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LOOK WEST: THE EVOLUTION OF U.S. TRADE POLICY TOWARD ASIA

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ABSTRACT

U.S. trade policy toward Asia has undergone an important evolution over the last 60 years, reflecting not only changes in its vision of engaging Asia but also in the general American approach to trade negotiations. Put succinctly, in the late 1980s, the U.S. turned away from its former deep commitment to multilateral trade negotiations and began to pursue a strategy of “competitive liberalization.” This shift has been marketed as an innovative approach to trade negotiations, and includes the pursuit of bilateral and minilateral arrangements as well as sectorally-based market opening. At the turn of the millennium we have seen the active pursuit of bilateral trade agreements. How can we categorize the patterns of U.S. trade arrangements over time? What are the driving forces behind the evolution of U.S. trade policy towards Asia? What are the implications, both domestically and internationally, of this changing U.S. trade strategy? And finally, what is the likely direction of future U.S. trade policy?

Keywords: U.S. trade policy, competitive liberalization, trade agreements, Asia

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INTRODUCTION

U.S. trade policy toward Asia has undergone an important evolution over the last 60 years, reflecting not only changes in its vision of engaging Asia but also in the general American approach to trade negotiations. Put succinctly, in the late 1980s, the U.S. turned away from its former deep commitment to multilateral trade negotiations and began to pursue a strategy of “competitive liberalization.” This shift has been marketed as an innovative approach to trade negotiations, and includes the pursuit of bilateral and multilateral arrangements as well as sectorally-based market opening. Among the arrangements that indicate this shift are the Canada-U.S. Free Trade Agreement (CUSFTA) in 1989, Asia Pacific Economic Cooperation (APEC) in the same year, the North American Free Trade Agreement (NAFTA) in 1994, and three sectoral agreements in the late 1990s—the Information Technology Agreement (ITA, 1997), Basic Telecom Agreement (BTA, 1998), and Financial Services Agreement (FSA, 1999). These have been followed at the turn of the millennium by the active pursuit of bilateral trade agreements, labeled Free Trade Agreements (FTAs) or more accurately Preferential Trade Agreements (PTAs) with countries such as Chile, Morocco, Singapore, Australia, and South Korea.¹ Most recently, the U.S. has advocated a Free Trade Area of the Asia Pacific (FTAAP) and the so-called P-4/P-8 process linking bilateral agreements together in the Asia-Pacific.

How can we categorize the patterns of U.S. trade arrangements over time? What are the driving forces behind the evolution of U.S. trade policy towards Asia? What are the implications, both domestically and internationally, of this changing trade strategy? And finally, what is the likely direction of future U.S. trade policy toward Asia in the context of the global financial crisis of 2008-2009? These questions provide the guiding elements of this article. To preview my argument, the U.S. no longer provides leadership in trade (nor, for that matter, does

the EU). The irony of the decline of trade is that in the eyes of many, “competitive liberalization” has been seen as an innovative strategy. By contrast, I will argue that this policy has had the unintended effect of undermining the coalition for free trade in the U.S.

With respect to the current U.S. political economy of trade toward Asia, two developments are of particular significance. First, “competitive liberalization” has fractured the domestic coalition for free trade (see Feketekuty, 1998; Aggarwal and Lin, 2002; Bergsten, 1996, 2002). By giving specific American industries what they wanted, this policy has left protectionists in agriculture, steel, textiles, and others in control of the trade agenda. The problems in concluding the World Trade Organization (WTO) Doha Development Round (DDR) illustrate the fallacy of this approach. In my view, it is their very advocacy of a policy of competitive liberalization in negotiating such partial accords that has been a key contributor to the Doha Round’s troubles. Together with the turn towards protectionist actions in the wake of the financial crisis and the pursuit of bilateral agreements, the difficulties in securing a meaningful DDR will only increase. By October 2009, over 160 agreements among Asians had been concluded and over 60 were in various stages of negotiation, and as *The Economist* (September 3, 2009) noted, “a deal will require America to build up domestic support for more open trade. Until that happens, Asian countries may content themselves with a fuller noodle bowl [of PTAs].”

Second, in the Asia-Pacific, the most recent refrain in the competitive liberalization mantra is the call for pursuing an FTAAP, to be led by the APEC forum. The idea of promoting free trade in the Asia-Pacific is no doubt a valuable goal, and consistent with APEC’s original mission. While I do not doubt that the advocates of this approach are sincere in their desire to promote greater trade openness I share), this policy is only likely to further undermine our ability

to move toward this goal. Attempting to negotiate an FTAAP ignores the reality of U.S. trade politics by misunderstanding how the continuing and increasing U.S. trade deficit with China in recent years has dramatically increased domestic protectionist pressure in the United States. Many industry groups and their political advocates have seized upon the gargantuan trade deficit—blamed by many on the rigidity of the yuan’s exchange rate—to increasingly question the benefits of free trade for the U.S., particularly with countries specializing in low-cost exports. The continued Congressional threat of tariffs on Chinese imports highlights the seriousness of this issue, and the September 2009 decision to impose temporary tariffs on Chinese tires illustrates the strong pull of labor in influencing U.S. trade policy. Particularly in the context of the financial crisis and loss of jobs in the U.S., the ongoing problems with China has served as a rallying cry for an assortment of protectionist groups in the U.S. and allied groups who have linked security concerns, labor rights, human rights, religious freedom, and numerous other issues to trade.

Calls for an FTAAP also fail to appreciate two key points: First, current relations between Northeast Asian economies are likely to make negotiation of such an accord a near impossibility, even if the president was able to secure negotiating authority in the near term (within 2 years). Second, APEC’s relative institutional weakness makes it highly unlikely that an FTAAP will come to fruition, even if the moribund Doha Round of the World Trade Organization (WTO) is revived. Indeed, the tactical use of an FTAAP to advance the WTO agenda or to prevent the creation of an Asian-based preferential agreement that excludes the U.S. is likely to backfire, simply further undermining prospects for successful completion of the Doha Round and increasing Asian suspicion of U.S. motives. Instead, the recent push by the U.S. to work through the P4 group (also known as the Trans-Pacific Strategic Economic Partnership

Agreement or Trans-Pacific Partnership (TPP), which began a broader linked set of free trade agreements between Chile, New Zealand, Brunei, and Singapore, and now P8 or more as others countries show interest) may hold more promise. Yet even this very limited approach to “bottom-up” building of trade arrangements in the Asia-Pacific has raised the ire of protectionist groups.

