports were removed from 80 percent of all

Mexico an increasingly important trade partner of the U.S.⁴³ By 1990, Salinas had begun to promote economic integration.

There were two reasons for this new initiative. First, Mexico had shifted to an export oriented development policy. This meant that access to the U.S. market had to be secured. The 1988 Trade Act served as a spur to urge on Mexico toward greater economic integration with the U.S. The Act threatened to raise trade barriers against Mexican goods. There was though also a promise in the 1988 Act. Section 2101 called for continued talks with Mexico toward economic integration.⁴⁴ The second reason involved changes to the international political economy. Salinas stated:

the changes in Europe and East Asia and an apparent reliance on blocs convinced me that we should also try to be part of an economic trading bloc with the United States and Canada. But we do not want this bloc to be a fortress. We want it to strengthen our ability to be part of Asia, Europe, and especially Latin America.⁴⁵

The U.S. was willing to pursue integration because free trade would create a more prosperous Mexico (and perhaps one free of debt).⁴⁶ This would result in

imported products, investment by foreigners was encouraged, and 100 percent foreign ownership was permitted in selected sectors. Terry Wu and Neil Longley, "A U.S.-Mexican Free Trade Agreement: U.S. Perspectives," Journal of World Trade 25, no. 3 (June 1991), 6-7.

⁴³ Most Mexican exports to the U.S. are consumer goods, while most imports from the U.S. are capital goods and other non-consumer goods. Ibid., 7-8.

⁴⁴ The U.S. government, as happened with Canada, formed an indirect alliance with export-oriented sectors in Mexico, to counter Mexican protectionist interests.

⁴⁵ Quoted in Pastor, op. cit., 20.

⁴⁶ During the height of Mexico's debt problems, imports from the U.S. fell by fifty percent (from \$18 billion to \$9 billion). Every billion dollars in reduction cost 20,000 American jobs. Ibid., 16.

increased American exports to Mexico. There has been extensive movement of people and trade between the U.S. and Mexico.⁴⁷ Mexico has significant oil reserves, and has become a major supplier of the American strategic petroleum reserves. Revenue from oil exports permitted Mexico to buy more from the U.S. Mexico became the third largest trading partner of the U.S., behind Canada and Japan (see Appendix E).⁴⁸ During the period between 1971 to 1981, U.S. exports to Mexico increased ten-fold from \$1.8 billion to \$17.7 billion. By 1991, American exports to Mexico were valued at \$33.3 billion.⁴⁹

Similar to the Canadian case, American leaders had for decades been suggesting some type of trade agreement with Mexico. Especially during the 1980s, the Reagan Administration had made such suggestions. As with the Canadians, the Mexicans rejected these American advances. Then, quite suddenly, the two countries changed their roles. Mexico became energetic about achieving a free trade agreement, while the U.S. began to express doubts.

President Bush reacted tentatively toward the Mexican offer of increased economic integration, to prevent premature protectionist pressure from being placed on Congress. Bush recommended waiting until after the completion of the Uruguay Round. He may have hoped that the GATT talks would be finished by December 1990. However, the multilateral negotiations were not to be completed on schedule. During

⁴⁷ Between 1981 and 1990, 22.6 percent of all immigration to the U.S. came from Mexico. Ibid., 12.

⁴⁸ Ibid., 14.

⁴⁹ Ibid.

September 1990. Bush notified Congress he would begin to negotiate a free trade agreement with Mexico. The U.S. wanted to increase pressure on the E.C. to get the ever stalled Uruguay Round completed. By February 1991 informal negotiations for establishing a free trade area had begun and had broadened to include Canada (see Appendix G).⁵⁰

Although American trade negotiators attempted to limit the talks with their Mexican counterparts to trade issues, non-trade issues were included. The U.S. Congress, confronted with negative public opinion, had to insist that social, human rights, environmental, political, and more general economic issues be placed on the agenda. The executive had to follow the lead of Congress. The objective of both was the successful completion of a free trade agreement with Mexico.

During May 1991, Bush sent an Action Plan to Congress. It offered assurances that issues of concern to the general population would be addressed in negotiations with Mexico. Shortly afterwards, the House of Representatives voted 231 to 192 and the Senate 59 to 36 **against** a resolution disapproving of the Mexican negotiations.⁵¹ The Congress also extended fast-track authority. The extension of fast-track meant that protectionist demands would be dealt with all at once, and that a compromise would be reached in the bill before the vote in Congress. This would then increase the likelihood

⁵⁰ The decision to create NAFTA can be traced to the U.S. Trade Agreements Act of 1979. Canada joined the negotiations between the U.S. and Mexico to protect its interests in the Canada-U.S. FTA. Only two percent of Canadian trade was with Mexico. NAFTA, therefore, was mainly a U.S.-Mexico agreement. *Ibid.*, 4.

⁵¹ Pastor, *op. cit.*, 22.

of receiving legislative approval. Congress stipulated that it had extended authority only because it expected the President to achieve the objectives listed in the Action Plan. During June 1991 the informal NAFTA negotiations became formal negotiations.⁵²

President Clinton continued the trade strategy that had begun under President Reagan and had been carried on by President Bush (see Appendix II). During a January 1993 meeting with Salinas, Clinton promised the Mexican President the U.S. was committed to "move forward in building a strong relationship . . . and in concluding a successful trade negotiation."⁵³ Clinton also presented NAFTA as being the "foundation for further trade agreements" within the western hemisphere.⁵⁴

Clinton summarized the need for NAFTA, when he was the Democratic candidate during October 1992 at North Carolina State University. He stated: "We [the U.S.] need stronger ties to our neighbors both for positive opportunities and to protect us in the event that other countries become more protectionist."⁵⁵ The White House argued that NAFTA had to be passed if there was to be any agreement reached on the GATT talks.⁵⁶ Clinton claimed that failure to achieve the NAFTA would harm the American goal of increasing world-wide trade liberalization and would raise the

⁵² Ibid., 22.

⁵³ Quoted in Ibid., 7.

⁵⁴ Quoted in Ibid.

⁵⁵ Quoted in Ibid., 70.

⁵⁶ David S. Cloud. "Decisive Vote Brings Down Trade Walls With Mexico," Congressional Quarterly Weekly Report 51, no. 46 (November 20, 1993). 3175.

question of whether the U.S. was still a proponent of free trade.⁵⁷ As stated by Clinton at a November 1993 news conference; unless NAFTA was approved his "ability to argue that the Asians and the Europeans should join . . . and push hard to get a world trade agreement through . . . by the end of the year will be more limited."⁵⁸

Throughout late 1993, congressional committees with jurisdiction over trade matters (see Appendix A) considered NAFTA (i.e., the bill that would put the Agreement into effect by changing existing trade laws). The Ways and Means Committee approved NAFTA by a vote of 25-12. Committee members stated after the vote that they were not obligated to vote the same way on the House floor.⁵⁹

Many members of Congress supported the principle of free trade with Mexico, but feared reaction from anti-free traders among their constituencies. The Congresspeople had to appear to be standing up for the interests of their electorates. To this end, members of Congress postponed deciding how to vote until issues of concern to their constituents (many of whom had nothing to do with trade) had been resolved.⁶⁰ By waiting until the last possible moment to commit on NAFTA, members of Congress reduced the political pressures that would have been placed on them had

⁵⁷ David S. Cloud, "As NAFTA Countdown Begins, Wheeling, Dealing Intensifies," Congressional Quarterly Weekly Report 51, no. 45 (November 13, 1993), 3104.

⁵⁸ Quoted in Cloud, "As NAFTA Countdown Begins," 3104.

⁵⁹ The Energy and Commerce Committee sent the bill to the floor without recommendation and the Banking Committee sent the bill to the floor without recommendation. The House Agricultural Committee approved the agricultural portion of the NAFTA.

⁶⁰ Cloud, "As NAFTA Countdown Begins," 3106.

they made an early commitment.⁶¹ Once members of Congress were satisfied that the negotiated agreement would appease their constituents, many voted for NAFTA. Congress approved NAFTA during December 1993.⁶² After the Senate had approved NAFTA Majority Leader George Mitchell (D-Maine) stated: "This agreement will define the American role in the global economy and in world affairs well into the 21st century."⁶³

The NAFTA initiative occurred during a period of world- wide recession. The quest of the European Community to eliminate all internal barriers to trade was close to becoming reality on December 31, 1992. However, the European accomplishment was marred by difficulty in getting Community countries to approve the Maastricht Treaty.⁶⁴ Many of the people of Europe were beginning to believe that economic nationalism, and political sovereignty were more important than European integration. In addition, the Uruguay Round of GATT frequently teetered on the edge of failure. The end of the cold war created a period of uncertainty in economic matters as well as

⁶¹ Janet Hook, "The Uphill Battle for Votes Produces...A Whirl of Wooing and Wheedling," Congressional Quarterly Weekly Report 51, no. 44 (November 6, 1993), 3014.

