

# FREE TRADE AGREEMENTS AND US TRADE POLICY: A COMPARATIVE ANALYSIS OF US INITIATIVES IN LATIN AMERICA, THE ASIA-PACIFIC REGION, AND THE MIDDLE EAST AND NORTH AFRICA

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## I. INTRODUCTION

For the past two decades, the United States has pursued parallel but separate approaches toward deepening bilateral trade relations with countries in Latin America and the Caribbean (LAC) and the Asia-Pacific region. For the past five years, similar initiatives have been launched with countries in the Middle East and North Africa (MENA). In all three regions, the trade pacts build on the precedents established first by the Canada-US Free Trade Agreement (FTA) signed in January 1988, and then the North American Free Trade Agreement (NAFTA) signed in December 1992. The Canada-US pact sparked

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a run of proposals in the late 1980s for bilateral FTAs between the United States and South Korea, Taiwan, the Association of South East Asian Nations (ASEAN), and Australia that resulted in stacks of economic studies but no negotiations.<sup>1</sup> Similarly, the NAFTA catalyzed interest throughout Latin America in securing greater access to the US market and to US capital. Besides the exceptional US FTA with Israel (signed in 1985), no country in the MENA region expressed interest in a similar trade deal with the United States.<sup>2</sup>

In both the LAC and Asia-Pacific regions, proposals for bilateral talks quickly were submerged into regional initiatives with similar long-run objectives but starkly different modalities. The Asia-Pacific Economic Cooperation (APEC) forum launched its vision of free trade and investment in the region at its Bogor Summit in November 1994. A few weeks later, Western Hemisphere countries followed suit by committing to negotiate a Free Trade Area of the Americas (FTAA) at the Summit of the Americas in Miami in December 1994.

A decade later, the APEC and FTAA initiatives have achieved only modest results. The APEC process has been stalled by agricultural protectionism, financial crises, and the challenge of integrating China into the regional economy. The FTAA talks have slogged along under the weight of trying to forge consensus among 34 widely disparate countries in terms of size and level of development. In both cases, new bilateral initiatives have sought to spur “competitive liberalization” in the region to accelerate the pace of trade reform.<sup>3</sup> In the Asia-Pacific, Singapore has taken the lead in constructing bilateral FTAs (with Japan, Australia, New Zealand,

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<sup>1</sup>For a discussion of these proposals, see, for example, Schott, 1989; Snape, 1986; and USITC, 1989.

<sup>2</sup>Many of these countries were deemed to be unsuitable US partners, for two reasons: they were not signatories to the General Agreement on Tariffs and Trade (GATT); and they participated actively in the Arab boycott of Israel.

<sup>3</sup>See Bergsten, 1996 for an early elaboration of this concept.

and the United States) that aim to establish a “P-5” as the heart of an APEC free trade area. In addition to the US-Singapore pact, the United States also launched FTA negotiations with Thailand in June 2004. In Latin America, the United States has complemented the NAFTA by concluding FTA talks with Chile after a decade-long engagement, and negotiating a similar deal with the Central American countries and the Dominican Republic. In addition, talks are underway with three members of the Andean Community (Colombia, Ecuador, and Peru) and Panama. Taken together, the US initiatives have set out both carrots and sticks to provoke Brazil, the FTAA co-chair with the United States, and its Mercosur partners to work aggressively to conclude the FTAA negotiations.

In the MENA region, FTA initiatives began in the late 1990s as a complement to broader efforts to promote peace and stability in the Middle East. The Clinton administration established the regional benchmark by concluding a pact with Jordan in 2000. The Bush administration secured congressional ratification of that FTA in 2001, negotiated FTAs with Morocco (signed in 2003) and Bahrain (signed in 2004), and announced the long-term goal of achieving a Middle East FTA within a decade. In early 2005, US officials began FTA negotiations with Oman and the United Arab Emirates.

This article examines the US trade initiatives in each region and their impact on regional negotiations and the Doha Round. It starts with a discussion of the new regionalism in US trade policy, and examines US objectives and priorities in pursuing bilateral FTAs in the three regions. I then discuss the implications of these initiatives for the world trading system. I conclude with reflections on the future course of US FTA policy.

## **II. THE NEW REGIONALISM IN US TRADE POLICY**

Until the failed GATT ministerial of November 1982, postwar US trade policy had focused exclusively on multilateral trade negotiations in the GATT. The rejection by other countries of

US initiatives to prepare for a new round of GATT talks—involving both protectionist concerns and a lack of readiness to add trade in services to the negotiating agenda—led then USTR Bill Brock to pursue bilateral FTAs with Israel and Canada. These talks were regarded as complements to, not substitutes for, the GATT process; US officials maintained their efforts to launch what became the Uruguay Round in 1986.

Since that time, the United States has continued to give priority to Geneva negotiations. At the same time, however, FTAs have been pursued with increasing vigor, particularly in periods when Geneva talks have drifted, to forge alliances in favor of new liberalization both bilaterally and multilaterally and to catalyze other major trading nations to work more diligently in the GATT/WTO. For example, the NAFTA talks accelerated at a time when US-European differences on agriculture had put the Uruguay Round in a deep freeze; in late 1993, APEC initiatives helped propel the final compromises needed to conclude the Uruguay Round. The FTAA negotiations began in the 1990s as the WTO struggled in its first years to develop consensus for new efforts to advance multilateral trade liberalization, but the ongoing FTAA talks did not distract US officials from taking the lead in launching the Doha Round in November 2001.

In other words, over the past two decades, the United States has developed what I call a “three dimensional” trade strategy—involving a mix of bilateral, regional, and multilateral negotiations—to address the unfinished and new international trade agenda, and to propel economic growth. This strategy is often labeled “multi-track” but that label doesn’t convey the idea that these trade talks are interrelated—and, if done properly, mutually reinforcing.

As of May 2005, the United States has concluded FTAs with Israel, Canada, Mexico, Jordan, Singapore, Chile, Australia, and Morocco. In addition, FTAs have been signed with the 5 Central American countries, the Dominican Republic, and Bahrain; all

await Congressional approval. FTA talks are currently in progress with the 5 members of the Southern African Customs Union (SACU), Thailand, Colombia, Ecuador, Peru, and Panama, as well as the other countries in the Western Hemisphere negotiating the Free Trade Area of the Americas (FTAA).

US merchandise trade (exports and imports) with current FTA partners was valued at more than \$750 billion in 2004, or almost 35 percent of total US world trade. Upon completion and ratification of the other bilateral FTA negotiations already engaged, FTAs will cover 39 percent of total US trade and 46 percent of US merchandise exports (see Table I). These data do not include countries participating in the FTAA but not in separate free trade talks with the United States (mainly Mercosur, Venezuela, and Caricom). Note, as well, that the data primarily reflect US trade with its North American neighbors. Excluding NAFTA, the other bilateral FTAs—current and in progress—cover only \$182 billion in two-way trade or 8 percent of US total trade. That is why some critics of US policy dismiss the current FTA activity as “small potatoes.”

So then why do FTA initiatives play such a prominent role in current US trade policy? The answer, in short, is that trade policy is an important component of broader US foreign policy. The United States uses FTAs to help contribute to the achievement of myriad US political, economic, and security interests. The pacts serve strategic interests by promoting economic growth and the rule of law, helping to strengthen the foundations of democratic governance, and securing support for global efforts against terrorism. Such goals reflect the strategic vision of trade policy propounded by President Bush: “Across the globe, free markets and trade have helped defeat poverty and taught men and women the habits of liberty.”<sup>4</sup>

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<sup>4</sup>See his commencement address at the University of South Carolina, May 9, 2003. This statement preceded the announcement of a new Middle East trade initiative that emphasized US efforts to promote democracy in postwar Iraq.

Table I  
US Bilateral FTA Partners (as of April 2005)

FTA Partners	2003 GDP <sup>a</sup> (\$ billion)	2003 GDP per capita (\$)	US Merchandise Trade: 2004				Total 2-Way Trade (\$ billion)
			Exports to <sup>b</sup> (\$ billion)	Imports from <sup>c</sup> (\$ billion)	TBAL <sup>d</sup> (\$ billion)		
FTAs in Effect							
Australia	508	25,553	13.5	7.6	5.9	21.0	
Canada	867	27,408	163.2	255.7	-92.5	418.8	
Chile	72	4,568	3.2	5.0	-1.8	8.2	
Israel	109	16,228	6.0	14.5	-8.5	20.5	
Jordan	10	1,858	0.5	1.1	-0.6	1.6	
Mexico	626	6,121	93.0	155.0	-61.9	248.0	
Morocco	45	1,481	0.5	0.5	0.0	1.1	
Singapore	91	21,492	17.8	14.8	3.0	32.7	
		Subtotal	297.8	454.2	-156.4	752.0	
FTAs Signed							
Bahrain	9	13,028	0.3	0.4	-0.1	0.7	
C/AFTA-5	60	1,690	10.9	13.1	-2.3	24.0	
Dominican Republic	16	1,827	4.1	4.5	-0.4	8.6	
		Subtotal	15.3	18.1	-2.8	33.3	

FTAs Under Negotiation									
Colombia	81	1,835	4.1	7.4	-3.2	11.5			
Ecuador	27	2,082	1.5	4.2	-2.7	5.7			
Oman	22	9,262	0.3	0.4	-0.1	0.7			
Panama	13	4,339	1.6	0.3	1.3	1.9			
Peru	61	2,233	1.9	3.7	-1.8	5.5			
SACU-5	177	3,412	3.1	6.9	-3.8	10.0			
Thailand	143	2,309	5.8	17.5	-11.7	23.3			
United Arab Emirates	80	19,902	3.6	1.1	2.5	4.8			
USA	10,985	Subtotal	22.0	41.5	-19.4	63.5			
		37,745	727.2	1,460.2	-733.0	2,187.3			

Sources: For GDP, MF World Economic Outlook (2004–2005). For trade, USITC Trade Dataweb, (<http://dataweb.usitc.gov>).

