International Trade Policy in the 1990s

by

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I thank Kim Elliot, Jeff Frankel, Rachel McCulloch, Dan Tarullo and my discussants at the conference for their helpful comments. I should disclose that I was a member of the Administration in its final two years, although the opinions expressed reflect my own views.
In the 1990s, the US economy was both more prosperous and more open than at any time in its history. Its performance was particularly striking because it came after almost two decades with low productivity growth, scant progress in reducing poverty, stagnant wages and rising inequality. The strong US performance in the 90s was driven by innovation in information technologies. Americans not only invested heavily in equipment but they also reorganized the economy to use technology more effectively. Indeed the performance marked such a change from previous trends that many came to speak of a New Economy.

Globalization has played an important role in this New Economy. It has provided the capital that allowed America to maintain investment in excess of domestic saving. It provided the large export markets that allowed US innovators to achieve scale economies that are crucial in financing R&D activities with large up-front costs. It provided the competitive pressures that have stimulated innovation and adoption of new technologies. It provided access to imported components and equipment at lower prices and in greater variety, that allowed US firms to attain optimal levels of cost and quality. And finally, it provided the access and conditions to operate abroad that allow US firms to produce using global supply chains, carrying out stages of production in locations to which they are best suited.

Declining transportation costs and innovation in communications technology and international finance helped drive globalization, to be sure; but it also reflected the impact of policies followed by the Clinton Administration and its predecessors in opening markets at home and abroad. Indeed, trade policy was a key element of the Clinton economic strategic triad which comprised: opening foreign markets, achieving fiscal discipline and investing in people and 

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2 See (United States, Council of Economic Advisers 2000) pages 202-204.
3 In 1999 the poverty rate fell to 11.8 percent, its lowest level since 93, and wage gains at between 1993 and 2000 wage gains in the lowest quintile matched those in the highest. (United States, Council of Economic Advisers 2000)
5 In 2000, imported computers accounted for over 60 percent of the value of new U.S. computer purchases, nearly twice the level in 1987. (United States, Council of Economic Advisers 2001)
technologies. On the basis of the economic performance in the 1990s, these policies appear to have succeeded.

However, trade policy is about politics as much as it is about economics. Congressional prerogatives, public opinion and interest group pressures all play important roles. Article 1 of the US Constitution gives the Congress the final say in trade agreements and the Congress guards this power jealously. The relationship between the President and Congress is frequently strained over trade policy and the delegation of authority to the President by the Congress is filled with tension. This has critically important implications for the way the US negotiates and the way it behaves. Trade policy in the United States should not, therefore, be described as if it reflected the unilateral choices made by the President, whatever his preferences. Ultimately, in appraising the performance of trade policy, we need to understand the politics of trade and the constraints they placed on the President.

The politics of trade policy in the 90s presents an entirely different story from the economics. In its first two years, the Administration was able to implement what one writer accurately described as “a more ambitious record of trade liberalization than any President since at least Harry S. Truman.” The record included NAFTA and the Uruguay Round, A New Economic Framework with Japan, a decision to emphasize trade over human rights with China, and declarations to (i) achieve free trade and investment in the APEC region by 2020 and (ii) negotiate an agreement for Free Trade in the Americas by 2005. Both domestic and international political conditions for trade liberalization appeared favorable. The Administration was able to negotiate successfully abroad, and to obtain Congressional support at home. Given

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6 In the 1988 Omnibus Trade Act, for example, considerable efforts were made via the new Super-301 provision to force the President to become more aggressive with respect to trading partners such as Japan. See Destler, I.M (1995) pp 92–98.

7 The USTR, for example, is as much the President’s special representative to congress as she is his representative to the rest of the world.
the weak economy, the history of wage stagnation and inequality and high degree of economic insecurity at the time, this was a remarkable accomplishment.

After this flourish, the period of consolidation that took place over the next two years might have been expected, but paradoxically, as the economic performance improved, the political environment deteriorated. To be sure, between 1997 and 1999, three multilateral single-sector agreements were concluded. But there were also several initiatives that ended with remarkable failures: Abandonment of the Multilateral Agreement on Investment, inability to obtain Fast Track Negotiating Authority (in 1997 and 1998), failure to obtain agreements on sectoral liberalization at APEC and the debacle at the Seattle Ministerial in 1999. By contrast, 2000, was a year with solid accomplishment highlighted by successful negotiations with China over its entry into the WTO and the vote to provide Permanent Normal Trade Relations, passage of free trade agreements with Africa and the Caribbean, negotiation of an Agreement with Jordan and initiation of talks with Singapore and Chile. Nonetheless, a serious set of conflicts with Europe remained unresolved and the prospects for a new trade round remained uncertain. More fundamentally, conflicts over the appropriate relationship among labor and environmental standards and trade agreements remained unresolved and the prospects of obtaining Fast Track Authority were unclear.