To analyze these issues in depth, the first section of this article characterizes types of trade agreements that might be negotiated with an eye to understanding the evolution of U.S. trade policy toward Asia. Section II takes up this task by categorizing this policy in four phases since the 1950s, and considers key factors that have driven changes in these phases. The key claim is that U.S. policy has moved away from the previous strong commitment to multilateral multi-product trade liberalization to bilateral and minilateral broad accords as well as multilateral sector specific accords. Section III then examines recent trends in U.S. policy toward Asia, both toward the end of the Bush Administration and the beginning of the Obama Administration, focusing on various trade initiatives. In conclusion, I consider some possible direction for U.S. trade policy.

I. CATEGORIZING FORMS OF TRADE GOVERNANCE²

Countries may use a variety of measures to regulate trade flows, ranging from tariffs, quotas, subsidies, local content requirements, and the like. Yet while such a specification helps to categorize types of unilateral measures and their implications, other dimensions of trade policy are worth considering, including the number of countries in an agreement, trade coverage, and so on. On this score, however, analysts have conflated different types of arrangements and used them synonymously. For example, the term “regional agreement” has been used to refer to

widely disparate accords such as APEC, the Asia Europe Meeting (ASEM), the ASEAN Free Trade Agreement (AFTA), intra-regional and extra-regional bilateral free trade agreements, and even sectoral agreements such as the ITA.³ This conceptual ambiguity and under-differentiation of the dependent variable makes it difficult to develop causal arguments about the variety of trade agreements to understand their evolution.

To more clearly specify different types of trade arrangements, I focus on several dimensions: the number of participants involved in an agreement, product coverage, geographical scope, market-opening or closing, and institutionalization. I define the number of participants in terms of unilateral, bilateral, minilateral, and multilateral (global) participation in an agreement. I use the term bilateral to refer to two countries and minilateral to more than two but less than very global participation.⁴ In terms of product coverage, the range is from narrow (a few products) to broad (multiproduct) in scope. Geographical scope differentiates between arrangements that are concentrated geographically and those that bind states across great distances. A fourth dimension addresses whether these measures have been either market opening (liberalizing) or market closing (protectionist). Fifth and finally, one can also look at the degree of institutionalization or strength of agreements.⁵ These dimensions are summarized in Table 1 with illustrative examples from the Asia-Pacific (if such accords exist; if not I use examples from other regions). I omit discussion of the degree of institutionalization for presentation purposes.

Table 1 here

Sectoral unilateralism in Cell 1 focuses on market opening or closing measures. In 2008, for example, the Philippines reduced its tariffs on wheat and cement to zero, in the absence of negotiations with another country or directives from the WTO.⁶

Table 1: Classifying Varieties of Trade Governance

		<i>NUMBER OF PARTICIPANTS</i>					
		Unilateral	Bilateral		Minilateral		Multilateral
			<i>Geographically Concentrated</i>	<i>Geographically Dispersed</i>	<i>Geographically Concentrated</i>	<i>Geographically Dispersed</i>	
PRODUCT SCOPE	Few Products (Sectoral)	(1) Philippines removal of tariffs on wheat and cement (2008)	(2) U.S.-Canada Auto Agreement (1965)	(3) U.S.-Japan VERs and VIEs (1980s-1990s)	(4) ECSC (1951)	(5) EVSL (1997)	(6) LTA (1962) & MFA (1974) ITA (1997) BTA (1998) FSA (1999)
	Multiple Products	(7) Singapore market opening	(8) Japan-South Korean FTA (under negotiation)	(9) U.S.-Singapore FTA (2004) Japan-Mexico FTA (2004) U.S.-Korea 2007 (not ratified as of 2009)	(10) AFTA (1991)	(11) APEC (1989) ASEM (1996) EU-Mercosur (under negotiation)	(12) GATT /WTO (1947/1995)

Source: Adapted from Aggarwal (2001). Examples are illustrative, not comprehensive.

Sectoral Bilateral Regionalism in Cell 2 refers to agreements between a pair of countries that are geographically concentrated. The best example of this kind is the U.S.-Canada Automotive Products Trade Agreement of 1965. Prior to the 1988 Canada-U.S. Free Trade Agreement (CUSFTA), the Auto Agreement was the only major success in the long-standing effort to liberalize bilateral trade between the U.S. and Canada.

Sectoral Bilateral Transregionalism in Cell 3 refers to accords between two countries that are geographically dispersed. Examples of this sort of protectionist agreement include voluntary export restraints (VERs) and potentially market-opening measures such as voluntary import expansions (VIEs), both of which have generally but not always crossed regions (see Aggarwal, Keohane, and Yoffie, 1987; Bhagwati, 1987). The U.S. has been heavily involved in the use of such agreements, particularly with Asian countries, although the EU and others have also used such measures.

Sectoral Minilateral Regionalism in Cell 4 reflects agreements between three or more countries that are geographically close to each other. The best example is the European Coal and Steel Community (ECSC), created in 1951. From the start, the ECSC faced criticism for its inconsistency with Article 24 of the General Agreement on Tariffs and Trade (GATT), which mandates liberalization on a multiproduct basis for both customs unions and free trade areas, rather than only for a few products. Although challenged as being inconsistent with the GATT by Czechoslovakia, the ECSC members managed to obtain a GATT waiver of obligation, backed by the U.S., which was interested in promoting European cooperation against the Soviet Union (Curzon, 1966, pp. 266-268).

Sectoral Minilateral Transregionalism in Cell 5 provides an example of geographically dispersed sectoral transregionalism. One example is the case of the Early Voluntary Sectoral Liberalization (EVSL) under the auspices of APEC. In Vancouver in 1997, ministers agreed to consider nine sectors as a package for fast track liberalization, but this approach garnered little political support. In the end, the package was sent to the WTO rather than being considered for liberalization at the APEC level.