<sup>a</sup>GDP is in current US dollars.

<sup>b</sup>US domestic exports.

<sup>c</sup>US imports for consumption.

CAFTA-5 = Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.

SACU-5 = Botswana, Lesotho, Namibia, South Africa and Swaziland.

<sup>d</sup>Trade Balance.

To that end, US officials developed detailed “selection criteria” to apply to aspiring FTA partners.<sup>5</sup> Originally put forward by US Trade Representative Robert Zoellick as a list of 13 criteria to be applied in evaluating candidate countries,<sup>6</sup> the FTA “test” can be summarized under four headings:

### **1. Will the FTA help to broaden support for US trade initiatives among members of Congress and private-sector interest groups?**

Congress (and particularly the House of Representatives) is sharply divided on whether to pursue new trade reforms. US officials seek to use FTAs to develop new bases of support for their trade initiatives. This first category is thus a political filter that targets members—including those who have opposed trade pacts in the past—who may support agreements that involve countries (e.g., those in southern Africa or in Central America and the Caribbean Basin) they have long sought to help for economic and political reasons. However, attracting such support also may require that US officials delay or deny liberalization of sensitive US imports, and include provisions on labor and the environment.

### **2. Will the FTA promote US economic interests?**

This category contains the traditional economic rationale for trade pacts. Countries are judged by whether an FTA would help advance US trade and investment interests abroad in three ways: by improving access to growing markets; by “leveling the playing field” for US firms, workers, and farmers in competition with foreign suppliers benefiting from trade preferences provided

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<sup>5</sup>The following discussion draws on analysis in Schott (2004, chap. 13).

<sup>6</sup>See *Inside US Trade*, May 9, 2003, for a report on Zoellick’s remarks to the Institute for International Economics conference on FTAs and US trade policy.

under other (non-US) trade pacts; and by building alliances with FTA partners in support of US objectives in WTO talks.

### **3. Is the prospective FTA partner “ready”?**

In essence, this criterion judges the willingness and ability of FTA candidate countries to change their own policies in order to meet the requirements of a reciprocal free trade pact, and to work cooperatively with US negotiators to pursue positive results in WTO negotiations. Simply put, candidate countries must do their “homework” by pursuing domestic economic and political reforms that ensure they will be able to implement the provisions of both FTA and WTO accords, and sustain political support for those policies over time.

### **4. Will the FTA promote US foreign policy objectives?**

This category involves two distinct US policy objectives: rewarding friends for their support in international ventures, and using economic incentives to promote both economic and political reform. In short, it is a concrete manifestation of the carrot-and-stick approach to diplomacy. Countries that are prosperous encourage political pluralism and a strengthening of democratic governance. In turn, these countries are more stable politically and better markets for US exporters and investors (though often stronger competitors to US trading interests as well).

With the exceptions of Canada and Australia, US FTA partners have been developing countries. The United States generally has preferred to deal with the European Union and Japan (as well as China) in the WTO rather than in bilateral FTA negotiations because of both skepticism about the ability to agree on farm reforms, and the potential adverse effects on the global system if major powers agreed on trade preferences for each other that discriminated against smaller and poorer nations. The selection criteria outlined above capture the complexity of addressing the

complex economic and foreign policy issues at play in US relations with diverse countries in the developing world.

For this reason, the United States requires that its FTAs cover more than traditional border trade barriers and extend to a broad range of domestic economic policies affecting trade and investment in goods and services. USTR Zoellick has called US FTAs the “gold standard” of free trade arrangements—though some US-inspired provisions (e.g., product-specific rules of origin, constraints on short-term capital controls) tarnish the luster of the pacts. New FTAs are designed to be “WTO-plus,” with comprehensive coverage of goods, services, and investment that accommodates only limited exceptions, and rule-making obligations in areas such as competition policy, labor and the environment, and e-commerce that go beyond what has been developed in the WTO. Such pacts are meant to contrast sharply with the “partial scope” agreements that developing countries often enter, which “cherry pick” easy and insignificant tariff liberalization but do not require significant reforms in domestic policies.

While one can criticize some of the FTA provisions and the deferral or outright exemption from reforms for specific products, there is no disagreement that, overall, the FTA obligations require significant reforms in both the trade and domestic regulatory practices of the signatory countries. US trading partners must be committed to an extensive domestic economic reform program that also will enable them to better participate in new accords developed bilaterally and in the WTO.

### III. US REGIONAL TRADE INITIATIVES

The United States has global trading interests—even though US merchandise trade is concentrated in a few key markets. In 2004, Canada and Mexico accounted for 31 percent of total US exports and imports, the European Union (EU-15) took another 19 percent, and China and Japan about 11 and 8 percent,

respectively. Combined, these countries accounted for about \$1.5 trillion or about 69 percent of total US trade.

While the major industrial countries will continue to be the most important US trading partners, US trade officials also seek closer partnerships with developing countries, for two reasons. First, agreement among the major trading countries is still necessary but no longer sufficient to conclude global trade talks. As the WTO ministerial in Cancún in September 2003 plainly demonstrated, the interests of developing countries have to be addressed if talks are to succeed in a forum where decisions are taken by consensus of the large membership. Second, the best prospects for US export growth probably lie in expanding trade with Brazil, China, Egypt, India, Indonesia, South Korea, and Malaysia, among others. Liberalization of the generally much higher barriers to those markets could open substantial new opportunities for US trading interests.

US trade with the LAC and Asia-Pacific regions is significant, but underdeveloped with key countries. Total US trade with the LAC region reached \$398 billion in 2004—up 20 percent over 2003 levels. Almost two-thirds was with Mexico. US trade with the largest economy in the region, Brazil, was only \$34 billion and US exports to Brazil have actually declined by almost 20 percent since 1997 (see Table II). US trade with East Asia is dominated by China and Japan. US-China trade was valued at \$229 billion in 2004 (third behind Canada and Mexico), due largely to an almost doubling of US imports from China since 2000. US-Japan trade totaled \$175 billion, down from \$206 billion in 2000 as both US bilateral exports and imports have shrunk. Total US trade with the ASEAN-6 was \$124 billion in 2004—also down from \$129 billion in 2000. Here again, US exports have been relatively flat for a number of years, while imports have revived since 2001 due to increased shipments from Vietnam (see Table III).

In contrast, US trade with the MENA region is smaller than the other regions, valued at \$83 billion in 2004, and dominated by

Table II.1  
US Merchandise Exports to Latin America and the Caribbean (\$ millions)<sup>a</sup>

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Mexico	27,468	32,279	39,605	40,265	49,136	44,881	54,886	68,393	75,369	81,381	100,442	90,537	86,076	83,108	93,018
Brazil	4,876	5,945	5,442	5,712	7,688	10,757	11,920	15,001	14,293	12,331	14,025	14,663	11,208	9,948	12,462
Venezuela	3,020	4,510	5,178	4,395	3,841	4,476	4,604	6,393	6,265	5,208	5,309	5,383	4,139	2,636	4,482
Colombia	1,985	1,900	3,200	3,092	3,780	4,449	4,518	5,025	4,658	3,430	3,475	3,392	3,345	3,496	4,145
Dominican Rep	1,621	1,722	2,063	2,291	2,726	2,961	3,099	3,821	3,894	3,971	4,352	4,290	4,109	4,024	4,116
Chile	1,574	1,767	2,335	2,466	2,643	3,446	3,958	4,178	3,742	2,880	3,183	2,823	2,344	2,443	3,236
Argentina	1,123	1,897	2,984	3,507	4,206	3,980	4,317	5,553	5,608	4,687	4,323	3,599	1,496	2,793	3,022
Costa Rica	960	1,008	1,318	1,504	1,653	1,704	1,778	1,963	2,190	2,281	2,368	2,411	2,891	3,134	3,029
Jamaica	917	930	914	1,080	1,045	1,390	1,461	1,385	1,273	1,264	1,339	1,352	1,358	1,397	1,321
Panama	807	924	998	1,087	1,190	1,305	1,307	1,467	1,641	1,652	1,501	1,223	1,299	1,700	1,643
Bahamas	785	706	691	668	654	643	699	790	774	801	1,027	913	937	1,029	1,121
Peru	755	807	965	1,031	1,359	1,716	1,710	1,887	1,991	1,631	1,580	1,450	1,441	1,552	1,858
Guatemala	744	929	1,167	1,268	1,304	1,589	1,487	1,642	1,852	1,734	1,835	1,801	1,976	2,175	2,437
Ecuador	659	908	948	1,043	1,127	1,449	1,228	1,486	1,629	896	1,000	1,319	1,496	1,306	1,484
Honduras	554	617	790	867	982	1,254	1,596	1,961	2,276	2,328	2,545	2,405	2,524	2,793	3,019
El Salvador	547	525	727	847	911	1,081	1,052	1,370	1,480	1,482	1,741	1,690	1,608	1,763	1,811
Haiti	461	377	213	219	208	542	468	491	539	599	563	542	571	627	650
Trin & Tobago	425	462	439	523	531	674	645	1,076	955	756	1,073	1,054	984	998	1,151