Trade policy in the Clinton years thus featured a basic paradox: the economic accomplishments were impressive but the political consensus in support of trade agreements in the United States was severely eroded. In the final section of the paper, I will discuss how this happened, by considering the domestic political impact of the trend towards deeper international integration. Trade agreements and rules no longer focus narrowly on border barriers. As their scope has increased, they have become a battle ground for domestic political conflicts which has

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8 The Information Technology Agreement, The Agreement on Basic Telecommunication and the Agreement on Financial Services.
greatly added to the complexity of conducting US trade policy. Before presenting this discussion however, the story of trade policy in the 90s must be told. The first section of the paper begins by describing the initial circumstances facing the Administration at home and abroad and considers the strategic options that were available to it; the second section provides an account of the major trade policy developments; the third section then evaluates the performance in terms of its economic and political achievements, section 4 concludes with some reflections on policy.

Section I: The Clinton Approach to Trade.

Several key elements are important in establishing the context for US trade policy in the early 1990s. The first was the weakness of the economy. In his final years in office, George Bush had the misfortune to preside over a stagnant economy. In 1990, the US economy had experienced a recession and in 1991 and 1992 its recovery had been sluggish with unemployment remaining high. In addition, the economy had experienced slow productivity growth for almost two decades and since the 1980s growing inequality and slow wage growth.

The weak economy gave William Clinton the opportunity to unseat an incumbent President. It also presented him with his most important challenge exemplified by the unofficial slogan first coined by his campaign adviser “It’s the Economy Stupid”.

But the task was complicated further by a second factor. The US economy had become globalized. It was increasingly dependent on foreign markets, foreign capital and foreign technology. Some saw this globalization of the economy as threatening, because America was

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9 Real compensation per hour had averaged just 0.7 percent annually between 1973 and 1990. (United States, Council of Economic Advisers 2000) page 26.

10 Between 1970 and 1990 the share of trade in goods and services as a percent of GDP increased from 12 to 20 percent. In the 1980s the US had become a major recipient of foreign direct investment. In the 1980s, the US had also experienced record trade and current account deficits.
widely viewed as in decline. Some fatalistically explained this as inevitable. The US lead was bound to erode because it is easier to copy than to innovate. But others placed the blame more squarely on US trade policies. America had subordinated trade policy to foreign policy. Driven by geo-strategic concerns motivated by the cold war, the US had opened its markets, but foreign countries had not reciprocated. The claim was that since foreign governments supported their firms with industrial policies while the US had a laissez faire approach, the result was disastrous. Foreigners were enjoying increasing shares of the leading edge industries, and America was being de-industrialized. US trade relations with Japan exemplified these conflicts. Japan had enjoyed access to US markets but barriers both visible and invisible inhibited access at home.

For much of the postwar period, the US had sought economic liberalization around the world, partly out of a desire to contain Soviet expansion. The US strategy had succeeded, particularly with respect to liberalization in Europe and Japan but many developing countries had retained high protective trade barriers. The triumph of capitalism over socialism dramatically changed the picture. Much of the world was suddenly embracing freer markets and more open trade. The economies in transition were seeking to become capitalist. Developing countries were now abandoning import-substitution policies, unilaterally lowering trade barriers and seeking foreign investment. Suddenly the environment for trade agreements had become far more favorable. The US now felt pressures to put its money where its mouth was and deliver what it had long argued for. President Salinas of Mexico was just the first of a long line of leaders now seeking freer trade with the United States.

A third key factor was the political situation. Many blue-collar workers had not done well in the US economy in the 1980s and this had placed particular pressures on their political

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11 See for example Paul Kennedy (1987)
12 see (Prestowitz, Clyde V. Jr. 1988) for example.
Despite its free trade ideology, the Reagan Administration had succumbed on numerous occasions to protectionist pressures, with quotas on imports of steel and machine tools providing important examples. In 1988, the Omnibus Trade Act had embodied congressional frustrations in new Super 301 legislation which was designed to pressure the President to be more aggressive with US trading partners. In 1991, when George Bush sought fast-track authority for NAFTA only a third of the Democrats, the majority party in congress, were willing to give it to him. The Republican party provided solid support, but for a Democratic President, trade agreements had costs.

Given these conditions, in principle, the incoming President in 1993 needed to make four basic strategic choices. Would he seek further trade liberalization? If so, with which countries should agreements be sought? Which issues should agreements cover? And how should they be enforced? Let us briefly review some of the considerations behind each of these choices.

More free trade? Free traders argue that trade barriers are inefficient. They raise costs to consumers and deny the economy the benefits that come from specialization. Accordingly, these barriers should be eliminated. Some argue this should be done unilaterally. But for a large country, like the United States, it makes more sense to use its bargaining power to use reductions in barriers at home to improve access to markets abroad. Thus the US almost always reduces its domestic barriers in negotiations.