⁶² The NAFTA passed the House of Representatives by a vote of 234-200 and the Senate with a vote of 61-38. President Clinton signed the agreement on December 8, 1993.

⁶³ Quoted in David S. Cloud, "Routine Approval in Senate Wraps Up NAFTA Fight," Congressional Quarterly Weekly Report 51, no. 47 (November 27, 1993), 3257.

⁶⁴ The Maastricht Treaty was designed to build an even closer union between the nations of the EC. The Treaty was initially rejected in Denmark (but approved in a subsequent referendum), delayed continuously in Britain, and received bare majority support in France.

in political and security issues. Many advanced industrial countries were undergoing internal debates as to whether to pursue protectionist or liberal economic policies. The cold war had brought an end to the need for American political and military leadership. However, the need for American economic leadership had become increasingly important. NAFTA showed the world that America was still the leader, and increased the credibility of U.S. threats vis-à-vis the E.C.

5.3.3 U.S. WESTERN HEMISPHERIC TRADE POLICY: THE NEAR FUTURE

Once Mexico became part of NAFTA other Latin American countries became cautiously interested in becoming members of the new economic bloc. The motivating factor was the possibility of being excluded from the North American market. After receiving requests from Latin American leaders to expand NAFTA (while in its early negotiation stages), Bush established the Enterprise for the Americas Initiative (EAI). The EAI was a promise to negotiate free trade agreements with western hemisphere countries that initiated economic liberalizing reforms.⁶⁵ As stated in the Economic Report of the President:

The agreement for a free-trade area in North America is only the beginning The trade and investment aspects of EAI aim to open up markets and increase investment flows throughout the hemisphere. The

⁶⁵ A western hemispheric free trade area (using 1990 statistics) would have a population of 705 million, a GNP of \$6901 billion, exports of \$620 billion, and imports of \$731 billion. Pastor, op. cit., 90.

ultimate objective is to create a free-trade area stretching from Alaska to Argentina.⁶⁶

The U.S. government advised Latin American countries to prepare for potential future negotiations by increasing subregional integration, and establishing 'framework agreements' along the lines of the 1987 U.S.-Mexican Framework Agreement.⁶⁷ However, free trade agreements between the U.S. and other Latin American countries may only come about if the Americans need more leverage to place on the E.C. in a future multilateral round of GATT.

Nonetheless, subregional Latin American economic initiatives have accelerated. The Andean Pact,⁶⁸ the Central American Common Market,⁶⁹ Mercosur,⁷⁰ and the Caribbean Community have made significant progress in lowering trade barriers between member countries. Almost every Latin American country has negotiated a 'framework agreement' with the U.S. NAFTA could be extended to the entire western hemisphere. This would bring about a significant change in the evolution of the

⁶⁶ United States President, Economic Report of the President: Transmitted to the Congress, January 1993, (Washington: D.C.: United States Government Printing Office, 1993), 316.

⁶⁷ Mexico has already signed a free trade agreement with Chile. In addition, President Bush promised Chile it would be the first country to join the NAFTA. Pastor, op. cit., 93 & 100.

⁶⁸ The Andean Pact was founded in 1969. During May 1990 the five member countries of the Andean Pact (Bolivia, Colombia, Ecuador, Peru, and Venezuela) agreed to create a free trade area by 1995.

⁶⁹ The Central American Common Market was created in 1960.

⁷⁰ Mercosur consists of Argentina, Brazil, Paraguay, and Uruguay. These countries are supposed to establish a common market by 1995. The economic integration process began with the Treaty of Asuncion on March 26, 1991.

international trade regime. The pursuit of liberalization in the world would be greatly strengthened.

5.4 BILATERALISM WITH JAPAN

The U.S.-Japan relationship has been the newest and most important economic relationship between two individual countries in history (see Appendix E). The Japanese have, over the postwar period, become one of the U.S.'s most important foreign competitors. In many important industrial and service sectors, the Japanese have begun to surpass the United States. The Japanese have come to pose a serious challenge to Americans in consumer electronics, automobiles, supercomputers, semiconductors, superconductivity, composite materials, and telecommunications equipment.⁷¹ American trade strategy towards Japan has been characterized by some unilateralism, but mostly bilateralism. Currently the main U.S. objectives have been to reduce the American trade deficit and open the Japanese market.⁷²

⁷¹ Stephen D. Cohen, "United States-Japan Trade Relations," Frank J. Macchiarola, ed., International Trade: The Changing Role of the United States (New York: Proceedings of The Academy of Political Science, 1990), 123.

⁷² Japanese barriers to trade are not the real problem contributing to the trade imbalance with the U.S. The main cause of the trade imbalance has been the differences in savings and consumption between the two countries. The U.S. consumes too much, which leads to trade deficits. Foreign inflows of capital enter the U.S. to make up for the low savings ratio. Therefore, macroeconomic imbalances explain the American trade deficit with Japan. Trade practices only affect the composition of the deficit. Theodore H. Moran, "International Economics and National Security," Foreign Affairs 69, no. 5. (Winter 1990/91), 78.

American relations with Japan began with the 1854 Treaty of Kanagawa. The 1854 Treaty opened the Japanese economy to the rest of the world for the first time. However, this treaty was mainly unfavourable to Japan.⁷³ The Japanese Meiji government (1869-1912) renegotiated unfavourable treaties. From then on, Japanese trade emphasized equality and reciprocity. Although the Second World War disrupted economic relations, Japanese trade was quickly reestablished during the post-war period under the American occupation. At that time, the main objective of the U.S. was to stabilize Japan in order to contain communism. The U.S. began to get the bulk of Japanese trade.⁷⁴

Americans have come to perceive the Japanese market as being closed to them, and to view Japan as a 'free-rider.' One reason for this American view has been that the Japanese have not attempted to assume a leadership role in proportion to their economic growth. Japan has continued to depend on the U.S. for its defense and for the maintenance of an open international economic system which the Japanese have required for their prosperity.

Japan has almost consistently had a large trade surplus since the 1970s. When the Japanese balance is compared to the American, the contrast is evident (see Table

⁷³ Most treaties negotiated between Japan and the western world were unfavourable to the former during the nineteenth century. L. Jerold Adams, "The Law of United States-Japan Trade Relations," Journal of World Trade 24, no. 2 (April 1990), 48.

⁷⁴ Ibid.

6).⁷⁵ The U.S. has been affected by the Japanese trade surplus indirectly as well as directly. Other countries that have had a trade deficit with Japan have had their ability to buy from the U.S. reduced. Those countries may then have become more aggressive in selling to the U.S.⁷⁶ This contributed even more to the deterioration of the U.S. trade balance.

Table 6. -- World trade balances of major countries, 1970-1992 (billions of dollars).

Year	U.S.	Japan	Germany	U.K.	France	Italy
1970	1	0	4	-2	-1	-2
1972	-9	5	6	-3	-1	-1
1974	-9	-7	20	-16	-7	-11
1976	-15	2	14	-10	-7	-6
1978	-39	19	20	-7	-2	0
1980	-36	-11	5	-6	-19	-22
1982	-43	7	21	-3	-19	-13
1984	-123	34	19	-11	-6	-11
1986	-170	83	52	-19	-4	-2
1988	-140	77	73	-44	-12	-10
1990	-124	52	63	-38	-19	-11
1992	-105	107	21	-31	-5	-11

Source: International Monetary Fund, Direction of Trade Statistics Yearbook (Washington, D.C.:IMF, various years).

⁷⁵ China and Taiwan are two other countries that have been running significant surpluses. Nonetheless, current account imbalances are reflections of gaps between domestic saving and domestic investment. C. Fred Bergsten and Marcus Noland, Reconcilable Differences?: United States-Japan Economic Conflict (Washington, D.C.: Institute for International Economics, 1993), 32.

⁷⁶ Ibid., 5.