Paraguay	256	317	357	459	713	928	858	856	760	484	397	368	411	454	564
Barbados	158	162	123	132	153	179	214	260	256	274	282	266	248	275	303
Suriname	155	133	134	116	120	188	220	179	181	140	128	156	121	188	173
Uruguay	136	198	210	231	288	374	461	514	551	443	481	358	189	287	271
Bolivia	135	183	206	192	179	206	263	284	393	307	241	202	182	172	177
Belize	101	109	111	120	107	96	104	107	111	131	204	166	130	189	144
St Lucia Is	81	86	80	89	77	80	78	81	85	91	98	82	92	115	93
Guyana	74	84	114	118	101	138	132	137	141	134	154	138	126	113	130
Antigua	68	72	66	67	62	95	79	79	89	88	131	89	75	119	114
Barbuda															
Nicaragua	66	143	180	141	178	241	252	278	324	356	361	428	423	482	567
St Kitts-	52	34	30	35	43	43	38	36	42	47	53	44	48	57	56
Nevis															
St Vinc &	34	43	34	36	37	42	44	53	91	53	36	37	39	45	44
Gren															
Grenada Is	34	31	23	23	23	26	35	38	54	64	76	57	54	63	66
Dominica Is	30	42	33	27	25	26	33	37	50	32	35	29	38	31	32
<b>Subtotal</b>	<b>50,662</b>	<b>59,851</b>	<b>71,680</b>	<b>73,652</b>	<b>87,042</b>	<b>90,960</b>	<b>103,345</b>	<b>126,822</b>	<b>133,555</b>	<b>131,955</b>	<b>154,358</b>	<b>143,267</b>	<b>131,977</b>	<b>129,512</b>	<b>146,737</b>
<b>LAC</b>															
<b>Region</b>															
Canada	78,218	78,712	83,218	91,866	103,643	113,261	119,123	134,794	137,768	145,731	155,601	144,621	142,543	148,749	163,168
<b>Subtotal</b>	<b>128,880</b>	<b>138,562</b>	<b>154,897</b>	<b>165,518</b>	<b>190,685</b>	<b>204,221</b>	<b>222,468</b>	<b>261,616</b>	<b>271,323</b>	<b>277,687</b>	<b>309,959</b>	<b>287,888</b>	<b>274,520</b>	<b>278,261</b>	<b>309,905</b>
<b>FTAA</b>															
<b>World</b>	<b>374,537</b>	<b>400,842</b>	<b>424,971</b>	<b>439,295</b>	<b>481,887</b>	<b>546,465</b>	<b>582,137</b>	<b>643,222</b>	<b>634,705</b>	<b>642,189</b>	<b>712,287</b>	<b>666,021</b>	<b>629,599</b>	<b>651,424</b>	<b>727,183</b>

<sup>a</sup>Based on US domestic exports.  
Source: USITC Dataweb (2005).

Table II.2  
US Merchandise Imports from Latin America and the Caribbean (\$ millions)<sup>a</sup>

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Mexico	29,506	30,445	33,395	38,668	48,605	61,721	74,179	85,005	93,017	109,018	134,734	130,509	134,121	137,199	154,959
Brazil	7,762	6,761	7,588	7,763	8,847	8,989	8,871	9,510	9,953	11,273	13,732	14,415	15,609	17,717	21,098
Venezuela	9,132	7,758	7,564	7,782	7,958	9,214	12,425	12,576	8,874	10,390	17,429	14,178	14,352	16,677	24,440
Colombia	3,154	2,724	2,888	3,010	3,132	3,807	4,421	4,615	4,442	5,883	6,681	5,623	5,382	6,346	7,361
Dominican Rep	1,725	1,977	2,367	2,667	3,077	3,385	3,582	4,308	4,445	4,278	4,378	4,187	4,167	4,455	4,529
Chile	1,183	1,246	1,319	1,449	1,818	1,875	2,262	2,303	2,341	2,823	3,258	3,279	3,557	3,979	5,007
Argentina	1,474	1,252	1,225	1,189	1,653	1,761	2,227	2,195	2,240	2,570	3,095	2,963	3,211	3,095	3,772
Costa Rica	1,006	1,144	1,402	1,542	1,645	1,842	1,963	2,322	2,742	3,954	3,555	2,912	3,146	3,354	3,297
Jamaica	564	561	593	710	740	838	828	721	736	664	631	442	373	412	308
Panama	227	243	218	233	252	300	338	354	300	338	297	285	295	290	280
Bahamas	507	465	581	342	193	144	162	153	144	194	273	312	459	473	633
Peru	727	724	686	698	780	965	1,203	1,706	1,925	1,871	1,985	1,806	1,953	2,416	3,685
Guatemala	791	892	1,073	1,178	1,284	1,515	1,694	1,984	2,071	2,258	2,603	2,589	2,785	2,954	3,156
Ecuador	1,358	1,318	1,323	1,389	1,710	1,939	1,975	2,139	1,774	1,853	2,267	1,975	2,116	2,693	4,184
Honduras	486	552	781	914	1,092	1,441	1,797	2,320	2,544	2,712	3,091	3,131	3,262	3,312	3,637
El Salvador	238	302	383	481	608	813	974	1,345	1,436	1,603	1,925	1,882	1,976	2,018	2,053
Haiti	339	284	107	154	59	129	143	188	272	301	297	263	255	332	371
Trin & Tobago	1,003	820	840	784	1,086	1,068	1,345	1,105	974	1,285	2,179	2,351	2,419	4,298	5,842
Paraguay	51	44	35	49	80	55	43	40	33	47	42	33	42	50	52
Barbados	31	31	31	34	34	37	41	42	35	59	38	40	34	43	36
Suriname	51	52	46	58	43	100	97	91	106	123	135	143	133	140	140

Uruguay	207	237	263	266	166	167	260	229	254	193	309	225	191	253	580
Bolivia	199	205	162	185	257	257	268	213	220	224	184	165	160	185	261
Belize	44	36	59	49	49	51	68	79	66	80	91	98	75	101	107
St Lucia Is	27	22	28	31	26	35	22	21	22	28	22	31	19	13	14
Guyana	52	74	87	88	95	103	103	104	118	101	127	125	104	106	120
Antigua Barbuda	4	4	5	15	5	3	9	5	2	2	2	4	4	5	4
Nicaragua	15	60	69	125	167	238	349	439	453	492	597	603	677	769	990
St Kitts- Nevis	16	16	23	24	22	22	23	30	32	33	37	41	49	45	42
St Vinc & Gren	9	8	5	5	5	8	7	4	5	8	9	23	16	4	4
Grenada Is	8	8	7	8	7	5	4	6	12	20	27	22	8	7	5
Dominica Is	8	6	5	6	7	7	8	9	6	23	7	5	5	6	3
<b>Subtotal LAC</b>	<b>61,904</b>	<b>60,267</b>	<b>65,696</b>	<b>71,896</b>	<b>85,502</b>	<b>102,835</b>	<b>121,690</b>	<b>136,163</b>	<b>141,594</b>	<b>164,700</b>	<b>204,037</b>	<b>194,659</b>	<b>200,957</b>	<b>213,746</b>	<b>250,969</b>
<b>Region</b>															
Canada	91,198	90,922	98,242	110,482	128,753	144,882	156,299	167,881	174,685	198,242	229,060	216,836	210,518	224,016	255,660
<b>Subtotal FTAA</b>	<b>153,103</b>	<b>151,189</b>	<b>163,938</b>	<b>182,378</b>	<b>214,255</b>	<b>247,717</b>	<b>277,989</b>	<b>304,044</b>	<b>316,279</b>	<b>362,943</b>	<b>433,097</b>	<b>411,496</b>	<b>411,475</b>	<b>437,762</b>	<b>506,647</b>
<b>World</b>	<b>491,322</b>	<b>483,737</b>	<b>525,127</b>	<b>574,863</b>	<b>657,885</b>	<b>739,660</b>	<b>790,470</b>	<b>862,426</b>	<b>907,647</b>	<b>1,017,435</b>	<b>1,205,339</b>	<b>1,132,635</b>	<b>1,154,811</b>	<b>1,250,097</b>	<b>1,460,160</b>

<sup>a</sup>Based on US for consumption.

Source: USITC Dataweb (2005).