There are cases justified by solid economic theory, in which trade protection could actually increase national welfare. One key problem with these strategic trade arguments is that they are difficult to implement in practice. Political pressures in the US where congress has

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13 See (Scheve, Kenneth F. and Slaughter, Matthew J. 2001) for an analysis that demonstrates the erosion in support for free trade among less-skilled US workers.
14 For an analysis see the excellent piece by Richardson in the Feldstein predecessor to this volume.
15 One example, is the so-called optimal tariff in which a country improves its terms of trade by reducing its purchases from the rest of the world. Others involve the use of so-called strategic trade policies in which rents are shifted to domestic producers. For a more complete discussion see (Lawrence, Robert Z. and Schultze, Charles L. 1990) pp
power over trade, would make it very difficult to confine protection to those sectors or activities which have “strategic” merit. In addition, were the US to move in this direction, it would inevitably set off foreign retaliation that would nullify its strategic economic advantages and undermine its international political relationships.

**Multilateral or Multi-track?** Until the early 1980s, US relied almost exclusively on multilateral trade liberalization through the GATT.\(^{16}\) To be sure it engaged bilaterally with Japan, Europe and other trading partners, but unlike EU, the US had not sought regional agreements, partly because of its role as leader of the free world, partly because of unfortunate experiences in the 30s of being discriminated against. But in the 80s, when the multilateral negotiations were stalled the US decided to go “regional”. It concluded an agreement with Israel and followed it with the US-Canada FTA. George Bush had provided further movement in this direction by negotiating NAFTA and launching an Enterprise for the America’s Initiative which aimed at Western Hemisphere Free Trade.

Economists have long felt ambivalent about regional, or more accurately preferential trade agreements because they may divert as well as create trade.\(^{17}\) The NAFTA, for example, could enhance US welfare if Americans now buy products from Mexico that Mexico makes more cheaply than the US. But the NAFTA could also reduce US welfare if Americans now buy a product from Mexico that we used to buy from Korea. Korea may produce at lower cost, but cannot sell because it is encumbered with tariffs. Because of this possibility, some economists have advised the US against undertaking such agreements.\(^{18}\) But this advice ignores

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\(^{16}\) The US-Canada Auto pact was an exception.

\(^{17}\) Preferential Free Trade Arrangements are second-best when compared with complete multilateral free trade. But so too are partial multilateral free trade agreements.

\(^{18}\) See (Bhagwati, Jagdish and Panagariya, Arvind 1996)
the fact that with free trade areas countries remain free to lower their barriers to third countries and offset the diversion. 19

The real issue, however, concerns the dynamic implications of these arrangements. As Jagdish Bhagwati has asked so memorably “are they building blocks or stumbling blocks?” Do the preferential agreements represent a stepping stone to full-blown multilateral free trade or will they prevent its occurrence?

Coverage. Should trade agreements deal only with border barriers or should they also cover other domestic barriers? Should they be confined to trade, or deal with policies such as competition, intellectual property protection, labor standards, human rights, and the environment?

Over the postwar period, there was a fundamental shift in the scope of trade policies. Initially negotiations had been concentrated on lowering trade barriers at the border (elimination of quotas and reductions in tariffs.) Over time, however, it became apparent that there were other obstacles to trade. Thus rules covering standards, customs valuations and practices, and government procurement, became part of trade agreements. But the process of deepening had not stopped there. Trade agreements had begun to cover what had formerly been considered matters of purely domestic concern, such as intellectual property rights, competition and other regulatory policies. 20 Some agreements have included provisions relating to labor and environment.

One force for this deeper integration is functional. As trade liberalization is extended to include services and foreign investment, many domestic policies became relevant to foreign firms. Foreign investors establishing a plant have to be concerned about regulations, taxes, rules on expropriation, standards, intellectual property etc. A second force for deeper integration is

19 This would not hold for customs unions unless they agreed in to reduce the common external tariff.
20 Deeper integration could be seen in multilateral talks on question of TRIPs and TRIMs, in regional agreements, most notably EC92 and bilateral negotiations between US and Japan under the Structural Impediments Initiative in the late 1980s.
political. As international competition intensifies, the major political groups in our societies -- business, labor and environmentalists -- feel foreigners have an unfair advantage and therefore seek “a level playing field”.

Deeper integration is a double edged sword. It can enhance the benefits from global integration by reducing obstacles and enhancing market contestability. But it also represents an increasing intrusion on national sovereignty. Likewise, trade policies could help improve the environment and advance labor rights, but there are dangers that such policies could be inappropriate for some countries and that they could be used as a pretext for protectionism. Bringing more issues into trade negotiations could help build political support, but it could also undermine them if the issues are controversial and difficult to negotiate.

The shift towards deeper integration has also raised important new conceptual problems for trade policy. In essence, how far should the international harmonization of policies proceed and to what degree should such harmonization occur within trade agreements? Border barriers and their effects are relatively well understood, but agreements bringing areas such as intellectual property and regulatory standards into the trading system raise new challenges.