The U.S. has been prodding the Japanese to bring about economic policy changes. The U.S. has taken a 'hard-line' stance with Japan, partly to give assistance to Japanese political leaders in their quest for economic reform.⁷⁷ The Japanese have tended to grant concessions only when America has made threats.⁷⁸

The U.S. has used a strategy of linking access to the American market in exchange for Japanese liberalization in agriculture and services. Threats by the U.S. to limit Japanese products have tended to mobilize exporting sectors in Japan to act as a counter-weight to the forces of protectionism.⁷⁹ This relieved some of the protectionist political pressure on the Japanese government, and permitted it to make concessions.

The U.S. began trying to force the Japanese to impose voluntary export restraint (VERs) on themselves during 1969. American pressure has frequently led the Japanese to impose VERs upon themselves.⁸⁰ Successive U.S. administrations have gotten the Japanese to limit their exports to the U.S. by claiming that Congress would introduce legislation that would be even more protectionist than the VERs. Increasing domestic pressure on the American state forced the government to act in this way. Protectionist pressure was reduced by getting the Japanese to limit their exports.

⁷⁷ Ibid., 13-14.

⁷⁸ Kenneth A. Oye, Economic Discrimination and Political Exchange: World Political Economy in the 1930s and 1980s (Princeton: Princeton University Press, 1992), 150.

⁷⁹ Ibid., 151.

⁸⁰ Cohen, "United States-Japan Trade Relations," 131.

In 1988, Congress passed an anti-Japan Omnibus Trade Bill (i.e., Congress sent a threat to Japan). In 1989 the USTR drafted a list of offending countries that included Japan. The U.S. sought to get large Japanese exporters (i.e., Fujitsu and Mitsubishi) to oppose the protectionist agricultural sector.⁸¹ The Americans used the Super 301 against Japan as an attempt for:

expanding a rules-based system for opening markets and an open trading system Rather than try to mandate trade flows and market shares, U.S. trade initiatives seek to ensure that domestic and foreign firms have equal opportunities to compete and that markets . . . determine the outcomes.⁸²

The U.S. effort was not very successful. This type of American pressure on Japan could be viewed as unilateralism. However, unilateralism has not been the main mode of conducting U.S.-Japan relations.

Bilateralism has been the norm in resolving U.S.-Japan trade disputes. Stated within the 1988 Trade Act is the following:

The Congress finds that our trade and economic relations with Japan are complex and cannot be effectively resolved through narrow sector-by-sector negotiations; . . . a major problem between the United States and Japan is the absence of political will in Japan to import; and . . . meaningful negotiations must take place at the highest level, at a special summit of political leaders from both countries.(102 Stat. 1183)

The U.S.-Japan economic relationship has had its foundation in bilateral treaties. As of 1990 there were thirteen agreements negotiated between the two countries that dealt specifically with trade.⁸³ At first the agreements were designed only for the purpose

⁸¹ Oye, op. cit., 155.

⁸² United States President, Economic Report of the President, February 1990, 247.

⁸³ Adams, "The Law of United States-Japan Trade Relations," 49.

of expanding trade. The purpose of negotiated bilateral agreements evolved over time, and they came to be used for the purpose of changing Japanese trade policy.⁸⁴

An example of U.S.-Japan bilateral negotiation has been the 1982-1986 Market Oriented Sector Specific (MOSS) negotiations. The MOSS focused on market problems in the areas of leather, electronics, pharmaceutical/medical instruments, forestry products, telecommunications equipment, and (later) automobile parts.⁸⁵ Although Japan made concessions only 23 of the 27 quotas that were dealt with by the talks were removed by 1986.⁸⁶

The Structural Impediments Initiative (SII) was another bilateral attempt to open up the Japanese market, and change their trade policies.⁸⁷ The SII was intended to deal with the macroeconomic picture of the U.S.-Japan trade relationship. The SII dealt with Japanese structural barriers to imports such as the distribution system, industrial structure (i.e., consortiums such as Mitsubishi), and import pricing. The agenda was also expanded, at Japanese insistence, to include discussion of American structural weakness and domestic economic mismanagement.⁸⁸ However, few significant accomplishments have come about from the SII.

⁸⁴ Ibid.

⁸⁵ The U.S. executive formed a domestic pro-free trade coalition consisting of these sectors to counter protectionist pressure opposed to liberalizing trade with Japan.

⁸⁶ Oye, *op. cit.* 152.

⁸⁷ The SII began during July 1989.

⁸⁸ Cohen, "United States-Japan Trade Relations," 123.

The U.S. has pursued a bilateral strategy toward Japan that has mostly used "piecemeal tactics aimed at changing trading conditions on a product-by-product basis."⁸⁹ Such a strategy has been used, because the U.S. has not wanted to push the Japanese against a wall, whereby the latter would initiate a trade war.⁹⁰ The Japanese have viewed the Americans as having an eternally long wish list, but also as lacking determination. The Japanese have given the minimum concessions necessary to calm the U.S.⁹¹ No real changes have come about. The Japanese have, for the past twenty-five years, found small trade concessions to make, in order to placate the American demands.

There has not been much success with Japan, due to the lack of credibility in American threats as perceived by the Japanese. The Japanese have had significant intelligence gathering operations in Washington, in order to determine whether American threats were serious or not. The Japanese government has also conducted a massive lobbying and public relations campaign in the U.S. The purpose of such activities has been to present the Japanese counterarguments and view points to the American government and mass public.

Due to similar economic structures and output generated, future trade conflicts seem inevitable. Two decades of bilateral negotiations between the U.S. and Japan have not been able to solve the problems the two countries have been experiencing in trade

⁸⁹ Ibid., 132.

⁹⁰ Ibid.

⁹¹ "Japan and America: A Cautionary Tale." The Economist, 30 June 1990, 34-35.

relations. A bilateral strategy has not been working with Japan. By the late-twentieth century, the Japanese had become strong enough to resist foreign pressure. As Ezra F. Vogel has stated:

the Japanese have learned how to develop and use whatever leverage they have to achieve their goals. They have learned how to delay and postpone while being polite, yielding only when all other choices seem absolutely exhausted. They are prepared to make pragmatic adjustments where necessary, but the prevailing consensus is that they should yield to American pressures on trade as little as possible.⁹²

The Japanese have remained firm in their view that they must export as many manufactured products as possible, while importing as few of those products as possible. The reason for this is that Japan has been a resource poor country, and so has required a trade surplus in manufactured goods to pay for its trade deficit in raw materials.⁹³

The Japanese have worried about American protectionism. However, the Japanese view has been that American protectionism is highly cyclical. They, therefore, have mainly made tactical moves in policies to overcome a temporary American mood.⁹⁴ The Japanese have been close observers of the American political system. They, correctly, have believed that the Congress can only unite with great difficulty to impose 'real' protectionist legislation.⁹⁵ The Japanese have believed that the anti-

⁹² Ezra F. Vogel, "Pax Nipponica?," Foreign Affairs 64, no. 4 (Spring 1986), 759.

⁹³ Japanese policies and attitudes have been strengthened by their experiences during World War II and the 1973 oil crisis. *Ibid.*, 759.

⁹⁴ *Ibid.*, 761.

⁹⁵ *Ibid.*

protectionist forces within the U.S. have become too strong to be overcome. Their allies, intentionally or unintentionally, in the U.S. have included the consumer movement, American defence industries, the will of American political leaders to keep good diplomatic relations, economists believing strongly in free trade, and American businesses located in Japan or exporting to Japan.⁹⁶

Threats of protectionism made by the American state have not been perceived as being credible to the Japanese. An American multilateral orientation toward Japan, as with the E.C., is needed. The creation of NAFTA has increased the concerns of Japan. Whether the Japanese will make any real trade concessions to the U.S. though remains to be seen.

5.5 MULTILATERALISM

The Uruguay Round was the eighth set of major multilateral trade negotiations that occurred during the postwar period. The start of the Uruguay Round was delayed for two years, in part because the U.S. wanted trade in services to be included in the negotiations while other players did not. The Uruguay Round began during September 1986, and was completed in December 1993.⁹⁷

The Uruguay Round was much broader in scope than any previous trade negotiation round. New issues and areas included were services, intellectual property

⁹⁶ Ibid., 761.