Table III.1  
US Merchandise Exports to APEC (\$ million)<sup>a</sup>

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Canada	78,218	78,712	83,218	91,866	103,643	113,261	119,123	134,794	137,768	145,731	155,601	144,621	142,543	148,749	163,168
Japan	46,138	46,144	45,850	46,045	51,061	60,962	63,585	62,091	54,846	54,310	60,751	53,546	48,273	48,862	50,493
Mexico	27,468	32,279	39,605	40,265	49,136	44,881	54,686	68,393	75,369	81,381	100,442	90,537	86,076	83,108	93,018
South Korea	14,074	15,211	14,220	14,359	17,499	24,483	25,433	24,287	15,979	22,038	26,302	20,900	21,151	22,525	24,994
Taiwan	11,142	12,718	14,533	15,585	16,240	18,036	16,920	18,883	16,923	17,640	22,404	16,626	16,786	16,111	20,343
Australia	8,304	8,207	8,694	8,019	9,405	10,243	11,428	11,627	11,551	11,394	11,684	10,226	12,294	12,450	13,474
Singapore	7,598	8,278	8,949	10,655	11,714	13,648	14,677	15,697	14,218	14,842	15,999	15,799	14,718	14,889	17,850
Hong Kong	6,081	7,358	8,114	8,714	10,127	12,705	12,318	13,677	11,585	10,966	12,208	11,783	10,027	10,542	11,984
China	4,776	6,238	7,339	8,619	9,178	11,613	11,801	12,533	13,908	12,585	15,335	17,959	20,553	26,707	32,606
Malaysia	3,169	3,778	4,034	5,747	6,605	8,191	7,940	10,331	8,526	8,558	10,123	8,555	9,457	10,124	9,985
Thailand	2,853	3,536	3,770	3,555	4,624	6,158	6,935	7,160	5,029	4,745	6,309	5,716	4,476	5,399	5,837
Philippines	2,435	2,208	2,679	3,437	3,751	5,072	5,823	7,137	6,537	7,019	8,487	7,421	6,966	7,679	6,792
Chile	1,574	1,767	2,335	2,466	2,643	3,446	3,958	4,178	3,742	2,880	3,183	2,823	2,344	2,443	3,236
Indonesia	1,881	1,869	2,732	2,722	2,792	3,317	3,898	4,430	2,225	1,890	2,443	2,442	2,525	2,400	2,621
New Zealand	1,101	989	1,279	1,225	1,478	1,655	1,662	1,890	1,820	1,868	1,900	2,040	1,730	1,754	1,989
Peru	755	807	965	1,031	1,359	1,716	1,710	1,887	1,991	1,631	1,580	1,450	1,441	1,552	1,858
Papua New Guinea	54	95	71	48	65	51	68	109	64	34	18	19	20	27	41
Brunei	142	162	453	458	371	85	348	177	121	66	155	104	46	34	49
Vietnam	7	4	4	7	171	250	613	273	269	277	331	394	552	1,291	1,122
Russia	-	-	2,064	2,894	2,508	2,754	3,261	3,205	3,543	1,823	2,220	2,567	2,331	2,327	2,755
<b>Subtotal</b>	<b>217,771</b>	<b>230,359</b>	<b>250,908</b>	<b>267,718</b>	<b>304,370</b>	<b>342,525</b>	<b>366,188</b>	<b>402,759</b>	<b>386,014</b>	<b>401,679</b>	<b>457,473</b>	<b>415,527</b>	<b>404,308</b>	<b>418,970</b>	<b>464,212</b>
<b>APEC</b>															
<b>Subtotal</b>	<b>18,078</b>	<b>19,831</b>	<b>22,617</b>	<b>26,574</b>	<b>29,857</b>	<b>36,471</b>	<b>39,621</b>	<b>44,932</b>	<b>36,656</b>	<b>37,120</b>	<b>43,516</b>	<b>40,037</b>	<b>38,188</b>	<b>40,525</b>	<b>43,134</b>
<b>ASEAN-6</b>															
<b>World</b>	<b>374,537</b>	<b>400,842</b>	<b>424,971</b>	<b>439,295</b>	<b>481,887</b>	<b>546,465</b>	<b>582,137</b>	<b>643,222</b>	<b>634,705</b>	<b>642,189</b>	<b>712,287</b>	<b>666,021</b>	<b>629,599</b>	<b>651,424</b>	<b>727,183</b>

<sup>a</sup>Based on US domestic exports.  
Source: USITC Databank (2005).

Table III.2  
US Merchandise Trade with APEC Imports in millions dollars<sup>1</sup>

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Canada	91,198	90,922	98,242	110,482	128,753	144,882	156,299	167,881	174,685	198,242	229,060	216,836	210,518	224,016	255,660
Japan	89,606	91,219	95,555	106,162	117,532	122,402	114,762	120,480	121,313	130,951	145,742	126,139	121,262	118,485	129,535
Mexico	29,506	30,445	33,935	38,668	48,605	61,721	74,179	85,005	93,017	109,018	134,734	130,509	134,121	137,199	154,959
South Korea	18,337	16,862	16,523	16,986	19,547	24,026	22,532	22,939	23,701	31,152	39,829	34,917	35,284	36,930	45,064
Taiwan	22,566	22,942	24,531	24,981	26,586	28,875	29,797	32,474	32,985	35,057	40,384	33,262	32,054	31,490	34,462
Australia	4,339	4,053	3,591	3,268	3,228	3,275	3,792	4,410	5,278	5,194	6,213	6,333	6,398	6,468	7,564
Singapore	9,785	9,903	11,234	12,744	15,287	18,493	20,249	19,982	18,216	18,120	19,108	14,899	14,116	14,291	14,848
Hong Kong	9,400	9,195	9,684	9,418	9,621	10,232	9,820	10,235	10,427	10,368	11,349	9,571	9,241	8,770	9,241
China	15,120	18,855	25,514	31,425	38,572	45,370	51,209	61,996	70,815	81,522	99,581	102,069	124,796	151,620	196,160
Malaysia	5,224	6,074	8,176	10,482	13,877	17,401	17,771	17,888	18,817	21,391	25,447	22,228	23,953	25,321	28,070
Thailand	5,280	6,070	7,487	8,539	10,276	11,337	11,324	12,546	13,366	14,296	16,301	14,672	14,796	15,075	17,510
Philippines	3,358	3,431	4,313	4,864	5,712	6,990	8,174	10,419	11,875	12,379	13,943	11,307	10,977	10,046	9,144
Chile	1,183	1,246	1,319	1,449	1,818	1,875	2,262	2,303	2,341	2,823	3,258	3,279	3,557	3,979	5,007
Indonesia	3,342	3,466	4,426	5,342	6,416	7,340	8,079	9,055	9,262	9,389	10,322	9,931	9,616	9,449	10,778
New Zealand	1,191	1,226	1,193	1,202	1,416	1,440	1,454	1,571	1,638	1,745	2,055	2,205	2,274	2,381	2,924
Peru	727	724	686	698	780	965	1,203	1,706	1,925	1,871	1,985	1,806	1,953	2,416	3,685
Papua New Guinea	22	34	55	94	106	46	67	36	125	108	37	57	55	65	54
Brunei	98	27	30	30	46	38	49	56	228	372	387	358	271	335	332
Vietnam	-	-	-	-	52	204	310	390	520	602	827	1,026	2,392	4,472	5,161
Russia	-	-	470	1,733	3,215	4,020	3,528	4,291	5,675	5,706	7,761	6,178	6,740	8,381	11,637
<b>Subtotal APEC</b>	<b>310,281</b>	<b>316,693</b>	<b>346,965</b>	<b>388,569</b>	<b>445,510</b>	<b>510,931</b>	<b>536,855</b>	<b>585,662</b>	<b>616,210</b>	<b>690,306</b>	<b>808,322</b>	<b>747,583</b>	<b>764,375</b>	<b>811,190</b>	<b>941,795</b>
<b>Subtotal ASEAN-6</b>	<b>27,087</b>	<b>28,971</b>	<b>35,666</b>	<b>42,001</b>	<b>51,614</b>	<b>61,599</b>	<b>65,646</b>	<b>69,946</b>	<b>71,764</b>	<b>75,947</b>	<b>85,508</b>	<b>73,395</b>	<b>73,729</b>	<b>74,517</b>	<b>80,682</b>
<b>World</b>	<b>491,322</b>	<b>483,737</b>	<b>525,127</b>	<b>574,863</b>	<b>657,885</b>	<b>739,660</b>	<b>790,470</b>	<b>862,426</b>	<b>907,647</b>	<b>1,017,435</b>	<b>1,205,339</b>	<b>1,132,635</b>	<b>1,154,811</b>	<b>1,250,097</b>	<b>1,460,160</b>

<sup>a</sup>Based on US imports for consumption.

Source: USITC Dataweb (2005).

US oil imports from Saudi Arabia and other OPEC members. Israel is the only MENA exporter with significant non-oil shipments to the United States, and the major market in the region for US exports. Saudi Arabia, the United Arab Emirates, and Egypt are the other major destinations for US exports (see Table IV).

To understand US economic relations with these regions, and key US objectives in FTAs, one must also look at US foreign direct investment (FDI). In the LAC region, excluding Mexico, US companies had \$78 billion in holdings (on a historical cost basis) at yearend 2003. More than half that total was invested in the Mercosur, where US firms essentially have a \$30 billion bet on the success of the Brazilian economy and a \$11 billion stake in the recovery of the Argentine economy (see Table V). By contrast, US firms have only about \$23 billion invested in the entire MENA region, mostly in Israel, Saudi Arabia, and Egypt (see Table VI).

To that end, the United States has fostered special trade initiatives in the LAC, Asia-Pacific, and MENA regions. It is important to stress, however, that FTAs are the culmination of a process of deepening trade and investment relations that usually begins with more consultative arrangements. The diplomatic progression begins with the negotiation of trade and investment framework agreements (TIFAs)—executive agreements that establish a forum for regular bilateral consultations between the partner countries. In addition, these pacts pledge to work closely together to open trade and investment, resolve disputes, protect intellectual property rights (IPRs), and promote internationally-recognized workers' rights. The United States now has TIFAs with most countries in the LAC and MENA regions, the ASEAN-6, and a few other Asian countries (see Tables VII and VIII).

In some cases, and in particular when US investors have or seek substantial interests in the partner country, TIFAs are supplemented by bilateral investment treaties or BITs. Under US law, BITs are treaties that require Senate ratification; they involve

contractual obligations regarding *inter alia* national and most-favored-nation (MFN) treatment, remittances of capital, expropriation/compensation, personnel requirements, and dispute resolution.<sup>7</sup> Often, BITs provide rights and obligations that go far beyond the scope of obligations included in FTAs or sought in multilateral pacts vetted in both the OECD and the WTO. The United States currently has negotiated 12 BITs with LAC countries, 4 with East and Southeast Asian countries, and 6 with countries in the MENA region (see Tables VII and VIII).