**Enforcement.** Many international agreements depend on the good intentions of the signatories to carry them out, but often such agreements have little credibility. More credible Agreements that are binding and entail sanctions are more credible but a key issue is how should disputes be resolved? The General Agreement on Tariffs and Trade (GATT) in principle allowed sanctions, but it had a weak dispute settlement system in which the defendant could block hearings and punishment. Partly in response, the US had implemented legislation called Section 301 in which the US investigated foreign barriers to US exports and was prepared, unilaterally, to impose sanctions in the event foreigners refused to remove such barriers. The US claimed the

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21 For a more complete discussion see (Birdsall, Nancy and Lawrence, Robert Z. 1999)
22 See again Birdsall, Nancy and Lawrence, Robert Z 1999,
right to do this, not only when such barriers represented violations of agreements but also when they were deemed unreasonable.

*Compete and Not Retreat.* How did the Clinton Administration decide to answer these questions? The short answer is that it chose freer trade, pursued by a multi-track approach in order to conclude agreements that would include a wide array of policies and be enforced through sanctions. A more complete answer will emerge in the detailed account of the policies in the next section. But a sense of the approach could already be gleaned from the first major speech on trade policy as President given at American University in February 1993. The basic principle was to “compete and not retreat,” a posture driven by the view that “open and competitive markets will enrich us as a nation.” The US would adopt an aggressive approach aimed at opening foreign markets for US exporters and firms through negotiating multilaterally, pluri-laterally and bi-laterally. It would “continue to welcome foreign products and services but insist that our products and services be able to enter their markets on equal terms” This insistence would be achieved through tough efforts to pursue disputes. Economic policy would be elevated to a position of parity with national security policy through the creation of a National Economic Council. In his campaign for President, Clinton had sought to give labor and environment greater prominence in trade agreements. In particular, he had withheld his support for NAFTA until side agreements on labor and the environment could be negotiated. His approach would therefore seek deeper integration.

The key message was that the United States was not becoming protectionist nor withdrawing from its role of leadership. Indeed, the President was signaling strongly that he was committed to free trade agreements. Although a majority of his party might oppose them, he would pursue every avenue he could to extend and enforce them.
Section II: Trade policy in the 90s: The Major Developments.

Given this choice of a multi-track strategy, it makes sense to present this selective account of the major trade policy developments in the 1990s by differentiating actions according to whether they occurred in initiatives that were multilateral, regional, bilateral and unilateral. **Multilateral.** Multilateral initiatives at the GATT, and its successor the WTO, played an important role in US trade policy in the 90s. Major agreements the US was able to support included the Uruguay Round, the Information Technology Agreement, the Financial Services Agreement and the Basic Telecommunications Agreement. The new, more effective, dispute settlement system established at the WTO enhanced the international rule of law. It allowed the US to reduce its use of unilateral measures to enforce trade agreements and provided America’s trading partners with a rules-based recourse to challenge US actions.

In the second half of the 90s, however, there were also noteworthy failures in the multilateral arena: The US was unable to introduce labor standards into the multilateral trading system at the Singapore Ministerial in 1996; the negotiations on a Multilateral Agreement on Investment at the OECD were suspended in 1998; the Seattle Ministerial failed to launch a new round in late 1999 and even though the US succeeded in WTO cases against the European Union on beef and bananas it was unable to enforce compliance. This section discusses some of these events in greater detail.

**Uruguay Round.** Much of the work for completing the Uruguay Round had already been accomplished by the time the Clinton Administration assumed office in 1993. However, controversial issues, concerning farm subsidies, the treatment of the film industry and the rules governing anti-dumping remained unresolved. Negotiations over details continued. In December 1993, the Administration decided it had received its best offers on these issues, and
The agreement was concluded. The agreement represented an important accomplishment. It (a) extended the trading rules to sectors such as agricultural products and services; (b) provided for new international disciplines on non-tariff barriers such as Trade-related Investment Measures, Voluntary Export Restraints, Technical barriers to trade, Sanitary and Phyto-sanitary Measures, Rules of Origin and Government Procurement, many of which had been the source of obstacles for US exports in the past; (c) tried to clarify the rules for unfair trade that deal with subsidies and dumping; (d) contained an international agreement on intellectual property rights (TRIPS) which afforded US high-tech producers with rights they had hitherto not enjoyed; (e) tightened the disciplines of the international system by establishing a new World Trade Organization in the place of GATT and a new and more binding system for settling international disputes; and (f) provided for the eventual elimination of the network of quotas -- the Multifiber Agreement -- that protected the textile industries in developed countries, while retaining tariff protection for US textile and apparel workers. Particularly noteworthy was the fact that the agreement was “a single undertaking” with all GATT members accepting all obligations.

The Uruguay Round had ended without full agreement in key service sectors such as telecommunications, financial services and maritime transportation. In addition, the General Agreement on Trade in Services (GATS) remains full of exceptions. The trading system, therefore, remained far from the goal of free trade in services. There was also considerable scope for further liberalization in agriculture and civil aircraft.