⁹⁷ The Uruguay round was originally intended to have been completed during December 1990, but inadequate progress mainly on agricultural issues caused a three year delay.

rights, and trade related investment measures (TRIMs). The Uruguay Round was also concerned with reforming existing GATT rules, which were becoming increasingly inadequate. Areas targeted for reform included agriculture, subsidies, dispute settlement, and institutional mechanisms.

The U.S. was one of the main proponents of including the aforementioned new issues, and sectors requiring reform, on the negotiating agenda. American objectives in the Uruguay Round included strengthening GATT (by increasing rule observance and the dispute settlement mechanism), updating GATT (by including services and agriculture), and increasing foreign market access for U.S. goods.⁹⁸

The Europeans approached the Uruguay Round tentatively. Although they were not thrilled by the U.S. proposed agenda, they had few serious proposals of their own. European protectionism has been a primary U.S. concern in world trade. The main American goal has been to ensure that the E.C. does not erect trade barriers around itself, while eliminating internal trade barriers (see Table 7).

⁹⁸ These objectives permitted the U.S. executive to form a pro-free trade coalition with American sectors that would benefit from increased liberalization and enforced international rules.

Table 7. -- Percentages of imports entering on MFN basis in 1985.

	MFN Imports (% of total)	Total Imports (\$ billions)	Imports (% of world)
Japan	94	131	7
U.S.	90	362	19
Canada	90	81	4
EFTA	12	110	6
E.C.	19	664	34

Source: Kenneth A. Oye, Economic Discrimination and Political Exchange: World Political Economy in the 1930s and 1980s (Princeton: Princeton University Press, 1992), 146.

The service sector has been becoming increasingly important to the U.S. economy.⁹⁹ Service sector areas in which America has come to dominate have included insurance, banking, motion pictures, data processing and data based services, telecommunications, and satellite transmission. The service account of the U.S. has been running surpluses since the late-1970s (see Figure 6).¹⁰⁰ Increased world protectionism in services trade could threaten this American advantage.¹⁰¹ However, the main U.S.-E.C. stumbling bloc has been agriculture, and not services. In agriculture the E.C. has been especially reluctant to liberalize trade.

⁹⁹ The main exporters of commercial services during 1991 (in billions of dollars) were: U.S., \$148; France, \$84; Germany, \$60; Italy, \$56; Britain \$53; and Japan \$46. "A Guide to GATT," The Economist, 4 December 1993, 25.

¹⁰⁰ Ronald K. Shelp, "Trade in Services," Foreign Policy 65 (Winter 1987), 76.

¹⁰¹ *Ibid.*, 82.

5.5.1 DEALING WITH THE WESTERN EUROPEANS

During the cold war period, the U.S. pursued a European policy that subordinated economic issues to general foreign policy and security goals. The U.S. provided support and encouragement for the Treaty of Rome, and for the evolution of western Europe into the present European Union.¹⁰² That trade issues were relatively unimportant on the American agenda was long obvious. The U.S. helped to build an economic region comparable in size to itself. The U.S. ignored the fact that western European integration could have a potentially negative impact on the American economy, if discrimination against American exports was practiced. Whether or not the Europeans had a hidden agenda to provide protection for their economic sectors was unimportant to the U.S. in the light of perceived Soviet expansionism.¹⁰³

Since the end of the cold war, with the collapse of the Soviet Union and the increasingly noticeable relative economic decline of the U.S. vis-à-vis the E.C. (see Appendix E), American policy has been changing. The U.S. has begun a significant shift of emphasis from security issues toward economic issues. The U.S. and the E.C. entered the 1990s as comparable economic powers. The U.S. and the E.C. have also become increasingly interdependent.

¹⁰² The E.C. came into existence during 1958, and has never been formally recognized in the GATT.

¹⁰³ Many observers have believed that the 'hidden agenda' of the EC was to establish trade barriers against external trading partners in order to protect European industry and agriculture. Eliot Zupnick, "American Responses to 1992." George N. Yannopoulos, ed., Europe and America, 1992: US-EC Economic Relations and the Single European Market (Manchester: Manchester University Press, 1991), 27.

By the late-1990s, the E.C. may surpass the U.S. in economic size. During 1990, the GDP of the E.C. was \$5.5 trillion and the American GDP was \$6 trillion. The E.C. (not including intra-E.C. trade) accounted for sixteen percent of world exports. The E.C. received 41 percent of American foreign direct investment (FDI), during 1990.¹⁰⁴

America and Europe have needed each other for economic growth. Economic growth on both continents would benefit from a reduction of protectionism, and from increasing cooperation under the auspices of GATT. The minimum needed for the maintenance of a successful international trade system has been the support of the U.S. and the E.C. The two actors combined have accounted for almost half of all world trade. In addition, the U.S. and the E.C. were the main designers and supporters of the post-World War II international trade regime. The GATT regime has governed the bulk of U.S.-E.C. trade relations. U.S.-E.C. trade relations have been dependent on GATT for rules, dispute settlement, and the lowering of trade barriers.¹⁰⁵

Due to its economic size, the E.C. has been able to challenge the U.S. in almost every commercial area. The E.C. has maintained a common commercial policy and negotiating position. If the members of the E.C. were unable to reach agreement on an issue, as has happened frequently on agriculture, then the GATT negotiations have

¹⁰⁴ Smith and Woolcock, op. cit., 35.

¹⁰⁵ The majority of American GATT complaints have been directed toward the E.C. rather than Japan (see Appendix F). Kevin Featherstone and Roy H. Ginsberg, The United States and the European Community in the 1990s: Partners in Transition (New York: St. Martin's Press, 1993), 126.

stagnated.¹⁰⁶ This has been one of the main reasons for American unilateralism and bilateralism in the western hemisphere. The U.S. needed credible threats to get the E.C. to compromise on the Uruguay Round and to change policies that were harming American interests.

One of the major trade disputes between the U.S. and the E.C. has been European agricultural policy. The E.C. supported its relatively less competitive farmers by guaranteeing them above-market prices, purchasing surplus produce (which has been a consequence of the inflated prices), and dumping surplus produce into other markets at below market prices. One of the results of these European practices has been to cause distortions on the world agricultural market. This has resulted in American retaliation.¹⁰⁷

Both the U.S. and the E.C. have supported their agricultural sectors through subsidies.¹⁰⁸ The E.C. Common Agricultural Policy (CAP) has represented powerful political, rural, social, and agricultural interests. The U.S. viewed the CAP as trade distorting. The high European price supports encouraged overproduction. The U.S. has claimed that the E.C. gained self-sufficiency in many agricultural areas through the use of a protected internal market and artificial price supports.¹⁰⁹ The European

¹⁰⁶ The inability of the E.C. to reach an agreement on agriculture has been considered by other countries as the main reason Uruguay Round talks failed during December 1990. Smith and Woolcock, *op. cit.*, 44.

¹⁰⁷ Gianaris, *op. cit.*, 132.

¹⁰⁸ Two-thirds of the E.C. budget goes toward agricultural subsidies. *Ibid.*, 128.

¹⁰⁹ Featherstone and Ginsberg, *op. cit.*, 172.

agricultural practice that the U.S. has viewed as most offensive has been export subsidies (which lower the high price of European agricultural products on the world market).

Before the 1980s, the U.S. tried to resolve the subsidies problem through multilateral and bilateral negotiations. These attempts were unsuccessful. The U.S. did not engage in retaliatory subsidies. The reason the U.S. did not retaliate was that the Americans wanted to support European integration and avoid any breaks in the north Atlantic alliance.

The 1980s saw a change in American policy toward European agricultural policies. Congress passed legislation that permitted the American government to reclaim, or defend agricultural export markets lost or threatened by E.C. export subsidies. In responding to E.C. export subsidies, Congress enacted the Bonus Incentive Commodity Programme of 1983 and the Export Enhancement Act of 1985. These two pieces of legislation subsidized the sales of certain American agricultural exports to markets where the E.C. had used export subsidies to lower their prices vis-à-vis American agricultural prices. The Export Enhancement Act was particularly targeted toward the Algerian and Egyptian wheat and wheat flour markets where the U.S. had suffered market share losses to the E.C. Subsidies were intended to sell surpluses to these two markets at reduced prices.