With that introduction, I now turn to a discussion of US regional trade initiatives in Latin America, East and Southeast Asia, and the Middle East.

#### IV. LATIN AMERICA AND THE CARIBBEAN

US trade initiatives in the LAC region really began two decades ago with the implementation of the Caribbean Basin Initiative (CBI), which provided trade preferences for most manufactured goods. However, the debt crisis that pervaded much of the LAC region in the 1980s forestalled other trade initiatives (except with Mexico). The lull was broken conclusively after the announcement of plans to negotiate a United States-Mexico FTA—which evolved into NAFTA—in June 1990. A few weeks later, President George H. W. Bush launched the Enterprise for the Americas Initiative (EAI) to promote trade and development in the region. The EAI had three main pillars: trade, finance, and debt. It was designed to support the new commitment to democracy and market-oriented reforms throughout the LAC region by expanding regional trade and investment and helping to reduce national debt burdens (by augmenting the Brady Plan).

Trade was the focal point of the EAI. Initially, the United States sought to address concerns that preferences given to

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<sup>7</sup>For a summary of the US BIT program, see US Department of State (2003).

Table IV  
Main US Trading Partners in Middle East and North Africa (2000–2003)

	Exports <sup>a</sup>					Imports <sup>b</sup>					Trade Balance				
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
Algeria	0.9	1.0	1.0	0.5	1.0	2.7	2.6	2.3	4.4	6.9	-1.8	-1.6	-1.4	-4.0	-5.9
Bahrain	0.4	0.4	0.4	0.5	0.3	0.3	0.4	0.4	0.4	0.4	0.1	0.0	0.0	0.1	-0.1
Djibouti	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Egypt	3.3	3.8	2.8	2.6	3.0	0.9	0.9	1.3	1.1	1.3	2.4	2.9	1.5	1.5	1.6
Iran	*	*	*	0.1	0.1	0.2	0.1	0.2	0.2	0.2	*	*	*	*	-0.1
Iraq	*	*	*	0.3	0.8	4.4	4.1	3.1	3.8	8.1	*	*	*	*	-7.2
Israel	6.2	6.1	5.3	4.6	6.0	12.9	12.0	12.4	12.8	14.5	-6.8	-5.8	-7.1	-8.2	-8.5
Jordan	0.3	0.3	0.4	0.5	0.5	0.1	0.2	0.4	0.7	1.1	0.2	0.1	0.0	-0.2	-0.6
Kuwait	0.7	0.8	0.9	1.4	1.3	2.5	1.9	1.7	2.1	3.2	-1.8	-1.1	-0.8	-0.8	-1.9
Lebanon	0.3	0.4	0.3	0.3	0.4	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.2	0.2	0.4
Libya	*	*	*	*	*	*	*	*	*	0.3	*	*	*	*	*
Morocco	0.5	0.3	0.6	0.5	0.5	0.5	0.5	0.4	0.4	0.5	0.1	-0.2	0.2	0.1	0.0
Oman	0.2	0.3	0.4	0.3	0.3	0.3	0.4	0.4	0.6	0.4	-0.1	-0.1	0.0	-0.3	-0.1
Qatar	0.2	0.3	0.3	0.4	0.4	0.5	0.5	0.5	0.3	0.4	-0.3	-0.2	-0.2	0.1	0.1
Saudi Arabia	5.9	5.5	4.3	4.3	4.7	14.3	12.4	12.2	17.1	20.4	-8.5	-6.8	-7.9	-12.8	-15.8

Syria	0.2	0.2	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.2	0.0	0.0
Tunisia	0.3	0.3	0.2	0.2	0.3	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.1	0.1	0.0
United Arab Emirates	2.2	2.5	3.4	3.3	3.6	0.9	1.2	0.9	1.1	1.1	1.2	1.3	2.5	2.2	2.5
Yemen	0.2	0.2	0.4	0.2	0.2	0.2	0.3	0.2	0.1	*	0.0	-0.1	0.1	0.1	*
<b>MENA</b>	<b>21.8</b>	<b>22.4</b>	<b>21.0</b>	<b>20.1</b>	<b>23.7</b>	<b>41.0</b>	<b>37.7</b>	<b>36.7</b>	<b>45.5</b>	<b>59.4</b>	<b>-19.2</b>	<b>-15.2</b>	<b>-15.8</b>	<b>-25.4</b>	<b>-35.7</b>
<b>Subtotal</b>															
<b>World Total</b>	<b>712</b>	<b>666</b>	<b>630</b>	<b>651</b>	<b>727</b>	<b>1,205</b>	<b>1,133</b>	<b>1,155</b>	<b>1,250</b>	<b>1,460</b>	<b>-493.1</b>	<b>-466.6</b>	<b>-525.2</b>	<b>-598.7</b>	<b>-733.0</b>

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Sources: USITC Dataweb (2004) and US Bureau of Economic Analysis (2004).

<sup>a</sup>US domestic exports.

<sup>b</sup>US imports for consumption.

\*Negligible, less than \$50 million.

Table V  
US Foreign Direct Investment by Industry (2003) (\$ millions)

Country	All Industries	Mining	Utilities	Manufacturing	Wholesale trade	Information	Depository institutions	Finance <sup>a</sup>	Services <sup>b</sup>	Other industries
<b>Latin America<sup>c</sup></b>										
Argentina	11,026	390	(D)	1,593	(D)	290	343	940	47	6,424
Bahamas	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Belize	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Bolivia	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Brazil	29,915	1,216	2,441	10,326	1,460	415	1,948	4,406	615	7,086
Chile	9,986	1,447	(D)	1,922	426	81	1,049	2,228	68	(D)
Colombia	2,751	238	124	1,129	161	584	(D)	245	28	(D)
Costa Rica	1,831	(*)	0	728	1008	26	0	21	20	29
Dominican Republic	860	(*)	128	431	146	(D)	(D)	-5	1	22
Ecuador	1,446	887	(*)	72	(D)	(D)	(D)	12	-2	144
El Salvador	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Guatemala	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Guyana	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Haiti	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Honduras	270	0	(*)	206	36	(*)	(D)	7	0	(D)
Jamaica	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Nicaragua	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Panama	6,497	207	(D)	128	274	(D)	158	889	-20	4,638
Paraguay	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Peru	2,659	1,142	147	208	122	(D)	(D)	124	42	495
Trinidad & Tobago	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Uruguay	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Venezuela	10,859	2,678	2,208	2,698	253	(D)	337	-88	1,176			
<b>LAC Total</b>	<b>78,100</b>	<b>8,205</b>	<b>5,048</b>	<b>19,441</b>	<b>3,886</b>	<b>1,396</b>	<b>3,498</b>	<b>9,204</b>	<b>20,014</b>			
<b>ASEAN</b>												
Brunel	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A			
Cambodia	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A			
Indonesia	10,387	8,250	728	470	(D)	-189	406	(D)	90			
Laos	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A			
Malaysia	7,580	733	0	4,706	425	254	(D)	246	(D)			
Myanmar	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A			
Philippines	4,700	329	187	2,144	265	41	(D)	914	(D)			
Singapore	57,589	-107	2	13,394	(D)	1,462	843	2,912	(D)			
Thailand	7,393	1,214	(*)	3,113	(D)	86	588	(D)	515			
Vietnam	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A			
<b>ASEAN Total</b>	<b>87,649</b>	<b>10,419</b>	<b>917</b>	<b>23,827</b>	<b>690</b>	<b>1,654</b>	<b>1,837</b>	<b>4,072</b>	<b>81</b>			

Sources:

US Department of Commerce Survey of Current Business (September 2004).

<sup>a</sup>Finance (except depository institutions) and insurance.

<sup>b</sup>Professional, scientific, and technical services.

A "(D)" indicates that the data in the cell have been suppressed to avoid the disclosure of data of individual companies.

An asterisk "(\*)" indicates a value between -\$500,000 and \$500,000.

<sup>c</sup>Data excludes Mexico.

Table VI  
 US Foreign Direct Investment with Middle East and North African  
 Partners (\$ billions)

	FDI in United States <sup>a</sup>				US FDI Abroad <sup>a</sup>			
	2000	2001	2002	2003	2000	2001	2002	2003
Egypt	n/a	n/a	n/a	n/a	2.0	2.6	2.9	3.0
Israel	3.0	2.9	3.7	3.8	3.7	5.7	5.6	6.2
Saudi Arabia	*	*	*	*	3.7	3.6	3.8	4.2
United Arab Emirates	0.06	0.05	0.05	0.04	0.7	0.8	1.3	1.4
Other MENA <sup>b</sup>	0.9	1.0	1.3	1.4	5.4	7.1	7.5	8.3
MENA Total	4.0	4.0	5.0	5.3	15.5	19.7	21.1	23.2
World Total	1,256.9	1344.0	1340.0	1,378.0	1,316.2	1,460.4	1,601.4	1,788.9

Source: US Bureau of Economic Analysis (2004).

<sup>a</sup>Historical-cost basis, year-end 2003.

<sup>b</sup>MENA represents the Middle East and North Africa region, comprised of the following countries: Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Israel, Jordan, Lebanon, Libya, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates, and Yemen.

Mexico in a prospective FTA could disadvantage other LAC countries and distort regional trade and investment flows. Ultimately, the plan was to create a Western Hemisphere FTA (see Hufbauer and Schott, 1992). Plans for that broader goal became operational with the decision of hemispheric leaders at the Summit of the Americas in Miami in December 1994 to negotiate a “Free Trade Area of the Americas” within a decade.