After holding out for many years, eventually, the United States and the Cairns group of farm-product exporting nations settled for modest limits on European subsidies and commitments by Korea and Japan to import small amounts of rice, in return for bringing agriculture as a whole under GATT disciplines and the conversion of all agricultural quotas into tariffs. In the final hours of the negotiation, USTR Mickey Kantor also agreed not to push to have films included in the agreement. He was insistent, however, on achieving modifications of the text on anti-dumping which tended to increase the ease with which petitioners could obtain relief.
After the final details of the text were signed at a meeting in Marrakesh in April 1994, and after the mid-term elections in November, the agreement was eventually ratified, with both parties supporting the bill by margins of two to one.24

The US also participated in the negotiations under the WTO Committee on Trade in Financial Services. An interim Agreement on Financial Services had been concluded in 1995, without US commitments, although the US had been extended MFN privileges on an interim basis. The negotiating group on Basic Telecommunications began deliberations in May 1994 and concluded in April 1996, also as part of the extended negotiations on services sectors following the conclusion of the Uruguay Round.25

The US sought to obtain foreign commitments to market access and national treatment and foreign adoption of pro-competitive principles. However, after the United States indicated that the offers were not sufficiently trade liberalizing, participants extended the negotiations further and they were eventually concluded in February 1997 after 46 trading partners improved their offers and 21 countries submitted new offers. Scheduled to come into effect in January 1998, “the accord was signed by 69 countries, covering 91 percent of $600 billion in annual global telecommunications revenues.”26

At the Ministerial of the WTO held in Singapore in 1996, the US sought commitments to further liberalize trade in information technology products, basic telecommunications and financial services. On the first issue, it was particularly successful, when ministers from 28

24 However the ratification vote occurred only after (1) the adoption of several measures in the implementing legislation which in part tilted the anti-dumping rules further in favor of petitioners. (see (Destler, I.M 1995) pp 240-244); (2) a failed effort by Mickey Kantor to obtained Fast Track Negotiating Authority which included “labor standards” and “trade and the environment” as principal trade negotiating objectives; and (3) the introduction of a provision, introduced by Senator Robert Dole, to establish a commission which would review WTO dispute settlement reports and could propose withdrawal of the US from the WTO if deemed necessary.

25 Participants provided schedules for liberalization in voice telephony, local, long distance and international telephone service; data transmission services, cellular and other mobile service; private leased circuit services; and satellite services. (United States, International Trade Commision 1997) page 37.

26 This paragraph is drawn from (United States, International Trade Commision 1997) page 39.
current and prospective members issued a Declaration known as the Information Technology Agreement (ITA) that would lead to the elimination of tariffs in certain information technology products and, with sufficient participation, was set to enter into force on July 1 1997.

At Singapore, the US sought to advance the observance of internationally recognized labor standards and increased recognition of Multilateral Environmental Agreements by the WTO. Both efforts were not successful. The US attempts at establishing a working party on labor standards failed. In the final declaration, although members “renewed their commitment to the observance of internationally recognized core labor standards,” they noted that “the International Labor Organization (ILO) is the competent body to set and deal with these standards.”

At Singapore, the Committee on Trade and the Environment (CTE) which had been established at Marrakesh in 1994, issued a report which encouraged multilateral solutions to trans-boundary problems but which was cautious about whether the WTO rules should be formally amended to take MEAs into account. The US registered disappointment, that the CTE was unwilling to state that WTO rules should not hinder the ability of MEAs to achieve their environmental objectives. The US was also unable to obtain the CTE’s endorsement of having environmental reviews of trade agreements.

**Foreign Investment.** At a meeting of the trade ministers of the United States, EU, Japan and Canada in Los Angeles in 1994, USTR Mickey Kantor called for the launch of negotiations in the OECD for a “multilateral investment agreement”. The aim was to create a set of rules that would liberalize foreign investment and ultimately replace the patchwork bilateral treaties (BITs)

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27 The US also had “sought a non-negotiating and non-prejudicial dialogue in the WTO on how observance of core labor standards and trade liberalization can be mutually supportive”. However, as the US International Trade Commission noted “these ideas generally met with lukewarm support – or outright opposition – from other developed countries and virtually uniform opposition from developing countries. (United States, International Trade Commission 1997) page 24.

which governed foreign direct investment. "The US emphasized that only a “state-of-the art”
MAI, meeting or exceeding the standards of these BITs would be of interest." By producing a
"world-class” set of rules at the OECD, the (mainly) developed countries could develop a
prototype that could subsequently be introduced into the WTO. In May 1995, the OECD
ministers agreed to launch the negotiations.

The proposed MAI generated considerable opposition in the US and other countries. Public Citizen, the organization headed by Ralph Nader, which leaked an early draft of the
agreement, called the MAI “a license to loot.” The opponents were concerned that governments
would promote the interests of multinational corporations at the expense of other interests. They
were particularly concerned about the constraints such an agreement would place on domestic
policy. This was a problem that had already become apparent as a result of experience with
Chapter 11 of the NAFTA which provided foreign investors with very broad rights to
compensation from expropriation. The negotiations became a target for hundreds of grassroots
environmental, consumer, unions and development organizations. The NGOs were particularly
effective in using the Internet to galvanize opposition to the MAI.