Sectoral Multilateralism in Cell 6 includes market-opening measures such as the ITA, the Basic Telecom Agreement (BTA), and the Financial Service Agreement (FSA) as well as market-closing measures such as the Long Term Arrangement on Cotton Textiles and the Multi-Fiber Arrangement (MFA), the latter expanding managed trade beyond cotton products.

Multiproduct Unilateralism as in Cell 7 includes opening by countries on a unilateral basis. Many countries in Asia have undertaken unilateral liberalization including Indonesia, Hong Kong, and Singapore, often with the goal of promoting economic efficiency and fighting inflation, even in the absence of formal agreements with other countries.

Multiproduct Bilateral Regionalism of both a regional and transregional actor scope has rapidly proliferated over the last few years. Cell 8 refers to bilateral trade agreements covering multiple products between a pair of adjacent countries, such as the agreement between the Canada-U.S. FTA and the Japan-South Korea preferential trade agreement, which is currently under negotiation, but which has persistently encountered problems (see Katada and Solis, 2008).

Multiproduct Bilateral Transregionalism, Cell 9, includes cases of geographically dispersed bilateral agreements covering multiple products. Examples include PTAs between the U.S. and Israel, the United States and Singapore (2004), Japan and Singapore (2001), South Korea and Chile (2002), Japan and Mexico (2004), and many current negotiations involving the EU, China, Japan, and others. The most significant that the U.S. has negotiated with an Asian country, South Korea, has yet to be ratified (as of October 2009).

Multiproduct Minilateral Regionalism, as noted in Cell 10 focuses on geographically concentrated minilateral agreements such as the ASEAN trade agreement AFTA. In past decades, these types of accords have attracted the most scholarly attention, commensurate with the rise of regional trading arrangements since the 1960s, with the EU being the most prominent example. It is worth noting that in referring to many accords as “regionalism,” we should be aware that this term properly refers to accords in cells 2, 4, 8, and 10—but not for other accords that are transregional. Note that even within these four cells, it is useful to distinguish among types of accords to understand the underlying causal factors, rather than lumping them all together as simply “regional” agreements.

Multiproduct Minilateral Interregionalism is another important recent development in trade arrangements concerning links that span countries across continents, as noted in Cell 11.

The term “interregionalism” can itself be broken down into more specific types, based on the prevalence of PTAs and/or customs unions as constitutive units within interregional agreements. An agreement is “purely interregional” if it formally links free trade areas or customs unions, as in the case of EU-Mercosur (Aggarwal and Fogarty, 2004). If a customs union negotiates with countries in different regions, but not with a customs union or free trade agreement, this should be seen as “hybrid interregionalism” (e.g., ASEM). Finally, if an accord links countries across two regions where *neither* of the two negotiates as a grouping, then one can label this “transregionalism” (e.g., APEC).

Multiproduct Multilateralism, Cell 12 refers to the case of global, multiproduct trading arrangements such as the GATT and its successor organization, the WTO. Though highly successful throughout the postwar period, multilateral trade forums at the global level have increasingly encountered difficulties in hammering out new terms of trade liberalization. This, in turn, has fueled interest in preferential arrangements at the sub-multilateral level.

II. FOUR PHASES OF U.S. TRADE POLICY TOWARD ASIA SINCE WORLD WAR II

Following the end of World War II, the U.S. was instrumental in creating the General Agreement on Tariffs and Trade in 1947. It then created a very different relationship with countries in Asia versus Europe, which has been very insightfully analyzed by Peter Katzenstein (2005). As he notes, whereas the U.S. fostered the creation of the European Coal and Steel Community in 1951 and then continued to support European regionalism, it primarily pursued a bilateral approach to Asia.

What trends have we seen in U.S. trade policy strategy toward Asia in the post-WWII period? I argue that we can identify four distinct phases. The first, from WW II to the mid-1950s, can be characterized as a strong commitment to multilateralism and open trade. The

second phase from the mid-1950s to the early-1980s can be termed “liberal protectionism”—a pragmatic approach to buying off losers from trade liberalization by providing them with temporary restrictions on trade (some of which, such as textiles and apparel, that grew into widespread protection). From the mid-1980s to the early-1990s, the U.S. shifted to the promotion of regionally focused accords in conjunction with the Uruguay Round. Finally, from the mid-1990s to 2008, the U.S. pursued competitive liberalization, with an emphasis on both open sectoral and bilateral trade arrangements. How U.S. trade policy is likely to evolve in a fifth phase (assuming that President Obama undertakes a distinct direction, rather than continuing the previous trend of the fourth phase is taken up in the Section III.

Phase I: Multiproduct Multilateralism in the Early Post-World War II Period⁷

At the end of WW II, the U.S. found itself in a bipolar world. With a dominant military force, a large market, enormous productive capacity, and a strong currency, the U.S. was well positioned to assume global responsibility, particularly in the Western capitalist sphere. It acted as military leader of the Western NATO alliance, fostered the 1944 Bretton Woods gold-dollar financial system, and provided the major impetus for international trade liberalization. As a result, the 1950s and 1960s were marked by unprecedented economic growth and development. In particular, the nested context of the international trading system within the overall security system gave the U.S. executive leverage to resist, but not always block, domestically oriented protectionist groups by raising the specter of the Soviet and Chinese communist threat to American interests, thereby allowing the U.S. to advance Cold War concerns over narrow parochial interests and foster free trade.⁸

Yet all did not start well, despite U.S. power. Prior to the “heating up” of the Cold War, the proposed International Trade Organization (ITO) failed to be ratified in the U.S. because a

coalition of protectionists and free traders in the United States, each of whom thought that the ITO was an excessive compromise, prevented the ITO from securing Congressional approval and thus led to its death (Diebold, 1952). With the ITO moribund, the U.S. promoted a temporary implementing treaty, the GATT, as the key institution to manage trade on a multilateral basis in 1948. Although technically an interim framework for regulating and liberalizing world trade, the GATT turned out to be highly successful at overseeing international trade in goods and progressively reducing trade barriers.