Crafting a free trade pact among 34 countries that span the world’s richest and poorest, and largest and smallest, was never going to be easy. The task has been further complicated by the financial crises and political turmoil that beset many Latin American participants since the FTAA talks began, the US economic downturn in 2001–2002, and the new security imperatives of the post-9/11 world.

Table VII  
US TIFAs and BITs with Latin America and East/South Asia  
Countries<sup>a</sup>

With East/South Asian Countries		With Latin American Countries	
TIFA	BIT	TIFA	BIT
Bangladesh: July 2004 (negotiations)	Bangladesh: July 25, 1989	Argentina: June 19, 1991	Argentina: October 20, 1994
Brunel: December 16, 2002	Korea: 1999 (negotiations ongoing)	Bolivia – May 8, 1990	Bolivia: June 6, 2001
Indonesia: 2002	Mongolia: January 1, 1997	Brazil: June 19, 1991	Ecuador: May 11, 1997
Malaysia: July 2003 (negotiations)	Sri Lanka: May 1, 1993	CARICOM: July 22, 1991	El Salvador: March 10, 1999*
Mongolia: July 2004			Grenada: March 3, 1989
Pakistan: June 25, 2003		Central America (Including Dominican Republic): March 24, 1998	Haiti: December 13, 1983*
Philippines: 2002		Chile: October 1, 1990	Honduras: July 11, 2001
Singapore: October, 1991		Colombia: July 17, 1990	Jamaica: March 7, 1997
Sri Lanka: July 25, 2002		Costa Rica: November 29, 1990	Nicaragua: July 1, 1995*
Taiwan: December 2003 (negotiations)		Dominican Republic: December 13, 1991	Panama: May 30, 1991 (amended May 14, 2001)
Thailand: October 23, 2002		Ecuador: July 23, 1990	Trinidad and Tobago: December 26, 1996
			Uruguay: 2004*

\*Date signed but BIT not yet entered into force.

<sup>a</sup>Date BIT entered into force.

Sources: Office of the US Trade Representative, <http://www.ustr.gov> (2003), US State Department “Bilateral Investment Treaty Program Fact Sheet” (July 2003) <http://www.state.gov/e/eb/rls/fs/22422.htm> US Department of Commerce, United Nations Conference on Trade and Development, Report on Bilateral Investment Treaties [http://www.unctadxi.org/templates/DocSearch\\_779.aspx](http://www.unctadxi.org/templates/DocSearch_779.aspx) (2004).

Table VIII  
US TIFA, BIT, and WTO Schedules in Middle East and North Africa

TIFAs	BITs <sup>a</sup>	FTAs <sup>a</sup>	WTO Status <sup>c</sup>
Algeria: July 2001	Bahrain: May 30, 2001	Bahrain: September 14, 2004 <sup>b</sup>	Algeria <sup>d</sup>
Bahrain: June 18, 2002	Egypt: June 27, 1992	Israel: September 1, 1985	Bahrain: January 1, 1995
Egypt: July 1, 1999	Israel: April 3, 1954	Jordan: December 17, 2001	Djibouti: May 31, 1995
Israel: May 13, 1975	Jordan: June 12, 2003	Morocco: June 15, 2004 <sup>b</sup>	Egypt: June 30, 1995
Jordan: March 15, 1999	Morocco: May 29, 1991		Iraq <sup>d</sup>
Kuwait: February 2004	Tunisia: February 7, 1993		Israel: April 21, 1995
Morocco: March 16, 1995			Jordan: April 11, 2000
Oman: July 7, 2004			Kuwait: January 1, 1995
Qatar: March 19, 2004			Lebanon <sup>d</sup>
Saudi Arabia: July 31, 2003			Libya <sup>d</sup>
Tunisia: October 2, 2002			Morocco: January 1, 1995
United Arab Emirates: March 15, 2004			Oman: November 9, 2000
Yemen: February 2004			Qatar: January 13, 1996
			Saudi Arabia <sup>d</sup>
			Tunisia: March 29, 1995
			Yemen <sup>d</sup>

<sup>a</sup>Date entered into force.

<sup>b</sup>Date signed but not yet entered into force.

<sup>c</sup>Date joined as WTO member.

<sup>d</sup>Negotiating accession, WTO observer status.

Sources: Office of the US Trade Representative, <http://www.ustr.gov> (2003), US State Department "Bilateral Investment Treaty Program Fact Sheet" (July 2003) <http://www.state.gov/e/eb/ris/fs/22422.htm>, US Department of Commerce, United Nations Conference on Trade and Development, Report on Bilateral Investment Treaties [http://www.unctadxi.org/templates/DocSearch\\_779.aspx](http://www.unctadxi.org/templates/DocSearch_779.aspx) (2004).

As mandated by Summit leaders, the FTAA is a self-contained negotiation among the 34 democratic countries in the hemisphere. As a practical matter, however, these countries already are moving toward free trade at different speeds with different countries in the region. Some regional initiatives involve commitments to deeper integration than is likely to be achieved in the FTAA. Other regional trade pacts establish FTAs among two or more countries in the hemisphere; tariff preferences under these pacts will eventually be harmonized after the full implementation of FTAA commitments. In addition, countries offer unilateral trade preferences to neighbors; in some cases, the current arrangements provide way stations to the gradual fulfillment of reciprocal trade obligations in the FTAA.

The FTAA negotiations were formally launched at the Santiago Summit of the Americas in April 1998, which set a target completion date of January 2005. The summit mandate was reconfirmed at the Quebec City Summit of the Americas in 2001, but the talks stalled during the ensuing economic downturn in the hemisphere—which revived political opposition to the reforms advanced in the 1990s. In addition, differences over the inclusion of agricultural reforms in the FTAA, exacerbated by disputes on that issue in the Doha Round, created significant complications for trade negotiators and a deep divide between the FTAA co-chairs, the United States and Brazil. Talks ground to a halt, but were kept alive by a political compromise at the Miami FTAA ministerial in November 2003 that had the unfortunate side effect of muddling the negotiating mandate.

Under pressure “not to fail” so soon after the WTO fiasco in Cancún, trade ministers issued a declaration in Miami that simply papered over major substantive disputes. By suggesting the possibility of a “FTAA-lite”—i.e., allowing countries to exclude trade reforms in sensitive areas like agriculture, intellectual property, and services—the Miami Declaration opened loopholes that

substantially lessen the prospect of achieving a “balanced” package of agreements. Not surprisingly, the talks have drifted since then while US and Brazilian negotiators switched their focus to both the WTO and other FTA initiatives. The FTAA process did not break down, but Miami’s muddled mandate raised additional stumbling blocks. As a result, the trade talks will extend well past the original deadline. At best, the FTAA negotiations will proceed in parallel with the Doha Round following a timetable linked to the expiration of US Trade Promotion Authority in June 2007; however, the success of the venture remains in doubt.

The United States has important economic and foreign policy interests in the region that can be advanced by a successful FTAA (Schott, 2001). The trade pact is the economic engine that drives hemispheric cooperation on a number of political, socio-economic, and cultural issues (e.g., promoting education, strengthening the rule of law, protecting the rights of indigenous peoples) that have been put forward in the Summit of the Americas process. Progress on the FTAA is critical to sustain efforts in these other areas.

The United States is deploying a variety of these initiatives with its hemispheric trading partners, in addition to the formal FTAA negotiating sessions, as part of an integrated strategy to build the FTAA. This strategy has three key components:

- Establish negotiating momentum and precedents
- Advance complementary WTO reforms
- Build bridges to the Mercosur countries

Pacts with Chile, the CAFTA-5, the Dominican Republic, Panama, and the Andean-3—along with deepening integration in the NAFTA region—are designed to provide momentum and negotiating precedents for the broader FTAA exercise. Importantly, they also serve to help the participating countries prepare for that broader venture. This factor is particularly relevant for the smaller

economies in the region, which face numerous difficulties in integrating with their hemispheric partners. The expanded CBI and Andean trade preferences are designed to help those countries prepare for what is likely to be the “asymmetrical implementation” of common FTAA obligations.

Second, parallel progress in the WTO is essential for completing a balanced package of trade reforms in the FTAA. Like the Doha Round, the FTAA negotiations stalled due to differences over agriculture as well as the inclusion of issues like investment and IPRs in the overall package of agreements. However, the recent progress on disciplines on agricultural subsidies in the Doha Round has reopened prospects for reviving the FTAA talks, which have not advanced since the last FTAA ministerial meeting in Miami in November 2003. The United States shares common objectives with other FTAA participants in the success of the Doha Round, and in achieving deep reforms in farm protection and subsidies.

The third component is crucial for the success of the FTAA. The trade pact will stand or fall depending on the ability of the United States and the Mercosur countries to bridge their differences on market access issues. If they succeed, then the FTAA will become a reality. If not, then the United States will continue to pursue FTAs with groups of LAC countries, which will effectively discriminate against the Mercosur-4. This point is discussed in more detail in the concluding section of this paper.

## **V. ASIA-PACIFIC INITIATIVES**

US merchandise trade and investment with the Association of South East Asian Nations (ASEAN) is substantial (more than \$120 billion in 2003), and intra-ASEAN integration is more advanced than in Africa or the Middle East. FTAs with Singapore and prospectively with Thailand will establish the

framework for similar deals with Indonesia, Malaysia, and the Philippines once those countries are ready to undertake and enforce the requisite obligations.

The United States has been a member of APEC since its inception, initiated the annual summits of Asia-Pacific leaders in 1993, and helped advance the ambitious Bogor goals for free trade and investment in the region in 1994. The first concrete free trade initiative, however, only began in 2000 when presidents Clinton and Goh launched US-Singapore FTA talks after a late night golf game. The ensuing pact with the most developed economy in ASEAN in 2003 has created the benchmark for future trade deals in the region.