The oilseed dispute between the U.S. and the E.C. serves as another example. During the late 1980s, the U.S. claimed that the E.C. support program for oilseeds was harming American exports of this commodity to the Community. The U.S. began its

own investigation into the issue, and asked GATT to form a panel and render an opinion on the trade dispute. In December 1989 the GATT panel found American complaints against the E.C. to have been justified, and suggested that the E.C. end or change its oilseed policies. The E.C. altered its oilseed policies, but GATT soon ruled that the changes were insufficient. The U.S. threatened the E.C., under Section 301, with the imposition of tariffs on \$1 billion dollars worth of imports unless the appropriate changes were made. In early November 1992, the U.S. specifically threatened to impose a 200 percent tariff on white wine imports from the E.C. The U.S. also threatened to flood the system with anti-dumping actions. "The United States deliberately announced a [weak] retaliation . . . in order to leave the door open for further negotiations while making clear its intention to insist on its rights under the GATT."¹¹⁰ By late-November 1992 an agreement was reached resolving the dispute. The U.S. then withdrew its threats.

The U.S. has engaged in export subsidy wars with the E.C. While the E.C. has tried to sell off its surplus, the U.S. wanted to maintain its market share. The U.S. has attempted to bankrupt the CAP of the E.C. Export subsidies have cost billions of dollars on both sides of the Atlantic. In addition, export subsidies violated GATT rules. Although GATT permitted export subsidies on primary products, the Tokyo Round code stipulated that they could not be used to get more than an 'equitable market share,' and

¹¹⁰ United States President, Economic Report of the President, January 1993, 319.

that dumping could not occur.¹¹¹ The U.S. and the E.C. have not been able to agree on what an 'equitable market share' exactly means.

The U.S. suggested, in 1987, that all agricultural subsidies be phased out over a ten year period. This suggestion was rejected, however. The 'Dunkel Text' was finally agreed to in 1991. The 'Dunkel Text' called for reducing internal agricultural subsidies export subsidies. In addition, NTBs would be changed into tariffs, and all tariffs would be reduced by 36 percent. All countries would also have to open their markets to international agricultural competition so that exporters would have at least a minimum amount of access. Although the 'Dunkel Text' fell short of the Americans' initial goals, it represented "a significant step."¹¹² Domestic agricultural policies would be placed under real GATT scrutiny.

During the Spring of 1992, the E.C. reformed its CAP. This was a shift away from past European policies. The E.C. previously had supported European farmers by maintaining farm prices above the prices on the world market. The reforms reduced the crop support levels and placed emphasis on directly subsidizing farm incomes.

Farm subsidies had become increasingly burdensome, not to mention inefficient. The removal of farm support subsidies is expected to benefit both the U.S. and the E.C. economies. The U.S. could reduce its trade deficit by more than \$40 billion, and the

¹¹¹ Featherstone and Ginsberg, op. cit., 173.

¹¹² United States President, Economic Report of the President, January 1993, 320.

E.C. could increase employment by three million. Developing countries' income could increase by \$26 billion, and their debt could be retired by five percent every year.¹¹³

The existence of cooperative and friendly trade relations between the U.S. and the E.C. has, therefore, affected other countries as well. Most other developed and developing countries have been dependent upon the U.S. and the E.C. markets.¹¹⁴ Ensuring that 'fortress Europe' does not become a reality has been an important U.S. objective in trying to maintain a liberal trade regime.

5.6 CONCLUSION: GATT AND THE URUGUAY ROUND

The U.S. provided most of the momentum to jump start the Uruguay Round negotiations. The GATT talks have tended to be slow moving.¹¹⁵ However, multilateralism has been essential for preventing barriers from rising between countries and particularly between the U.S. and the European Union. The collapse of GATT could have made the prophesy of competing protectionist blocs self-fulfilling. According to the Economic Report of the President:

The potential rewards for success in the Uruguay Round negotiations are great, as are the potential costs of failure. Failure to conclude the Uruguay Round successfully would not only deny us the benefits of faster growth, it could also lead to a backsliding toward greater barriers

¹¹³ Gianaris, op. cit., 133.

¹¹⁴ Featherstone and Ginsberg, op. cit., 121.

¹¹⁵ Some members of Congress have called GATT the 'General Agreement to Talk and Talk'. "Jousting for Advantage." The Economist: A Survey of World Trade, 22-28 September 1990, 5.

to, and contraction in, international trade, and a resulting drag on living standards in the United States and around the world.¹¹⁶

President Clinton had until December 15, 1993 to notify Congress that the U.S. intended to enter into a GATT accord.¹¹⁷ This placed pressure on other countries to reach an agreement on the Uruguay Round.

An agreement was finally reached during mid-December, 1993.¹¹⁸ Average overall tariff reductions will be approximately forty percent.¹¹⁹ The agreement will begin the process of bringing agriculture, textiles, and services into the GATT framework. The agricultural barriers between the U.S. and the E.C. were partially overcome. The agreement was to convert all trade barriers in farming into transparent tariffs which in turn would decline by an average of 36 percent. NAFTA may have been a factor in bringing the Uruguay Round to a successful end.¹²⁰ The decision by the E.C., during November 1992, to try to solve the problem over agricultural subsidies could also have been partly a result of the NAFTA initiative. The agreement also

¹¹⁶ United States President, Economic Report of the President, January 1993, 317.

¹¹⁷ Fast-track negotiating authority was extended by Congress until December 15 the previous June upon a request by Clinton. The extension was passed by the house by a vote of 295-126 and the Senate passed it by 76-16. Finance Committee Chairman Daniel Moynihan (D-N.Y.) stated: "We are voting to permit the Uruguay Round negotiations to go forward. That is all we are doing." Cited in Congressional Quarterly Weekly Report 51, no. 27 (July 3, 1993), 1722.

¹¹⁸ Congress had to ratify the agreement by April 1994 to vote on it with 'fast-track procedures.

¹¹⁹ "And Now for Something Completely Different," The Economist, 18 December 1993, 59.

¹²⁰ "NAFTA: The Showdown," The Economist, 13 November 1993, 23.

presented the possibility of creating a 'Multilateral Trade Organization.' However, there were demands by France that the E.C. adopt its own version of 'Super 301.' The U.S. may risk pushing the European Union into a serious trade conflict, if it continues to threaten them, as it has in the past.

CHAPTER 6

CONCLUSION: THE AMERICAN RESPONSE

Markets, open to trade, and minds, open to ideas, will become the sole battlefields.

--Victor Hugo

This study has suggested that a new American trade strategy has come about as a U.S. response to relative economic decline vis-à-vis other countries. The new strategy has been an American attempt to continue a leadership role by influencing other countries in a continued pursuit of an expanding liberal world trade regime. Domestic political actors have permitted the U.S. to pursue the new strategy by maximizing the state's freedom vis-à-vis society. In particular, the tacit relationship between Congress and the executive has been especially important in American trade strategy.

The three-track trade strategy that was developed in the previous chapters cannot be generalized to other countries. It is exclusive to explaining American trade behavior. The reasons for this are due to the unique political system of the U.S., and

its unique role in the world since 1945. The U.S. has a separation of powers and a system of checks and balances. This has made the U.S. one of the most democratic countries in the world. Congress has been vulnerable to the demands from society and especially protectionist interest groups. Insulation was therefore required to limit societal demands and increase the freedom of the state to act in the best interest of the entire country.

The U.S. has been the hegemon from 1945 to 1969, and has tried to be the leader of the world since then. Therefore the U.S. has also tried to act in the manner that will maximize not only its benefits but also the benefits of the entire world. This has meant strengthening the free trade regime and preventing beggar-thy-neighbour policies. The pursuit of these goals required a new trade strategy that permitted a weakened U.S. to continue to influence other countries. No other country since the second world war has been in this unique position.

Both internal and external factors have motivated the actions of the people and institutions that constitute the U.S. government. Literature that has focused only on societal constraints (such as the radical and market perspectives) or on international systemic constraints (such as international regimes and hegemonic stability literature) placed on the state, are not necessarily wrong. However they present only a partial explanation.

Ideas are very important in explaining the actions of U.S. political leaders. The lessons of Smoot-Hawley and the correlation between economic prosperity and free trade have been implanted in the minds of American political leaders. They realized that

the state had to insulate itself from society if a return to protectionism was to be prevented in the future. The state-centric perspective is not perfect, but it does explain U.S. trade practices since 1934. The most important contribution made by the state-centric literature has been the idea that a state can implement measures that may increase its freedom from society, and thus permit it to act within the international system in a desired manner.