With respect to its trade policy toward Asia, the security context was particularly important. At the outset of the Cold War, hostile geo-strategic circumstances and historical animosities prevented Asians from designing their own regional institutions. In this absence, trade relations were governed through a combination of U.S.-centric bilateral and multilateral arrangements and informal networks based on corporate and ethnic connections in the economic arena (Cumings, 1997; Grieco, 1997; Katzenstein, 1997). The so-called “San Francisco system,” codified largely through the 1951 San Francisco Peace Treaty between the Allies and Japan, provided Asian countries with a unique institutional mix of bilateralism and multilateralism. It offered America’s Asian allies access to the U.S. market in return for a bilateral security alliance with the U.S. It also encouraged Asian countries to join broad-based multilateral forums—e.g., the GATT, the WTO, and the IMF⁹ (see Table 2).

Table 2 here

Phase 2: Liberal Protectionism, Mid-1950s to Early-1980s

Although the 1950s and 1960s are often dubbed the “golden age” of trade liberalization due to a dramatic reduction of border barriers, by the mid-1950s, the U.S. faced domestic protectionist pressures. Although the U.S. successfully promoted and succeeded in helping Japan enter the GATT

Table 2: U.S. Trade Policy: 1940s to mid 1950s

		<i>NUMBER OF PARTICIPANTS</i>					Multilateral
		Unilateral	Bilateral		Minilateral		
			<i>Geographically Concentrated</i>	<i>Geographically Dispersed</i>	<i>Geographically Concentrated</i>	<i>Geographically Dispersed</i>	
PRODUCT SCOPE	Few Products	(1)	(2)	(3)	(4)	(5)	(6)
	Many Products	(7)	(8)	(9)	(10)	(11)	(12) GATT (1947)

in 1955, growing imports of Japanese textile and apparel imports into the U.S. market in late 1954 led the American textile and apparel industry to begin a lobbying campaign against imports. The Japanese recognized the need to cope with this pressure and MITI pressed its textile industry to voluntarily restrict its exports, which they did by December 1955. Yet this effort did not satisfy U.S. producers; growing pressure led to complex negotiations whereby the Japanese agreed to a more formalized Voluntary Export Restraint in 1957. But although the effect of this agreement was to decrease Japanese imports into the U.S. from the 1956 level, Hong Kong and other Asian countries more than made up the fall. When negotiations with Hong Kong failed, the U.S turned to a sector specific accord in 1961 known as the Short Term Arrangement on Cotton Textiles, which was followed in 1962 with the Long Term Arrangement on Cotton Textiles. This arrangement was subsequently renewed and evolved into a broader accord covering synthetics and wool in 1974 (Aggarwal 1985). Only in 2005 did the new successor agreement, known as the Multi-Fiber Arrangement (MFA), finally see its last days.

The textile and apparel agreement can be best seen as an accommodation between liberal and protectionist pressures—hence liberal-protectionism. The agreements themselves restricted

trade on the one hand, but also permitted developing countries growing access to the U.S. (and European markets) because of minimum growth requirements in the quote (5% under the LTA and 6% under the MFA). From a political standpoint, for President Kennedy, textiles and apparel protection was simply the necessary price to pay for the broader objective of what came to be known as the Kennedy Round of GATT negotiations. Most crucially, despite deviating from the norms of the GATT in some respects, the Long Term Arrangement on Cotton Textiles and the MFA were carefully nested in the GATT, and indeed the implementation and enforcement structure were housed in Geneva.

U.S. executive continued to face protectionist pressure from specific industries and were repeatedly forced to accommodate them. Following the conclusion of the Kennedy Round, the steel industry sought and secured voluntary export restraints to limit steel imports from Japan and the EEC in 1969 (see Aggarwal, Keohane, and Yoffie, 1987). These VERs were dropped in 1974, but since then various new accords to limit steel imports have repeatedly been imposed and dropped. In footwear, orderly marketing arrangements were negotiated with Taiwan and South Korea in 1977, but these were dropped in 1981 and have not been re-imposed. Similarly, Orderly Marketing Agreements (OMAs) restricting televisions from Japan, Korea and Taiwan came into effect from 1977 to 1979, but were then dropped from 1980 to 1982. In autos, President Reagan negotiated a VER with the Japanese in 1981, but by 1985, this had also been dropped.

As noted, the dominant U.S. approach during this period was clearly a GATT-based multilateral, multiproduct approach with occasional highly focused deviations. Aside from the sectoral protectionist arrangements, the only other accord of any significance was the U.S.-

Canada auto agreement. This agreement, tied to the co-production arrangements across the border, received a formal GATT waiver of obligation (see Table 3).

Table 3: U.S. Trade Policy: Mid-1950s to Early-1980s

		NUMBER OF PARTICIPANTS					
		Unilateral	Bilateral		Minilateral		Multilateral
			<i>Geographically Concentrated</i>	<i>Geographically Dispersed</i>	<i>Geographically Concentrated</i>	<i>Geographically Dispersed</i>	
PRODUCT SCOPE	Few Products	(1)	(2) U.S.-Canada Auto Agreement (1965)	(3) U.S.-Japan, S. Korea, Taiwan, HK, Taiwan, EC VERs (1960s-1980s)	(4)	(5)	(6) Long Term Agreement on Cotton Textiles (1962) Multi-Fiber Arrangement (1974)
	Many Products	(7)	(8)	(9)	(10)	(11)	(12) GATT (1947)

When thinking about the implications of sector-specific arrangements, one must weigh their costs and benefits. For example, as in the case of sectoral arrangements in textiles and apparel, President Kennedy removed opposition by an industry that viewed itself as *losing* from freer trade. By appeasing this potent opponent, Kennedy was able to strengthen the coalition for free trade. Other agreements in televisions, footwear, and autos have come into being for similar reasons, but the agreements in these industries were relatively temporary and have not been reimposed. By contrast, as I argue below, competitive liberalization has had the opposite effect, instead *weakening* the pro-free trade coalition. Thus, we must be careful in assessing the pros and cons of sectoral initiatives.