Aside from these pressures, negotiators also faced substantive difficulties in crafting an
agreement. Most developed countries were already open to foreign investors. Thus the
restrictions that remained reflected concerns and interests that they were unwilling to forego. In
October 1998, participants suspended the MAI negotiations following the withdrawal of France,
according to the USTR “in light of significant differences of view in the nature and extent of

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29 United States, Trade Representative 1996) page 71. The US sought an agreement which would go beyond
existing OECD obligations and provide foreign investors with (1) the better of national or MFN treatment, (2)
freedom from performance requirements; (3) freedom to make investment related transfers of profits, royalties and
fees, (4) international law standards for expropriation and (5) access to binding arbitration. (United States, Trade
Representative 1996) page 71.

30 See (Graham, Edward M 2000) for more discussion of this issue.
acceptable exceptions to the agreement, and the need for further consideration of concerns raised by environment and labor interests.\footnote{United States, Trade Representative. 1999) page 152.}

Regardless of the degree to which the NGOs were responsible for killing the talks, the fight invigorated and empowered many of these organizations to continue their campaign against the perceived injustices of international trade and investment systems. This success would lead them to mobilize for Seattle with greater enthusiasm and the United States Administration to view an agreement on investment in the WTO with considerable ambivalence.

**Seattle** In May 98, at Geneva the WTO held its second Ministerial which was attended by President Clinton. The US was successful at this meeting in launching an initiative which would keep cyberspace duty free, but the most significant decision made at the meeting was to launch a new trade round at the next ministerial which was to be held in Seattle in late 1999. One goal was to give President Clinton a platform where he could discuss trade policy with the American public. It was already agreed that the new round would include ongoing work in liberalizing agriculture and services but much remained to be resolved. Indeed it turned out that too much remained to be resolved and the meeting ended in failure.

In retrospect, the efforts to launch a new round at Seattle seemed doomed from the start. US had considerable demands: these included no restrictions on trade in e-commerce, considerable liberalization in services and agriculture (in particular, the elimination of export subsidies), measures to make the WTO more transparent, and a working group in the WTO on the issue of core labor standards. At the same time, the US appeared unwilling to give up anything, indeed even unwilling to place what others wanted on the table. In particular, it would entertain no discussion of the anti-dumping rules, and was unsupportive of bringing competition policy and investment rules into the negotiations. The US wanted the talks to have a narrow focus so that
the negotiations would end within three years. The Europeans, by contrast, sought a broad negotiation that would include competition policy and investment, and were less willing to agree to focus as heavily on agriculture. Japan, likewise, was reluctant to liberalize agriculture, and it emphasized reform of the anti-dumping rules – the very issue the US refused to discuss. The developing countries wanted accelerated liberalization in agriculture and textiles, but many also wished to backtrack from agreements they had signed on trade-related intellectual property (TRIPs) and trade-related investment measures (TRIMS.) arguing that they lacked enforcement capacity. In the end, therefore, there was little common ground. Among the numerous areas of disagreement, the question of labor standards stood out. Developing countries would not agree to even the very modest US proposal for “a study group on trade and labor.” They were particularly fearful that such standards could eventually become a pretext for protectionism. Their suspicions were particularly aroused by President Clinton who told the *Seattle-Post Intelligencer* on the eve of the meeting, that “ultimately I would favor a system in which sanctions would come for violating (such provisions)”

While the Seattle delegates were failing to reach agreement inside its meeting rooms, pandemonium raged outside the halls, as a large, vocal and sometimes violent groups of protesters gathered to voice their opposition to globalization in general and trade agreements and the WTO in particular. The opponents represented a wide range of views. Some sought the elimination of the WTO, others sought radical reform, some claimed to be concerned about reducing poverty in developing countries, others were against economic growth. It was clear, though, that a large number of organizations, opposed to globalization for a variety of reasons, had become increasingly effective at organizing protests.

The Administration would probably have been able to make concessions on issues such as investment and competition policies. It would also have had to be realistic on the issue of
workers rights. But it faced powerful, perhaps fatal, political obstacles which prevented it from being more forthcoming on the anti-dumping rules. These rules enjoyed strong support from both business and labor. For the unions, in particular, the anti-dumping rules had just proved their worth, as the only effective means available for responding to the steel import surge in 1998. (See discussion below). The Administration was unable to win even the smallest of fig-leaf concessions on bringing labor standards into the WTO. It had further enraged its labor supporters by concluding an agreement with China that promised a destructive conflict within the Democratic Party during an election year. Any weakness on dumping could fatally impair its ability on the Hill to win permanent NTR for China.

Nonetheless, it was unfortunate that the US was forced to take this position, which severely undermined its leadership role. Certainly, it was unreasonable for the US to be unwilling even to contemplate modification of these rules. While there is a strong case for rules which define fair trade and prevent predatory behavior, these particular rules, and the manner in which they are applied, are highly questionable. The US strategy of seeking a narrow agenda limited only to the areas in which it had an interest, played into the hands of those who were already mistrustful of US dominance.