For the sake of argument it may also be stated that the market perspective, or even the radical perspective, offer a better explanation of U.S. trade practices for the period before 1934. Nonetheless, no one perspective can offer an adequate explanation. All of the five perspectives on foreign economic policymaking have something important to contribute that helps to explain and understand American trade actions. When their relevant contributions are put together in one package, then an adequate understanding may come about and an explanation may be made. Societal factors, international rules and relative power have all been relevant in discussing the behaviour of the U.S. government.

In chapter one, there was a question posed. "How has the American state, during the latter twentieth century, been able to pursue free trade in light of rising domestic protectionist political pressure, relative economic decline that reduced U.S. foreign influence, and the deterioration of the GATT regime?" This study has tried to answer this question by concentrating on American internal politics, commercial diplomacy and international negotiations, and the complex strategic environment in which the U.S. has found itself.

The key domestic event that permitted the U.S. to conduct an open trade policy was the Smoot-Hawley tariff. This tariff demonstrated that Congress, which has authority over international commerce, was vulnerable to parochial protectionist groups in trade policy. The state had little freedom to act in its pursuit of the national good. The consequences of Smoot-Hawley started a process by Congress to protect itself from protectionist pressures. Congress began to delegate authority and reduced its role in trade policymaking. At first, it gave authority mainly to the President, but later, as protectionist pressures increased, other executive agencies also received enhanced authority over international commerce.

Congress began to come to life once again in the 1970s. It put into place more protection for itself, and began authorizing the President to negotiate free trade areas. Congress also began to send increasingly protectionist signals to other countries in order to facilitate the executive's negotiation efforts. Unlike the period before 1934, since the 1970s congressional trade intervention has mostly been positive.

The roles of U.S. Trade Representative (USTR) and the International Trade Commission have been important in insulating the state, and maximizing its freedom of action. Both have served as buffers against parochial interests. Although the USTR has appeared aggressive in promoting specific interests, it has mainly acted to promote international market expansion. The USTR has tried to create anti-protectionist coalitions in order to counter the demands of protectionists. The emphasis has been on export politics, and not import politics.

The strengthening of the American state's freedom to act vis-à-vis society allowed it to pursue a trade strategy that benefited the United States while liberalizing trade throughout the world. This role of the American state in turn helped to motivate it to maximize its freedom from society.

During the cold war period, the U.S. acted to prevent beggar-thy-neighbour policies from emerging throughout the world, and to strengthen the economies of western countries so as to contain communism. With the end of the cold war, the U.S. state found itself relatively free of societal constraints, but declining in power and influence vis-à-vis other countries. The western Europeans and Japan had emerged as economic rivals to the U.S.

The evolution of the world economy weakened the trade regime, created by the U.S. in the 1940s. Protectionism throughout the world was threatening to increase, and large portions of the world economy remained effectively outside the trade regime. There were American fears that as the west Europeans continued to unify, they would raise trade barriers around themselves. Meanwhile, Japan had been running a long-term trade surplus with the U.S., and refused to remove its non-tariff barriers. The U.S. continued to aspire to the principles of multilateralism and non-discrimination. However, abiding by those two principles alone did not permit the U.S. sufficiently to influence other countries, and prevent free-riding.

To compensate for its reduced power, the U.S. began to create bilateral free trade areas and eventually the North American Free Trade Area. The U.S. hoped that this could increase its clout, through the creation of an economic bloc which could

potentially expand to the entire western hemisphere. The U.S. hoped that the Japanese and the Europeans would begin to increase their cooperation with the U.S., if they believed that America could potentially defect from the liberal trade regime. Trade intervention can be used to bring about positive outcomes, if it is used to avoid being exploited by others but not necessarily to retaliate against them.

Trade intervention, or its threat, is a tool to achieve policy changes in other countries. The U.S. has tried to increase its credibility through veiled threats to initiate a trade war with the European Union and Japan. The main intention was to make the threat alone succeed, and thus avoid an actual trade war which would be catastrophic for all involved. To increase credibility, the U.S. had to convince other countries that the costs would exceed the benefits of continuing a policy or action.

Today, exports and the service sectors have been accounting for an increasingly significant amount of American economic growth and job creation. Industries in these areas have been allies of the U.S. government in its pursuit of a strengthened free trade regime and in resisting excessive demands for protectionism from losing American industries.

The imports of products produced by countries that have become highly competitive and efficient may threaten American jobs, but this has not been the major problem for the U.S. Imports that have threatened American jobs due to foreign subsidies have been the main problem. It is the foreign subsidies and unfair trade practices that the U.S. has mainly sought to eliminate by strengthening GATT. As trade becomes increasingly important to America's economic health, Congress comes to play

more important roles. Not only does it send signals overseas; it also attempts to insulate itself from domestic protectionist demands.

The Clinton Administration has followed in the footsteps of its predecessors. Although the Uruguay Round has finally concluded, the Clinton Administration also faces new challenges. Competition from Europe and Japan continues to increase. As the old problem of the U.S.-Japan trade imbalance continues, the trade imbalance between the U.S. and the European Union will become increasingly important. The U.S. has recently been running a surplus with Europe. Lowering European trade barriers may likely increase the American surplus, and thus improve its overall trade balance. Finally, there is still need to deal with the developing countries of Latin America, South and East Asia, and the recently independent countries of what used to be Soviet republics. The latter, in particular, will increase the level of difficulty in negotiating future multilateral trade rounds of GATT. During the cold war, communist countries had minimal participation in the international trade regime. Their attitudes and involvement in the trade regime will become drastically different in the post-cold war era.

Both Congress and the President have favoured free trade. Since the departures from free trade that have occurred have mainly happened via bilateral executive agreements such as voluntary export restraints (VERs), instead of through legislated tariffs, the risks of excessive domestic protectionist pressure and foreign anger have been significantly reduced. Congress can continue to aid those seeking trade relief, while not being branded protectionist, by changing procedures and reducing pressure on administrators. The creation of dispute settlement mechanisms, such as the one

within the Canada-U.S. Free Trade Agreement, has also served as a means to reduce protectionist pressures on Congress. Sectors seeking relief have been diverted toward a dispute settlement panel. The conclusion rendered then decides if an injury occurred or not. Politicians are not the ones to decide -- bureaucrats decide. This has helped to add political insulation to the American state.

The Congressional delegation of authority in the area of trade has allowed sufficient trade relief mechanisms to be distributed to claimants, so as to maintain support for legislators. However, the trade relief process has proven to be complicated and slow. Few claimants have actually received trade relief. The reason for this has been that retaliation has not been the objective of the American state. The level of protectionism has in all likelihood not been as great as it would have been if Congress would have had to legislate trade relief itself:

So even if the remedies did less than expected for the nation's overall economic performance, they indirectly advanced the cause of world trade by restraining inimical forces in domestic politics.¹

The threat of unilateral retaliations was used to increase U.S. credibility. Congress has had to engage in protectionist rhetoric and table protectionist trade bills in order to frighten foreign countries, and appease protectionist constituents in order to win votes. The key to preventing the emergence of a protectionist Congress has been to prevent legislation that is product-specific. Congress has, thus far, done this successfully. The fast-track procedure has permitted Congress to avoid making specific

¹ Pietro S. Nivola. Regulating Unfair Trade (Washington, D.C.: The Brookings Institution, 1993), 70.

changes to trade barrier reducing agreements and has dealt with demands for protection cumulatively and not individually.

Throughout most of the postwar period, the U.S. tolerated asymmetries and violations in the international trade regime. The reason for this was that American policymakers viewed tolerance as being in U.S. economic and strategic interests. Today, however, there is an increasing sense that the American government should intervene in order to create a 'level playing field.' According to the level playing field concept, every country would be treated equally in the realm of trade, even though they may not be equal in economic terms. Attempts by Congress and the Presidency to delegate responsibilities over trade issues in order to reduce protectionist pressure has, paradoxically, made the U.S. slightly more protectionist with regard to its domestic legislation, and has seen a proliferation of VERs by foreign countries. However, there is no way to know what would have happened, had such a strategy not been pursued.

As I. M. Destler has stated:

By delegating responsibility to the executive and by helping fashion a system that protected legislators from one-sided restrictive pressures, Congress made it possible for successive presidents to maintain and expand the liberal trade order.²

² I.M. Destler, American Trade Politics: System Under Stress (Washington, D.C.: Institute for International Economics, 1986), 57.