Phase 3: Building Blocs? A Turn toward Regionalism, 1980s to mid-1990s

The Tokyo Round was negotiated in the early 1980s, but by this time, a change in the traditional multilateral approach was clearly in the air. The U.S. began to fear that European interest was now focused on widening and deepening of its regional integration efforts. With respect to the GATT, the 1982 effort to start a new round proved to be a failure, as most countries criticized the U.S. for attempting to include services and other new issues on the agenda. With problems in the GATT following the failed 1982 GATT Ministerial meeting, the U.S. Trade and Tariff Act authorized the administration to actively negotiate bilateral free trade agreements, primarily on a regional basis. Soon thereafter, driven also by significant security concerns, the U.S. negotiated the Caribbean Basin Initiative (1983) and the U.S.-Israel free trade agreement (1985). It then made overtures to ASEAN, and undertook sectoral discussions with Canada in 1984 (which ended in failure). But the direction was now clear: the U.S. now was willing to shift its own strategy away from pure multilateralism (see Table 4).

Table 4 here

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

If possible we hope that this ... liberalization will occur in the Uruguay Round. If not, we might be willing to explore a market liberalizing club approach through unilateral arrangements or a series of bilateral agreements. While we associate a liberal trading system with multilateralism, bilateral or unilateral regimes may also help move the world toward a more open system. (*Toronto Star*, January 6, 1988)

A high level of contentiousness continuously threatened the conclusion of the round. In part, this reflects the changing balance of power with the rise of the EU and other states in the system, the

Table 4: U.S. Trade Policy: Mid-1950s to Early-1980s

		<i>NUMBER OF PARTICIPANTS</i>					
		Unilateral	Bilateral		Mimilateral		Multilateral
			<i>Geographically Concentrated</i>	<i>Geographically Dispersed</i>	<i>Geographically Concentrated</i>	<i>Geographically Dispersed</i>	
PRODUCT SCOPE	Few Products	(1) Super 301 (1990s)	(2) U.S.-Canada Auto Agreement (1965)	(3) U.S.-Japan VIEs in semiconductors, and SIA 1990s)	(4)	(5) EVSL (1997)	(6)
	Many Products	(7) Generalized System of Preferences (1976, 2002) Caribbean Basin Initiative (1984, 2000)	(8) Canada-U.S. FTA (1989)	(9) Israel FTA (1985)	(10) NAFTA (1993)	(11) APEC (1989) EAI (1990), ongoing (changed to FTAA)	(12) GATT/WTO (1947/1995)

dissolution of the liberal consensus, and the unwillingness of the U.S. to continue to be the “market of last resort.” The era of détente and the subsequent end of the Cold War further weakened the security argument for continuing economic concessions in broad-based trade negotiations.

With Japan, the U.S. concluded an agreement on semiconductors in an effort to open up the Japanese market in this sector. This so-called “voluntary import expansion” marked a turn away from the VERs approach of restricting imports, and was soon followed by the Structural Impediments Initiative in 1989 in a continued effort to open up the Japanese market more broadly.

With respect to the Uruguay Round, after significant delays, the round finally came to a conclusion in 1993. But the U.S. was no longer solely committed to the multilateral route, as illustrated by its policy shift beginning in the mid-1980s. As noted, the U.S. created its first bilateral agreement with Israel in 1985; a year earlier it had created a preferential trading

agreement for the Caribbean countries. But these rather minor deviations were superseded by the very significant 1987 free trade area with Canada, the United States' founding membership in APEC in 1989, the 1990 Enterprise for the Americas Initiative, and negotiations with Mexico that led to the 1993 NAFTA agreement. These regional and transregional approaches marked a new turn in U.S. trade policy and a belief that such accords could somehow be building blocs for broader multilateral trade liberalization (Bhagwati, 1992).¹⁰

Phase 4: Competitive Liberalization, Trade Policy from the Mid-1990s to 2008

When the Uruguay Round concluded in 1993, it left a “built-in agenda” that still remained to be addressed. On a sectoral basis, while continuing to be part of the protectionist Multi-Fiber Arrangement, the U.S. moved to a new tack with the conclusion of “open sectoral” multilateral agreements in information technology, telecommunications, and financial services from 1996 to 1998, which included all of the key Asian countries. It is worth examining the implications of these open sectoral agreements at length. Laura Tyson, for example, has argued that among multilateral trade options, this sectoral approach is a sound alternative to the multi-sector WTO approach (Tyson, 2000).

Because more than 80 percent of global information technology trade occurs within APEC economies, the U.S. chose to promote this sector for liberalization after initial Quad discussions by presenting the original ITA proposal at the annual APEC summit in Manila in 1996 (Aggarwal and Lin, 2002). With a strong U.S. business presence in the Asia-Pacific and a well-coordinated lobbying strategy, APEC Ministers unanimously endorsed the agreement as an important example of regionally driven, sectoral, market-opening action. In fact, many argue that the 1996 APEC Leaders' ITA declaration successfully pushed other countries to join in

completing the ITA by the WTO biennial ministerial in 1996. The multilateral agreement called for the phasing out of tariffs on several categories of equipment by the year 2000, including computers, selected telecommunications equipment, software, semiconductors, and printed circuit boards.

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

The U.S. led a movement to make the nine-sector liberalization a package in order to discourage countries from picking and choosing sectors based on domestic concerns (Krauss, 2004). Rather than having voluntary tariff reductions across a broad range of industries, EVSL aimed to specifically target industries that would have a positive impact on economic growth for member nations. EVSL aimed to resolve the ineffective Individual Action Plans (IAPs) by forcing trade liberalization in specific sectors. The framework for EVSL forced timetables among participating members for trade liberalization on the sectors, reducing the problem of dealing with slow-movers.