Before the conclusion of the US-Singapore talks, President George W. Bush announced a new EAI, the Enterprise for ASEAN Initiative, patterned after the earlier LAC initiative pursued by the president's father. The EAI was designed to provide a roadmap for deepening trade and investment ties between the United States and individual ASEAN members (since working with the ASEAN-10 was unworkable given the membership of Myanmar and impractical given the development challenges of Laos and Cambodia) by committing to work toward bilateral FTAs once an ASEAN member was capable of undertaking the obligations of a "gold standard" trade pact. A key part of the EAI is to help those countries become WTO members and to advance economic reforms and regional integration. To that end, the United States subsequently concluded TIFAs with a number of ASEAN and other Asian countries, and launched FTA talks with Thailand in June 2004.

Elsewhere in the Asia-Pacific region, the United States and Australia concluded FTA negotiations in early 2004, but only after contentious talks that excluded sugar from the FTA liberalization and deferred reforms on beef and dairy for an extended period of time. Those exceptions reduced the

economic benefits of the pact for both countries, but allowed the US ratification process to proceed. In July 2004, Congress passed the FTA implementing legislation by wide margins. Interestingly, New Zealand was not included in the FTA talks with its Closer Economic Relations partner, but may try to develop a comparable pact with the United States in the near future. Other countries actively seeking to join the US FTA queue include Indonesia, Malaysia, Pakistan, Sri Lanka, and Taiwan. Talks with Taiwan are unlikely, since China would respond harshly to any initiative that would promote Taiwan's independent status.

As for the APEC liberalization process itself, region-wide efforts toward free trade remain on the back burner for most APEC members—though Singapore and Chile are trying to create their own regional network of bilateral FTAs that would effectively build an Asia-Pacific FTA over time. Early efforts to implement the Bogor mandate fell afoul of Japanese and Korean resistance to agricultural reform, which blocked talks at the Osaka APEC meetings in 1995 and led to further unraveling of political commitments to the Bogor process when the Asian financial crisis hit in 1997. In Fall 2004, however, the APEC Business Advisory Council issued a report recommending renewed efforts to build an FTA of the Asia-Pacific (FTAAP), which may be discussed at the 2005 APEC meetings in South Korea.

## **VI. MIDDLE EAST AND NORTH AFRICAN INITIATIVES**

Both the earliest and the latest US FTA initiatives involve countries in the MENA region. As noted earlier, the FTA with Israel established the initial, if incomplete, precedent for US bilateral free trade pacts. But economic relations have always been a

handmaiden to politics in this region, and have been hampered by the Arab boycott of Israel, the oil cartel, and the absence from GATT/WTO membership of key countries.

President Clinton broke the ice with MENA countries by initiating FTA talks with Jordan in 1999. The scope of the new talks was much broader than earlier FTAs; in particular, it was the first pact to include both labor and environment provisions as part of the core agreement, subject to the pact's dispute settlement provisions, and free trade in electronic commerce. These provisions set a precedent for future agreements; Congressional Democrats insist that the "Jordan standard" apply to all new US trade pacts with developing countries.

Following on the Jordan model, the Bush administration concluded FTA negotiations in 2004 with Morocco and Bahrain, and launched talks with Oman and the United Arab Emirates in 2005. These initiatives form initial building blocks for the broader Middle East Trade Initiative announced by President Bush in May 2003. This program seeks to establish, in graduated steps that deepen US trade and investment relations with MENA countries, a Middle East Free Trade Area by 2013. The Morocco and Bahrain FTAs establish templates for FTAs with other countries in the Maghreb and other members of the Gulf Cooperation Council, respectively. These pacts also are designed to help promote the convergence of reform policies in each sub-region. Pursuant to that goal, US trade officials now have concluded TIFAs with most of the countries in the MENA region, and now has six FTAs signed or in train. In addition, in December 2004 the United States, Egypt, and Israel agreed on the creation of new Qualified Industrial Zones (QIZs) that should help integrate production processes of Egypt, Israel, and the Palestinian Authority. FTA talks with Egypt are also being considered to reinforce recent efforts by President Mubarak to accelerate economic and political reforms.

## VII. IMPLICATIONS OF US FTAs FOR THE WORLD TRADING SYSTEM

Academics generally argue that countries should rely solely on the WTO and that FTAs can damage the world trading system. The analysis too often simply focuses on the impact of FTA tariff preferences and compares it to potential (though improbable) effects of WTO reforms; in other words, academics often fail to define the proper counterfactual. Ideally, FTAs establish free trade among the partners and WTO reforms yield global free trade. Neither ideal emerges from the contorted outcomes of trade negotiations. Comparisons of FTAs and WTO reforms should assess the warts and blemishes of each. Too often, problems with FTAs are carefully assessed, while limitations of the WTO process are overlooked.

In the real world, of course, the analysis must be much more nuanced. Multilateral negotiations produce limited and incremental reforms; in the past, they often excluded products of export interest of developing countries (or deferred reform for an extensive period)—which was not surprising since most of those countries did not engage in the negotiating process and, as a practical matter, were not bound by the results until the end of the Uruguay Round. As a result, the remaining trade barriers in major industrial markets largely affect/block access of developing country suppliers. In addition, the trading system itself is far different because developing countries have had to accept substantial trade obligations in the WTO and are no longer “free riders” on the system.

Suppose you are a developing country official. How do you assess the WTO/FTA options? Access to the industrialized country markets is probably already free, except where it is unlikely to be offered fully in any trade negotiation. FTA tariff preferences already are extended to many other countries through formal pacts or unilateral schemes, so the value of the “benefit” is marginal and at best temporary—and thus much of the gain comes

from the “insurance policy” aspect of the FTA concession. Why “buy” this insurance? It doesn’t really “ensure” that industrialized markets will remain open, since contingent protection and other measures still can impede access. But insurance has other virtues; in particular, lenders/investors usually require it as collateral for their placements—in this context, the insurance policy provides greater confidence in the “lock in” effect of the FTA on domestic policies, which can help propel investment if the overall policy mix is right.

For developing countries, FTAs are thus seen primarily as a (minor) part of development strategies—and not as an either/or proposition (as often portrayed in the academic multilateralism v. regionalism debate). *The most important metric in evaluating FTAs is whether the trade pact is implemented in conjunction with broader domestic economic reforms.*

Traditional GATT/WTO negotiations no longer fully accommodate the broad range of economic and foreign policy objectives that the United States now pursues in an era of increasing globalization.<sup>8</sup> In some areas, progress is more feasible in FTAs than in the WTO (e.g., intellectual property rights); in others, results are only possible through agreement on multilateral disciplines (e.g., domestic farm subsidies). Some issues have been excluded from the WTO agenda (e.g., labor practices, investment, competition policy) and currently can only be vetted in bilateral or regional talks. In those cases, FTA provisions could establish precedents for possible future WTO accords. Of course, adding those issues to WTO talks would likely require a “rebalancing” of the negotiating agenda to include issues of priority to developing countries—such as fundamental antidumping reform and new exceptions to obligations on intellectual property rights.

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<sup>8</sup>The Trade Act of 2002 contains an extensive list of US trade negotiating objectives, encompassing “traditional” issues like tariffs and quotas as well as trade-related policies on intellectual property, labor, and the environment.

Regional pacts can help or hinder WTO initiatives depending on how they are crafted and the broader economic conditions in which they are applied. While some US FTAs deserve criticism for containing overly restrictive origin rules and product exemptions (e.g., sugar in the FTA with Australia), in general FTAs can contribute to the success of WTO talks “if their coverage is comprehensive, if origin rules are kept to a minimum, and if the members are committed to work together to advance MFN trade reforms in the WTO” (Schott, 2004, chap. 1).

In sum, FTAs can help catalyze broader regional reforms, and build alliances in support of multilateral initiatives in the WTO. Success in the WTO in turn can help minimize the adverse effects of trade diversion generated by FTA trade preferences and help ensure that the bilateral and regional initiatives complement the objectives of the multilateral trading system. The challenge, of course—well documented in the academic literature—is to minimize the distortions that arise when FTA trade preferences and discriminatory origin rules distort trade and investment flows and raise transactions costs. Through good design and complementary WTO reforms, FTAs can provide net benefits for the entire trading system.

## **VIII. US FTA POLICY: FUTURE PROSPECTS**

While the Bush administration will likely continue to follow its “three dimensional” trade negotiating strategy, and continue to give priority to the Doha Round of WTO negotiations, it may set different FTA priorities than those pursued in its first term. Four factors will influence how—and with whom—the United States pursues FTAs:

- Congressional vote on the CAFTA.
- United States-Brazil efforts to reengage the FTAA negotiations.

- Broader Middle East initiatives.
- FTA initiatives among East Asia countries.

In more specific terms, the focus of new US FTA initiatives will depend on whether Congress ratifies the CAFTA, whether Brazil is willing to pursue a comprehensive FTAA, the durability of economic and political reforms in the Middle East, and what East Asians achieve in their own regional integration initiatives. Independent of these developments, the United States will work closely with its NAFTA partners to upgrade the decade-old free trade pact and to tackle the new economic and security challenges to the region (see Hufbauer and Schott, 2005).