APPENDIX A

COMMITTEES OF CONGRESS DEALING WITH TRADE ISSUES

Committee	Subjects
Foreign Relations (Senate)	General conduct of foreign policy; executive agreements; treaties
Foreign Affairs (House)	Same as above, except no treaties
Energy and Commerce (House)	Energy; international economic policy; telecommunications; transportation; shipping
Commerce, Science, and Transportation (Senate)	International economic policy; telecommunications; transportation; shipping; ocean and fishing rights; merchant marine
Banking, Housing, and Urban Affairs (Senate)/Banking Finance, and Urban Affairs (House)	International monetary policy; international commerce; authorizations for Export-Import Bank and World Bank
Finance (Senate)/Ways and Means (House)	Reciprocal trade agreements; tariffs; import quotas, customs
Agriculture, Nutrition, and Forestry (Senate)/Agriculture (House)	Price supports; international food policy; food exports
Government Affairs (Senate)	General oversight; nuclear energy and export; executive branch organization

Government Operations (House)	General oversight; energy policy; trade oversight (including embargoes)
Joint Economic Committee (Senate and House)	International economic policy (no legislative authority; research function only)

Source: John W. Spanier and Eric W. Uslaner, American Foreign Policy Making and the Democratic Dilemmas (New York: MacMillan Publishing Company, 1994), 189.

APPENDIX B

U.S. EXECUTIVE AGENCIES DEALING WITH TRADE

U.S. Department/Agency	Area of Concern
Department of State	Diplomatic relations, initiating and executing policy, negotiations, representation
Department of Commerce	Trade relations, representation, anti-dumping and countervailing duty investigations
Department of Agriculture	Trade relations, representation
Department of Energy	Energy relations
International Trade Commission	Anti-dumping and countervailing duty investigations
Federal Trade Commission	Anti-trust relations
U.S. Trade Representative	Coordinates U.S. trade policy, negotiations
National Security Council	Overall U.S. foreign policy interests

Source: Kevin Featherstone and Roy H. Ginsberg, The United States and the European Community in the 1990s: Partners in Transition (New York: St. Martin's Press, 1993), 266-267, note 2.

APPENDIX C

U.S-ISRAEL FREE TRADE AREA AGREEMENT

The U.S. has been the traditional supporter of Israel. Since the creation of the Israeli state in 1948, the United States has supplied economic and political support. American aid and trade policies have been extremely generous.¹ In early 1985, the Congress approved a United States-Israel Free Trade Area Agreement (FTAA). The U.S. wanted to show the world that a trade agreement dealing mainly with services could be successfully negotiated.² The U.S. also sent out a signal that it was prepared to take another approach, if progress at the multilateral level was not made. Bilateral trade arrangements could be used by the U.S. in order to 'level the playing field' and increase 'fairness.' The U.S. would no longer maintain the liberal world trade system by itself. Other countries would also have to contribute to the GATT talks.

Under the FTAA, the U.S. and Israel agreed to reduce tariffs on all directly traded goods over a ten year period.³ The FTAA also stipulates that no new duties or quotas may be imposed on member countries and that licensing cannot be used to limit exports. The FTAA is within the rules and principles of GATT. The FTAA has been considered to be an extension of GATT.

¹ Nicholas A. Aminoff, "The United States-Israel Free Trade Area Agreement of 1985: In Theory and Practice," Journal of World Trade 25, no. 1 (February 1991), 12.

² C. Michael Aho and David Aronson, Trade Talks: America Better Listen! (New York: Council on Foreign Relations, 1985), 126.

³ All trade should be duty free by January 1, 1995. Aminoff, op. cit., 5.

APPENDIX D
U.S. TRADE GRAPHS

Figure 4. -- U.S. current account balance, 1946-1992.

Source: United States President, Economic Report of the President: Transmitted to the Congress, January 1993 (Washington, D.C.: United States Government Printing Office, 1993), 462.

Figure 5. -- U.S. merchandise trade balance, 1946-1992.

Source: United States President, Economic Report of the President: Transmitted to the Congress, January 1993 (Washington, D.C.: United States Government Printing Office, 1993), 462.

Figure 6. -- U.S. services trade balances, 1946-1991.

Source: United States President, Economic Report of the President: Transmitted to the Congress, January 1993 (Washington, D.C.: United States Government Printing Office, 1993), 462.

APPENDIX E

TRADE STATISTICS

Table 8. -- Total trade of U.S., E.C. (including intra-E.C. trade), Japan, Canada, and Mexico with the world (billions of dollars, numbers in brackets are percentages of the world share).

	1970	1972	1974	1976
U.S.	86 (15)	109 (14)	207 (13)	245 (13)
E.C.	229 (40)	310 (41)	572 (37)	672 (37)
Japan	38 (7)	52 (7)	118 (8)	132 (7)
Canada	32 (5)	43 (6)	71 (5)	83 (5)
Mexico	4 (*)	4 (*)	9 (*)	9 (*)
World	580	764	1553	1827
	1978	1980	1982	1984
U.S.	327 (13)	478 (13)	467 (13)	559 (15)
E.C.	925 (38)	1464 (38)	1271 (36)	1249 (34)
Japan	178 (7)	272 (7)	270 (8)	306 (8)
Canada	94 (4)	131 (3)	130 (4)	169 (5)
Mexico	13 (*)	34 (1)	35 (1)	36 (1)
World	2432	3803	3498	3622
	1986	1988	1990	1992
U.S.	604 (15)	779 (14)	910 (13)	1000 (13)
E.C.	1578 (39)	2147 (39)	2780 (41)	2982 (40)
Japan	338 (8)	452 (8)	523 (8)	573 (8)
Canada	175 (4)	229 (4)	249 (4)	261 (3)
Mexico	28 (*)	41 (*)	60 (1)	104 (1)
World	5048	5462	6766	7533

Source: International Monetary Fund, Direction of Trade Statistics Yearbook (Washington, D.C.:IMF, various years).

* Less than one percent.

Table 9. -- U.S. two-way trade with the E.C., Canada, Japan, Mexico, and the rest of the world (billions of dollars, numbers in brackets are percentages of total U.S. trade with world).

	1980	1982	1984	1986
E.C.	99 (21)	99 (21)	114 (20)	133 (22)
Canada	77 (16)	81 (17)	113 (20)	114 (19)
Japan	54 (11)	61 (13)	84 (15)	112 (19)
Mexico	28 (6)	28 (6)	30 (5)	30 (5)
ROW	220 (46)	198 (42)	218 (39)	215 (36)
	1988	1990	1991	1992
E.C.	164 (21)	194 (21)	193 (21)	200 (20)
Canada	151 (19)	177 (19)	179 (19)	191 (19)
Japan	131 (17)	142 (16)	143 (15)	147 (15)
Mexico	44 (6)	59 (7)	65 (7)	76 (8)
ROW	289 (37)	338 (37)	351 (38)	386 (39)

Source: International Monetary Fund, Direction of Trade Statistics Yearbook (Washington, D.C.:IMF, various years).

Table 10. -- U.S. imports from the E.C., Canada, Japan, Mexico, and the Rest of the World (billions of dollars, numbers in brackets are percentages of total U.S. trade with world).

	1980	1982	1984	1986
E.C.	40 (16)	46 (18)	63 (18)	80 (21)
Canada	42 (16)	47 (18)	67 (20)	69 (18)
Japan	33 (13)	40 (15)	60 (18)	85 (22)
Mexico	13 (6)	16 (6)	18 (5)	18 (5)
ROW	127 (49)	110 (42)	133 (39)	135 (35)
	1988	1990	1991	1992
E.C.	89 (19)	95 (18)	89 (17)	97 (18)
Canada	81 (18)	94 (18)	94 (18)	101 (18)
Japan	93 (20)	93 (18)	95 (19)	99 (18)
Mexico	24 (5)	31 (6)	32 (6)	36 (7)
ROW	173 (38)	204 (39)	199 (39)	220 (40)

Source: International Monetary Fund, Direction of Trade Statistics Yearbook (Washington, D.C.: IMF, various years).

Table 11. -- U.S. exports to the E.C., Canada, Japan, Mexico, and the Rest of the World (billions of dollars, numbers in brackets are percentages of total U.S. trade with world).