This strategy initially appeared to be viable, but quickly ran into difficulties. Mexico opposed the sectoral approach, preferring multilateral liberalization through the WTO. Chile opted out because of its flat tariff rate structure. Then in Kuala Lumpur at the 6th Leaders'

Summit in November 1998, Japan—supported by China, Indonesia, Thailand and Malaysia, with the latter three countries concerned about moving forward with liberalization in their weakened economic state—refused to liberalize trade in fishing and forestry products. With an economy that was still moribund, the Japanese government was unwilling to take the political heat from interest groups who strongly opposed liberalization in this area. Disagreement immediately took hold between the United States, Japan and others, forcing the EVSL agenda to be pushed to the WTO. The outcome of the disagreement was the failure of any APEC member country to implement unilateral EVSL tariffs cuts, essentially ending EVSL as an effective means for reducing tariff barriers. Instead, the ministers agreed to shift the negotiations in these sectors to the World Trade Organization.

What are the implications of an open sectoral approach, with the ITA being followed by the telecom and financial services accords? As I have argued elsewhere, open sectoralism can be politically hazardous (see Aggarwal, 2001; Aggarwal and Ravenhill, 2001). From a political perspective, sectoral market opening is likely to *reduce* political support for multilateral, multisector negotiations. Because sectoral agenda setting involves a limited and easily polarized set of domestic interests, the margin for coalition building and political give-and-take is much slimmer. Moreover, industries that have succeeded in securing sectoral liberalization may pose a threat to a global liberalization agenda. These groups will see little reason to risk their existing benefits by supporting their relocation in the WTO-centered multilateral, multiproduct regime. By giving highly motivated liberal-minded interests what they wanted in their specific sector, this approach contrasts sharply with the longstanding successful policy that we have seen of giving often-temporary relief to strong protectionist interests to remove their opposition to broader liberalization. Thus, while such open sectoral liberalization seems attractive from an economic

standpoint, it may actually be one step forward and two steps backward when it comes to securing freer trade.

Following the open sectoral effort, the U.S. shifted its policy toward Asia with the Bush Administration. Business groups continued to worry that the EU was moving forward in the negotiation of trade accords, particularly with eastward expansion. In 2001, the Business Roundtable argued:

Obviously, the best policy option is to build on the WTO framework...However, it may take regional and bilateral initiatives to jumpstart the WTO. Alternatively, we may have to undertake the regional and bilateral initiatives just to avoid discrimination by our more active trading partners. (Business Roundtable, 2001)

Once President Bush obtained fast track authority (now known as Trade Promotion Authority), the U.S. proceeded to negotiate a large number of bilateral trade agreements (see Table 5), often for strategic reasons with little economic rationale or direct trade benefit. Indeed, until the recent initiation of negotiations with South Korea, the total export coverage of all the agreements to this point, excluding NAFTA, was little more than 10%.

Table 5 here

What are the international implications of the pursuit of bilateral trade agreements? This so-called competitive liberalization strategy has created an important negative dynamic. As John Ravenhill notes, at the end of 2001, of 144 WTO members, only China, Hong Kong, Japan, South Korea, Mongolia, and Taiwan, had not signed a preferential trading agreement (Ravenhill, 2003, p. 2). This quickly changed with these members imitating the U.S. strategy of negotiating bilateral accords, and in doing so contributing to the heavily criticized “noodle bowl” in Asia. And with the Asians now actively moving forward, we have now come full circle, with the EU now beginning to worry that *it* has been left behind in the bilateral game. Ironically, the U.S.

Table 5: U.S. Trade Policy: Mid-1980 to 2008

		<i>NUMBER OF PARTICIPANTS</i>					
		Unilateral	Bilateral		Minilateral		Multilateral
			<i>Geographically Concentrated</i>	<i>Geographically Dispersed</i>	<i>Geographically Concentrated</i>	<i>Geographically Dispersed</i>	
PRODUCT SCOPE	I.	(1) Super 301 (1990s)	(2)	(3)	(4)	(5) EVSL (1997)	(6) ITA (1997) BTA (1998) FSA (1999)
	Many Products	(7) Generalized System of Preferences (1976, 2002) Andean Trade Preference Act (1991, 2002) African Growth and Opportunity Act (2000) Caribbean Basin Initiative (1983, 2000)	(8) Canada-U.S. FTA (1989)	(9) Israel FTA (1985) Jordan FTA (2001) Chile FTA (2003) Singapore FTA (2003) Morocco FTA (2004) Australia FTA (2004) Bahrain FTA (2006) Oman FTA (2006) Peru TPA (2007) Colombia FTA (2006)* (N) Panama FTA (2007)* Korea FTA (2007)* Malaysia FTA (N) Thailand FTA (N)	(10) NAFTA (1993)	(11) APEC (1989) Dominican Republic-Central America FTA (2005) Free Trade Area of the Americas (UN) South African Customs Union FTA (N)	(12) GATT/WTO (1947/1995)

Key: An asterisk indicates that the agreement has been signed but not ratified. "N" means currently being negotiated.

administration, which no longer has Trade Promotion Authority, is the only major country not pursuing bilateral free trade agreements.

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

III. TOWARD A PROTECTIONIST PHASE? THE OBAMA ADMINISTRATION AND TRADE POLICY TOWARD ASIA

Candidate Barack Obama raised many concerns about the direction of U.S. trade policy, with remarks about renegotiating NAFTA and bilateral agreements involving Korea, Panama, and Colombia. Although the worst fears of free traders have not materialized with President Obama, particularly with respect to NAFTA, in the context of the financial crisis, recent unilateral moves to raise tariffs on Chinese tires has raised the spectre of an inward turn in U.S. policy. Rather than discussing all U.S. trade policy initiatives, my focus here is on briefly reviewing developments with respect to Asia, focusing on the WTO, the FTAAP and the East Asia Summit, the P4-P8 initiative, bilateral agreements PTAs and discussions with China, and unilateral actions. Since President Obama has yet to make a major speech on trade policy in light of the many issues he confronts, the analysis is of necessity partially speculative.