Dispute settlement. The United States was a particularly active participant in the new WTO dispute settlement process. In 1995, alone, the US launched complaints relating to EU import restrictions on beef and bananas; Japanese taxes on distilled spirits and failure to protect rights in sound recordings; Australian import restrictions on salmon, and Korean regulations and testing/inspection requirements for agricultural imports. The US was also able to settle cases against the EU on access issues in grain markets and Korea on exports of Beef. The US was also

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32 See (United States, Trade Representative 1998).
the defendant in a case brought by Venezuela and Brazil relating to its environmental regulations on gasoline.

Several cases brought to the WTO in the mid 1990s were important, not simply because of the specific complaints they dealt with, but because of the systemic issues they raised. These related to questions of health and environmental regulation, competition policy and compliance with dispute settlement rulings.

*Beef.* The US dispute with the EU over hormone-fed beef had had a long history. It was a leading-edge case exploring the tension between regulatory autonomy – the right of the EU to implement whatever food safety regulations it chose – and the need for regulations that were non-discriminatory and based on science. The Uruguay Round Agreement on Sanitary and Phytosanitary Standards (SPS) had recognized the right of members to take measures necessary to protect health and life within their territories, but held they could do so only if such measures were not arbitrary or unjustifiably discriminatory. In addition the SPS agreement stated that the international standards for food safety would be those established by the International Codex Alimentarius Commission.

In 1995 the Codex had, by a vote of 33 to 29 (with seven abstentions), accepted standards that permit the use of growth promoting hormones. In April 1996, joined by Australia, New Zealand and Canada, the US filed a formal complaint accusing the EU of blocking US exports, at the WTO. The case was significant in that the EU was not accused of discriminatory behavior but rather of having adopted regulations that were not based on adequate analysis. In August 1997 the panel found the EU in violation of its international obligations. The EU lost its appeal and, since it refused to comply, the US imposed sanctions in 1999. By that time, with the

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33 Although its own scientists had issued reports finding that the use of hormones to stimulate beef growth was safe, in 1989 the Europeans had decided to ban all non-therapeutic use of hormones in cattle. In the late 1980s, therefore, the US had brought a 301 case against Europe that had eventually resulted in the imposition of retaliatory sanctions. This account is based on (Deveraux, Charan 2001).
outbreak of the deadly brain disease nvJCD (mad cow) in Britain, several other food scares, an outbreak of hoof and mouth disease and growing concerns about the use of genetically modified organisms in food, the food safety issue had become extremely prominent in Europe. While the US was successful from a legal standpoint, the prospects of Europe allowing in US hormone-fed beef remained dim.

**Gasoline.** The US was also the defendant in a case brought by Venezuela and Brazil on standards for Reformulated and Conventional Gasoline under the Clean Air Act. The complainants claimed the EPA rules subjected imported gasoline to standards that were more stringent than those on domestic gasoline. The WTO Panel and subsequent Appeal body ruled against the US. The ruling did not reject the ability of the US to undertake measures necessary to protect the environment under Article 20 of the GATT. However, it did find that the US had failed to provide imports equal competitive opportunities. The US eventually brought its rules into compliance. The case was later used by free trade opponents to bolster their claims that WTO rules unduly constrained US environmental regulations.

**Shrimp- turtle.** Similarly, in October 1996, India, Malaysia, Pakistan and Thailand filed a WTO complaint against the United States because the US had embargoed imports of shrimp and shrimp products, some of which had been caught without using devices which excluded sea turtles. The Appellate Body of the WTO ruled that the US ban on shrimp imports could be provisionally exempted from GATT rules because it met Article 20 (g) provision allowing trade restrictions to protect exhaustible natural resources. However it found that the US had implemented the law in a discriminatory manner.

**Film.** In May 1995, the Kodak company had filed a 301 action against Japan claiming its sales had been impeded in Japan by the anti-competitive actions taken by the Japanese

\[34\] (United States, Trade Representative 1996) page 57.
authorities. A year later, USTR chose to pursue the case at the WTO. The claim was that Japan had “nullified and impaired” trade concessions it had granted the United States by permitting anti-competitive practices, and by failing to implement a transparent regulatory system. The panel issued a report in December 1997, which ruled against the US government on all substantive allegations. The case was significant because it established that, as they stood, the WTO rules were not well suited to deal with problems relating to weak national enforcement of competition policy. International rules would have to be explicitly negotiated and specified if the WTO was to encompass competition policy considerations.