	1980	1982	1984	1986
E.C.	50 (27)	52 (25)	50 (23)	53 (24)
Canada	35 (16)	34 (16)	47 (22)	45 (21)
Japan	21 (10)	21 (10)	24 (11)	27 (12)
Mexico	15 (7)	12 (6)	12 (6)	12 (6)
ROW	91 (41)	93 (44)	85 (39)	80 (37)
	1988	1990	1991	1992
E.C.	75 (24)	98 (25)	103 (24)	103 (23)
Canada	70 (22)	83 (21)	85 (20)	90 (20)
Japan	38 (12)	49 (12)	48 (11)	48 (11)
Mexico	20 (6)	28 (7)	33 (8)	41 (9)
ROW	116 (36)	135 (34)	153 (36)	165 (37)

Source: International Monetary Fund, Direction of Trade Statistics Yearbook (Washington, D.C.:IMF, various years).

Table 12. -- U.S. trade balance with the E.C., Canada, Japan, Mexico, and the Rest of the World (billions of dollars; numbers in brackets are percentages of total U.S. trade balance with World).

	1980	1982	1984	1986
E.C.	19 (24)	6 (11)	-13 (11)	-26 (15)
Canada	-7 (9)	-13 (24)	-20 (16)	-23 (13)
Japan	-12 (15)	-19 (35)	-37 (30)	-59 (34)
Mexico	2 (3)	-4 (7)	-6 (5)	-5 (3)
ROW	-38 (49)	-13 (24)	-47 (38)	-59 (34)
	1988	1990	1991	1992
E.C.	-13 (9)	3 (2)	14 (12)	6 (6)
Canada	-12 (9)	-11 (9)	-9 (8)	-11 (9)
Japan	-59 (40)	-44 (34)	-47 (40)	-52 (41)
Mexico	-3 (2)	1 (1)	1 (1)	5 (5)
ROW	-56 (40)	-70 (54)	-47 (40)	-53 (42)

Source: International Monetary Fund, Direction of Trade Statistics Yearbook (Washington, D.C.:IMF, various years).

APPENDIX F

COUNTRIES SUBJECTED TO U.S. ANTI-DUMPING AND COUNTERVAILING CASES COMPARED WITH THE SHARE THEY PROVIDE OF U.S. MERCHANDISE IMPORTS (CASES COMPLETED, 1980-1988)

Country or group	Total number of cases	Total cases against this country or group as a percentage of totals against all countries	Percentage of 1987 US merchandise imports that originate in this country or group	Percentages with restrictive outcomes (including voluntary export restraints)
All countries	774	100	100	70
Developed countries	450	58	63	65
Developing countries	286	37	36	75
EC	304	40	20	64
Brazil	56	7	2	79
Korea	36	4.7	4.2	86
Mexico	35	4.5	4.9	91
Taiwan & China	29	3.7	6.1	62
Canada	35	5	18	54
Japan	49	6	21	69

Source: J. Michael Finger and Tracy Murray, "Policing Unfair Imports: The United States Example," Journal of World Trade 24, no. 4 (August 1990), 43.

APPENDIX G

NORTH AMERICAN TRADE NEGOTIATIONS: A CHRONOLOGY

- 1965 U.S.-Canada Automotive Agreement.
- 1980 Mexico decides not to join GATT.
- 1982 The Mexican debt crisis begins.
- 1986 U.S.-Canada free trade negotiations begin. Mexico joins GATT. The Uruguay round of GATT trade negotiations begins.
- 1987 U.S.-Mexican 'framework' agreement on trade consultation.
- 1988 U.S.-Canada FTA signed.
- 1989 Salinas liberalizes Mexican foreign investment laws and declares plans for reducing the foreign debt of Mexico.
- 1990 June 10: Bush and Salinas jointly endorse a US-Mexico FTA.
- September 25: Congress is formally informed that negotiations for a U.S.-Mexico FTA will begin.
- December: The GATT talks fail to be completed on schedule.
- 1991 February 5: Canada joins negotiations between the U.S. and Mexico.
- March 1: Bush requests a two year extension of fast-track authority.
- May 1: Bush sends a letter and Action Plan to answer the concerns of Congress.

May 24: Congress extends fast-track authority until March 3, 1993.

June 12: NAFTA negotiations officially begin.

1992 February 25: The U.S. and Mexico sign an Environmental Border Plan.

August 12: Negotiators reach agreement on NAFTA.

September 18: Bush announced to Congress of his intention to sign the final NAFTA agreement.

November 3: Clinton elected.

November 5: Bush administration threatens to impose a 200 percent duty on French wine if Europeans do not end subsidies on some agricultural products.

November 20: The U.S. and Europe agree to reduce farm subsidies. The Uruguay round, which was stalled, is revitalized.

December 17: The American, Canadian, and Mexican leaders sign NAFTA.

1993 January 8: Austin, Texas meeting between President-elect Clinton and President Salinas confirms the intentions of both countries to implement NAFTA.

June: Congress grants Clinton an extension of fast track negotiating authority for the GATT talks until April 15, 1994. There is hope the Uruguay Round will be reinvigorated.

July: Tokyo economic summit removes several obstacles to a GATT agreement.

November 17: House of Representatives passes NAFTA by a vote of 234-200.

November 20: Senate passes NAFTA by a vote of 61-38.

December 8: President Clinton signs NAFTA into law.

December 15: Deadline met to submit a Uruguay Round agreement to Congress for voting with fast-track rules.

1994 January 1: NAFTA officially implemented.

Source: Robert A. Pastor, Integration with Mexico: Options for U.S. Policy (New York: The Twentieth Century Fund Press, 1993), 107-109.

APPENDIX H

EXCERPTS FROM THE SPEECH OF PRESIDENT CLINTON ON INTERNATIONAL ECONOMICS AT AMERICAN UNIVERSITY IN WASHINGTON D.C., FEBRUARY 26, 1993:

Today, I come to . . . deliver an address about what i consider to be the great challenge of this day: the imperative of American leadership in the face of global change

We cannot let . . . changes in the global economy carry us passively toward a future of insecurity and instability

American jobs and prosperity are reason enough for us to be working at mastering the essentials of the global economy, but far more is at stake. For this new fabric of commerce will also shape global prosperity or the lack of it, and with it, the prospects of people around the world for democracy, freedom and peace.

We must remember that even with all our problems today, the United States is still the world's strongest engine of growth and progress. We remain the world's largest producer and its largest and most open market. Other nations, such as Germany and Japan, are moving rapidly. They have done better than we have in certain areas. We should respect them for it and, where appropriate, we should learn from that. But we must also say to them you, too, must act as engines of global prosperity.

Nonetheless, the fact is that for now and for the foreseeable future, the world looks to us to be the engine of global growth and to be the leaders

[I]t is time for us to make trade a priority element of American security

It will not be a policy of blame but one of responsibility. It will say to our trading partners that we value their business, but none of us should expect something for nothing. We will continue to welcome

foreign products and services into our markets, but insist that our products and services be able to enter theirs on equal terms

Our trade policy will also bypass the distracting debates over whether efforts should be multilateral, regional, bilateral, unilateral. The fact is that each of these efforts has its place. Certainly we need to seek to open other nations' markets and to establish clear and enforceable rules on which to expand trade.

That is why I'm committed to a prompt and successful completion of the Uruguay Round of the GATT talks.

That round has dragged on entirely too long. But it still holds the potential if other nations do their share and we do ours to boost American wages and living standards significantly, and to do the same for other nations around the world.

We also know that regional and bilateral agreements provide opportunities to explore new kinds of trade concerns, such as how trade relates to policies affecting the environment and labor standards and the anti-trust laws.

And these agreements, once concluded, can act as a magnet including other countries to drop barriers and open their trading systems.

The North American Free Trade Agreement is a good example. It began as an agreement with Canada . . . which has now led to a pact with Mexico as well. That agreement holds the potential to create many, many jobs in America over the next decade, if it is joined with others to ensure that the environment, that living standards, that working conditions are honored, that we can literally know that we are going to raise the condition of people in America and in Mexico

And we should work with organizations such as the Asia Pacific Economic Cooperation [Council] forum to liberalize our trade across the Pacific as well

[T]he new world toward which we are moving actually favors us.

We are better equipped than any other people on earth, by reason of our history, our culture and our disposition, to change, to lead and to prosper¹

¹ Cited in Presidential Address, "Clinton Outlines Philosophy On Trade, Global Economy," Congressional Quarterly Weekly Report 51, no. 10 (March 6, 1993), 539-542.

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