In terms of the WTO, discussions on the DDR continue as of the fall of 2009, with unclear prospects for a final resolution. The Obama administration's approach to the DDR has been to engage in bilateral discussions, particularly with key trading partners including among others, India and China. To this point, these talks appear to have made little progress, and *Inside U.S. Trade* (September 11, 2009) reported that "China thus far has completely resisted U.S. efforts in bilateral talks to gain clarity on how it plans to use the flexibilities laid out in the draft modalities texts to exempt certain products from formula cuts." As I have argued, the coalition

for free trade in the U.S. has frayed. Ron Kirk, U.S. Trade Representative noted that there are ‘very few people’ in the U.S. Congress and the U.S. trade community that believe that the Doha round deal now on the table would create meaningful new market access (*Inside U.S. Trade*, September 11, 2009.” At least in the current context, there appears to be little hope of a dramatic breakthrough in DDR talks.

With respect to transregional minilateral initiatives toward Asia, the Obama Administration has so far not rejected with the FTAAP approach initiated by the George W. Bush Administration. It has also signaled greater interest in cooperation with ASEAN by signing the Treaty of Amity and Cooperation (TAC), which some see as a forerunner to U.S. participation in the East Asia Summit, which was initiated in December 2005 by ASEAN members, South Korea, Japan, China, India, Australia, and New Zealand (Acharya, 2009).

Turning first to FTAAP, in 2006, the U.S. shifted its position to support of a Free Trade Area of the Asia-Pacific, an idea in which it had previously shown little interest. This approach, promoted by the APEC Business Advisory Council (ABAC) since 2004 (an officially recognized organ created by APEC in 1995), would lead to the creation of a free trade area among APEC members. Prior to Vietnam annual summit in 2006, the U.S. had shown little interest in such an accord. But shortly before this summit in a speech in Singapore, President Bush endorsed the idea of pursuing an FTAAP. This idea has found its strongest advocate in the writings of Fred Bergsten, who has argued that such an arrangement would help to control the proliferation of PTAs, mitigate U.S.-China conflict, help to increase the prospects of concluding the DDR, and prevent the development of exclusive East Asian trade arrangements and bolster APEC as an institution (Bergsten, 2007).

Yet as I have argued elsewhere, these arguments are unconvincing (Aggarwal, 2007). To briefly summarize, with respect to the control of PTA, advocates of bilateral agreements such as Fred Bergsten argued that these accords would help to bring about a successful DDR. It is rather ironic that now an FTAAP is seen to be a useful appropriate mode of controlling what is now in retrospect seen to be a *pernicious* development. On the issue of U.S-China conflict, given current domestic political dynamics in the U.S., the financial crisis, and concerns about the massive U.S. trade deficit, an accord that promoted complete free trade China would be politically far-fetched to say the least. On the issue of Doha, piecemeal or competitive liberalization, whether in the guise of open sectoralism, bilateralism, or a transregional FTAAP are more likely to undermine the prospects for the DDR, as the evidence to this point would seem to indicate.

The arguments about exclusive East Asian arrangements and APEC's role merit further attention. As noted, the U.S. is now showing interest in the EAS. Secretary of State Hillary Clinton signed the TAC on July 22, 2009, currently a precondition to joining the EAS. If the U.S. pushes the FTAAP as an alternative to the EAS or the ASEAN plus 3 grouping (without India, Australia, and New Zealand), this is likely to be seen by Asians as a cynical U.S. strategy. Ironically, such an approach would if anything, be likely to promote such exclusive accords.

With respect to using APEC as the negotiating forum for FTAAP, given that APEC is insufficiently institutionalised, the notion that it could play a role that could foster such an accord also seems unlikely. Indeed, attempting to transform APEC into a negotiation forum, however useful as a long-term goal, would likely undermine its current contributions, however limited. In terms of its other roles, this grouping has played an important role in ensuring that leaders in the Asia-Pacific meet regularly, as well as in setting new agendas, facilitating trade, and serving as a

means of working toward greater cognitive consensus on issues of mutual concern. By assigning APEC the clearly divisive task of promoting an FTAAP despite its current institutional weakness, we risk the further marginalization of APEC in an area of the world that remains highly under-institutionalized.

The newest development with respect to transregional minilateral trade is the TPP initiative. USTR's Susan Schwab announced that the U.S. would join TPP in September 2008. Here the notion is to have the U.S. and possibly other countries (Australia, Vietnam, Thailand, and Peru have expressed varying degrees of interest) "dock" their agreement to existing bilateral free trade agreement in the Asia-Pacific, in this case those among Chile, Brunei, Singapore, and New Zealand. This bottom up approach is clearly more politically feasible than a top-down negotiation involving all APEC members. Yet even here, we have seen domestic U.S. opposition. The National Council of Textile Organizations has expressed its concern that Vietnam not be allowed to sign an agreement with the U.S. because of Vietnamese subsidies to the textile industry, and has been joined by the AFL-CIO in its opposition (*Fibre2Fashion*, March 5, 2009). The latter has also expressed concern about Singapore's labor laws, and the dairy and beef industries have expressed fear of New Zealand's competitive threat and the sugar industry is concerned that the TPP might lead to revision of the exclusion of sugar in the U.S.-Australia agreement. Ironically, even pro-free traders are opposed to many parts of the TPP. The most prominent of these, the Emergency Committee for American Trade, the National American of Manufacturers, and the American Farm Bureau Federation, are all concerned that a TPP might negatively impact existing PTAs that the U.S. has negotiated with Chile, Singapore, and Australia (*Inside U.S. Trade*, March 20, 2009.) In March 2009, the Obama Administration delayed its participation in TPP negotiations, arguing that it was still reviewing its trade

policies—although some saw this as a sign of lack of interest by the U.S. in view of opposition by various groups.

With respect to bilateral accords, these accords have led to a situation where the pursuit of such agreements has now given interest groups and their supporters a stake in their continuation. As the U.S. pursued a piecemeal approach under the Bush administration, the passage of specific accords created narrow vested interests. For example, with respect to the CAFTA debate, one source commented that the “deal drew concentrated fire from three well-organized constituencies—textile producers, sugar companies and unions. But because the CAFTA economies are so small, U.S. business didn't mount as muscular a campaign as it did in the NAFTA vote” (*Wall Street Journal*, July 29, 2005). The ratification of bilateral pacts with South Korea, Panama, and Colombia remain controversial. In the Korean case, autos and beef remain contentious issues, while human rights issues beset the Panama and Colombian accords. Ron Kirk, the USTR, has repeatedly emphasized that the U.S. was not in hurry to ratify these accords (*Reuters*, July 27, 2009), even in the face of the conclusion of an EU-Korea bilateral agreement in July 2009. In the meantime, USTR asked for public comments on the three accords.