### **FTA Ratification**

Several FTAs signed in 2004 still await Congressional ratification. The most politically contentious of these pacts is the CAFTA, where some members of Congress have demanded that the pact be renegotiated prior to congressional action. FTAs with Bahrain and the Dominican Republic (which has been integrated in the CAFTA) are also part of this legislative backlog. Rejection of CAFTA, or even prolonged deferment of congressional action, would have negative consequences both for US relations with Central America and for the pursuit of other trade agreements because it would signal US reluctance to reform policies of priority interest to developing countries.

Opposition to CAFTA comes primarily from US labor unions, plus protectionist interests in the textiles and sugar industries. The unions criticize the pact's limited labor obligations and enforcement procedures (even though—unlike NAFTA—those provisions are included in the core agreement). The latter oppose CAFTA because it subjects them to more competition in the US market.

In a nutshell, the labor critique about CAFTA is that the pact

- (1) only requires the Central American countries to enforce their own national laws, which are deemed too weak to ensure conformity with international core labor standards codified by the International Labor Organization (ILO);<sup>9</sup>
- (2) omits some CAFTA obligations on labor from the pact's dispute settlement regime; and
- (3) is inadequate to deter abuses (which have been commonplace in much of the region) because the enforcement provisions provide minimal penalties for violations of CAFTA's labor obligations.

In fact, the labor provisions included in the CAFTA go well beyond those in NAFTA. But the minimum demands of US labor greatly exceed what US trading partners are willing to accept—even the US FTA with Australia did not pass muster with labor groups.

The vote on CAFTA implementing legislation may take place in the first half of 2005; it may well determine whether US trade initiatives—in both the WTO and in FTAs—advance or are substantially reduced in scale. Domestic critics of FTAs have drawn a “line in the sand” on CAFTA, hoping that defeat of CAFTA in Congress would derail or greatly constrain future US trade pacts. Blocking CAFTA would complicate negotiations on other pacts in the LAC region and probably doom the FTAA. It would also presage a minimalist deal in the WTO given the unlikelihood that US negotiators would be able to offer significant reform of entrenched US trade barriers. FTAs would still be able to proceed, however, with countries where US foreign policy interests predominate (e.g., in the MENA region).

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<sup>9</sup>The ILO standards cover freedom of association, abolition of forced and child labor, and nondiscrimination. See Elliott (2004).

### **Reviving the FTAA**

Little progress has been made since the last FTAA ministerial meeting in Miami in November 2003. Under pressure “not to fail” so soon after the WTO fiasco in Cancún, trade ministers issued a declaration that simply papered over major substantive disputes. The FTAA process did not break down, but the talks have drifted since then.

The United States and Brazil will continue to co-chair the FTAA talks for their duration. However, a deal will not get done unless the leading economies of North and South America can bridge their differences and offer concrete new opportunities for their exporters and investors in each other’s markets.

The basic problem is twofold: whether Brazil will open its market to foreign competition in goods and services, and whether the United States will reciprocate by increasing market access for Brazilian agriculture and competitive manufactures. In both cases, prospective liberalization is contentious and subject to a fractious domestic debate.

At issue is the willingness of Brazil to reform important regulatory barriers (including those for the services industries), to strengthen protection of IPRs, and to open some of its public procurement tenders to bidding by foreign suppliers. Such reforms are supported by some parts of the Brazilian business community, but staunchly opposed by protectionist interests. A FTAA deal could provide large inducements to undertake such reforms, but only if the United States commits in turn to provide concrete new trading opportunities in the US market for Brazilian farmers and industrialists in politically-sensitive areas such as sugar, tobacco, citrus, and steel. To date, FTAA talks have followed the “Alphonse and Gaston” routine, with neither side willing (and possibly not politically able) to advance first.

The special Summit of the Americas to be held in Mar del Plata, Argentina, in November 2005 may provide an opportunity

to break the current impasse. A new political mandate would allow the FTAA co-chairs to reopen consultations with the other FTAA participants on an updated negotiating framework. One would then expect the FTAA talks to follow the same timetable as the Doha Round—with both concluding before the expiration of US trade promotion authority in June 2007 (if extended by Congress, as expected, in the Spring of 2005).

If the United States-Brazil bilateral process fails, however, then the FTAA negotiations will either continue to drift or devolve into an Asian-style “FTAA-lite.” Either way, US trade policy will focus elsewhere.

### **Middle East Initiatives**

Moving forward on the FTA agenda will continue to be a political imperative given the link to the peace process, push for democracy, and domestic economic reforms in the region. New FTA initiatives will likely move forward with specific MENA countries—whether or not Congressional action on CAFTA stalls talks in other regions. US foreign policy/security objectives with MENA countries override the demands of protectionist lobbies, and the net impact of US FTAs in the MENA region on US farmers and clothing producers should be relatively small.

As noted earlier, Oman and the United Arab Emirates began FTA talks with the United States in March 2005 following the template of the FTA with Bahrain. In a similar fashion, the FTA with Morocco could serve as a template for future talks with other Maghreb countries. Egypt also could follow suit, if its domestic economic and political reforms advance and if Egypt-Israel-Palestinian Authority economic ties deepen as a result of the QIZ pact signed in December 2004. In that case, a US-Egypt FTA could become a concrete bridge toward more stable and friendly political relations in the region. However, FTA talks with the

largest US trading partner in the MENA region, Saudi Arabia, will likely be deferred until well after its accession to the WTO.

### **Reacting to East Asian Regionalism**

Finally, “competitive liberalization” is thriving in East Asia and could create significant challenges for the United States. China has taken the lead; trade talks with ASEAN and India have prompted Japan (and, more recently, South Korea) to try to emulate the Chinese initiatives. These efforts likely will create only bare-bones FTAs with coverage limited to border trade barriers for goods and replete with exceptions. Yet within a decade, one should not rule out a nascent East Asian trading arrangement involving the “10+4” nations, that is ASEAN-10 plus China, India, Japan, and Korea. While I would not go so far as to say that such a large grouping would “draw a line down the center of the Pacific” and create an insular trading bloc, it would discriminate against US suppliers and generate substantial trade diversion in a region that today accounts for more than a quarter of total US merchandise trade. For that reason, it probably would spur a US counter-response, which could surface well before the skeletal East Asian trade accords are fleshed out.

Since the conclusion of negotiations on the Canada-US FTA in late 1987, and the subsequent expansion of the free trade regime to Mexico in 1993, both Japan and Korea have at times considered the possibility of acceding to NAFTA or negotiating a NAFTA-like bilateral FTA with the United States. For a variety of reasons, such proposals never passed the “smell test”, that is they were not considered politically viable on either side of the Pacific.<sup>10</sup> While the United States has engaged in FTA talks with two members of

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<sup>10</sup>However, proposals by both businessmen and legislators in South Korea and the United States suggest that a South Korea-US FTA might be feasible if both sides gave weight to the political benefits of the accord and were able to manage reforms in sensitive sectors like agriculture, textiles, and automobiles (Choi and Schott, 2001).

ASEAN, it has not launched any initiatives so far with countries in Northeast Asia. When I asked USTR Robert Zoellick why, the simple answer was: “They’re not ready to talk about agriculture.”

However, US trade officials already have begun to refocus their strategy in light of the new regional initiatives among East Asian countries. Those pacts create both opportunities and challenges for US trade policy. To the extent that the regional initiatives promote economic growth, they can provide benefits that reach beyond the borders of the partner countries. To the extent that they involve discrimination against non-member countries (even if the pacts are consistent with WTO obligations), they may adversely affect the trade and investment interests in other countries outside the region. In particular, if economic cooperation in Northeast Asia results in preferential trading agreements, the United States—as a major trading partner and investor in each country—could suffer substantial trade and welfare losses (see Schott and Goodrich, 2004).

In that event, US officials may press for new FTAs with East and Southeast Asian countries to redress discrimination against US exporters and investors. Talks already are underway with Thailand. The prospective Thai-US FTA could then pave the way for pacts with other ASEAN members pursuant to the framework of the Enterprise for ASEAN Initiative; indeed, US interest in blunting terrorist intrusions in Indonesia and the Philippines could accelerate plans for new FTA talks with those countries. The key test, however, will be if Japan and South Korea conclude a bilateral trade pact. Japan sells South Korea, and South Korea sells Japan, many of the same products that US firms export to both countries. Preferences to Japanese firms will lead South Koreans to buy more Japanese products—and vice versa—instead of US products (particularly semiconductors and telecommunications equipment). US industries and farmers will demand that trade officials “level the playing field” by negotiating similar trade preferences with Japan and South Korea. US farmers will insist that farm reform is included in the

liberalization package. Such demands will echo those emanating from the Doha Round negotiations, since any prospective deal in the Doha Round will be possible only if the major trading nations, including Korea and Japan, agree to significantly reduce their farm trade barriers—not free trade but reforms that actually make a difference and open new trading opportunities.

What this means is that, by later this decade, we may well see a new burst of Asia-Pacific FTAs, or a rash of new trade friction between the United States and its Northeast Asian trading partners. I would bet on the former. The likely course of both East Asian regionalism and WTO liberalization seems to require fundamental changes in Japanese and South Korea farm policies. Those countries, and their exporters of manufactured goods, cannot afford to block progress in either regional pacts or in WTO talks.

Will this lead to the fulfillment of the original Bogor vision of free trade and investment in the region by 2020? The APEC Business Advisory Council advocated a renewed look at a Free Trade Area of the Asia-Pacific in their report to APEC leaders in Santiago in November 2004. Not surprisingly, the official reaction was muted. No US (or Japanese) politician wants to talk about free trade with China—even as a long-term proposition. But events may propel reconsideration in the coming years as FTAs and WTO liberalization work in tandem to push trade liberalization across the Asia-Pacific region.

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