At this point, there appears to be little American appetite to pursue new PTAs, but in the absence of President Obama not having Trade Promotion Authority (TPA), the issue is currently moot in any case. But on a bilateral level, the most significant development has been the China-US Strategic and Economic Dialogue on July 27-28, 2009 in Washington, D.C. At this meeting, the Chinese agreed to promote greater domestic-led growth, and the U.S. agreed to reduce restrictions on the sale of hi-tech goods that have some possible military applications. Both

countries agreed to promote open trade and investment and fight protectionism, although these pronouncements have not been met in practice.

The most recent developments on a unilateral basis have increased concerns about a turn toward what some have called “murky protectionism” in the context of the financial crisis (Baldin and Evenett, 2009). This term refers to the use of measures that although formally legal under the WTO are discriminatory in intent. A recent study shows that in terms of protecting sectors, in the aggregate this type of protectionism in the crisis has been quite similar to the types of industries receiving protection before the crisis—despite countries claims to be using crisis as an “opportunity” to promote, for example, green technologies (Aggarwal and Evenett, 2009). Recent U.S. actions include restraints against chickens from China, and President Obama’s controversial decision in September 2009 to impose a 35% tariff on Chinese tires—which is technically permitted under China’s WTO protocol of accession. The Chinese immediately announced retaliation against U.S. chickens and auto parts. It is worth noting that the U.S. is hardly the only country using “murky protectionist” measures. China, for example, has blocked imports of wind turbines under 1,000 kilowatts (essentially blocking European design which are 850 kilowatts), insisted on 80% domestic content for solar power plants (*New York Times*, July 14, 2009), and restricted exports of raw materials to help its steel industry. Others Asian (as well as countries in other regions and the EU) have all imposed a variety of trade restraints—their various statements in the G-20 to resist protectionism to the contrary.

CONCLUSION

U.S. trade policy toward Asia has undergone a major transformation since the end of WWII. From the strong pursuit of multilateralism under the GATT, it has moved to the promotion of

regionalism by pursuing NAFTA and transregional accords such as APEC in the 1980s, and a variety of bilateral accords in the 2000s. The latest trend, under the Obama Administration, is the use of “murky protectionist” measures to protect old industries in the context of the financial crisis.

How did this dismal turn of events come about? Section I provided an analytical categorization of trade agreements as an analytical backdrop to examine U.S. trade policy toward Asia in the post World War II period. I argued that traditional approaches to looking at trade arrangements have failed to adequately characterize different types of trade agreements, thereby missing the very real political and economic forces driving types of trade accords.

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

Yet as Section III has systematically shown, the undermining of the trade coalition through competitive liberalization, the rising trade deficit with China, the skepticism that will be generated if the U.S. promotes FTAAP as an alternative to East Asian integration efforts, and APEC's institutional weakness, make such an arrangement unlikely. In short, there is almost no political support for such an idea—or more accurately—active opposition by textile, steel, and other manufacturing elements, as well as agricultural interests. In this political environment, an FTAAP is simply another pipe dream that may well have an equally pernicious effect as competitive liberalization for those who wish to promote freer trade and a more open global trading system. The P4-P8 TPP approach does provide one positive avenue to develop an agreement in the Asia-Pacific, but great uncertainty surround trade liberalization in light of the financial crisis.

At this point, one can only hope that following some type of arrangements on health and pension reform, the Obama Administration will reconstruct a political coalition for free trade and once again provide leadership in the trading system. With the EU and other key powers pursuing bilateral PTAs, it appears that we are in a free for all that ignores the importance of a multilateral, multiproduct approach to negotiations through the effective and institutionalized WTO. The latest turn toward murky protectionism is yet another sign that we have failed to heed the lessons of lack of leadership that characterized the 1930s. One can only hope that the outcome this time will be different. Yet without significant efforts to pursue collective action, a piecemeal preferential approach will undo the 60 years of success achieved under the GATT and the WTO.

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Notes

¹ I use FTAs and PTAs interchangeably as governments generally use the term FTA to refer to their own accords.

² This section draws on Aggarwal (2001).

³ See for example, Mansfield and Milner (1999), p. 592, who recognize the problematic nature of the term “regionalism” but then proceed to use this term in their analysis.

⁴ This usage differs from that of Yarbrough and Yarbrough (1992), which conflates third party enforcement with these terms so that “bilateral” for them can also mean three countries, a highly counterintuitive use. Keohane (1990) refers to an agreement among three or more states as multilateralism. Richardson (1987) is consistent with my usage.

⁵ Of these, the dimension of geographical scope is the most controversial. It is worth noting that this category is quite subjective, since simple distance is hardly the only relevant factor in defining a “geographic region.” Despite the interest that regionalism has attracted, the question of how to define a region remains highly contested. See the discussion by Mansfield and Milner (1999), Katzenstein (1997), and Aggarwal and Fogarty (2004), among others.

⁶ See Global Trade Alert.org for a listing of trade measures being undertaken by countries in the context of the financial crisis.

⁷ This subsection draws on Aggarwal and Lin (2002), which focuses on the pitfalls of what we term “opportunistic liberalization” and where we characterize U.S. trade policy as being recently characterized as strategy without vision. See also the excellent concise discussion of historical trends in U.S. trade policy in Bergsten (2002). The classic account remains Destler (2005).

⁸ See Aggarwal (1985) for a discussion of the nesting of economic issues with a security context. For a systematic analysis of how alliances affect trade policies, see Gowa (1995).

⁹ Calder (2004): 138-140 outlines the key defining features of the San Francisco system: 1) a dense network of bilateral security alliances; 2) an absence of multilateral security structures; 3) strong asymmetry in alliance relations, both in security and economics; 4) special precedence to Japan; and 5) liberal trade access to American markets, coupled with relatively limited development assistance.

¹⁰ Much has been written on the creation of APEC and NAFTA so I do not provide details here.