_Bananas._\(^{35}\) The US brought a case on behalf of its major banana distributor Chiquita claiming that the EU had established a discriminatory import regime which had violated the rules of both goods (the GATT) and services (the GATS). The US, joined by Ecuador was successful in this case, and later when Europe failed to bring its import system into compliance, was permitted to invoke trade sanctions. The case was finally settled in early 2001.\(^{36}\)

In the late 1980s, the US had angered many of its trading partners by undertaking unilateral actions under its section 301 provisions that aimed at “unreasonable and unjustifiable” foreign barriers to US exports. The US had often claimed that the weakness of the GATT dispute settlement mechanism necessitated these actions.\(^{37}\) The tougher, more binding WTO dispute settlement was the response. The ability to use this mechanism has, indeed, allowed (and induced) the Clinton Administration to curtail unilateral US actions. While the US has not eliminated 301 (or Super 301) it has, wherever possible, resolved 301 issues through the

\(^{35}\) In 1998 the EU challenged the Foreign Sales Corporation provisions of US tax law, on the grounds that these constituted prohibited export subsidies. In February 2000, the Appelate Body concurred with the EU contention that the FSC violated WTO rules. The US responded in 2000 with legislation in an effort to come into compliance.

\(^{36}\) For a more complete description see (Rosegrant, Susan 1999).

\(^{37}\) See (Bhagwati, Jagdish and Patrick, Hugh 1990).
multilateral dispute mechanism. The new dispute system has also provided numerous US trading partners with an effective means of challenging and altering US practices. Nonetheless, there continue to be frustrations over the difficulties of forcing compliance, as exemplified by efforts in the US congress to introduce a so-called carousel system that would rotate the sectors being sanctioned with the aim of inflicting more political pain. There is also controversy over particular panel findings.

**Regional.** The Clinton Administration followed in the steps of its Republican predecessors by using a variety of regional trade initiatives to complement its participation in the multilateral trading system. The initial focus was on North America, with the NAFTA, that was implemented in 1994. In addition, throughout the decade, the US participated actively in APEC, and in the preparatory work for a Free Trade Agreement for the Western Hemisphere. The US participated in a Transatlantic Partnership with Europe and implemented new free trade initiatives for Sub-Saharan Africa and the Caribbean. Negotiations for a US-Jordan Free Trade Agreement were concluded and negotiations for free trade agreements with Singapore and Chile were launched.

**NAFTA.** The Bush Administration concluded its negotiations for the NAFTA in August 1992. The Agreement was a remarkable accomplishment because its implementation would result in free trade and free investment between a developing country and two industrialized counterparts. The NAFTA built on the Canada-US FTA but was more extensive in several noteworthy respects: it included the protection of intellectual property rights, contained rules against distortions on investment, and it went further in liberalizing services, including transportation. Most tariff and Non-tariff barriers were to be eliminated within 10 years and all were to be removed within 15 years. Remarkably, the NAFTA will establish free trade in agricultural products between the US and Mexico. The Agreement also eliminated all tariff and non-tariff
barriers in textiles and apparel. From a free trade perspective, it is flawed by the highly restrictive, North American rules of origin that products (particularly textiles, clothing and autos and auto-parts) are required to meet to be eligible for duty-free access.

While the NAFTA was a remarkable achievement, the agreement came under fire for inadequately protecting the environment and workers' rights. This was a crucial weakness from the standpoint of the Democratic majorities in both Houses of Congress. As a candidate, Bill Clinton had at first been neutral on NAFTA. In October 1992, at the heat of the campaign, he endorsed the NAFTA text, but also announced his intention to seek supplemental agreements that would deal with environmental protection, labor and mechanisms to restrain with unexpected import surges. Despite their Presidential candidate's position, throughout the 1992 campaign, many Democrats continued to oppose NAFTA. It was clear, therefore, in early 1993, that the Administration faced an uphill ratification battle in which the side-agreements might play an important part. They also provided the President with a mechanism, simultaneously, to indicate his support for free trade and for environmental and labor rights.

Prior to the NAFTA, as Mayer notes, environmental organizations in the United States had no history of involvement with trade negotiations. When the NAFTA negotiations were announced, however, they were galvanized on the issue as an opportunity to focus attention on the impact of trade agreements on environmental regulations and on the environmental problems in the Mexican free trade zones known as maquiladoras. As vividly described by Mayer, the environmental organizations were split on NAFTA. Some were against but several middle of road organizations prepared to support it, provided that the environmental provisions were

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acceptable. Accordingly the Administration worked with these groups and by August 1993 obtained side agreements which several of them endorsed.

One controversial issue when it comes to issues of international labor and environmental standards, is whose standards should apply? This is particularly difficult when nations are at different levels of development. The NAFTA side agreements reflected an innovative principle in which the emphasis was placed on implementation. The basic principle was to have international oversight of national laws. The US and Mexico agreed, that in extreme cases, failure to implement domestic laws could met by sanctions authorized by an international dispute panel. Canada agreed to make international decisions on its laws enforceable in Canadian courts.

The debate over NAFTA was highly contentious. The economic questions were heavily focused on employment issues. Proponents argued it would generate additional employment opportunities, opponents contending it would cost large numbers of jobs. While Ross Perot claimed NAFTA would generate "a giant sucking sound" those using conventional economic studies agreed that the number of jobs involved was on the order of 250 to 500 thousand -- very small numbers in a labor market with employment of 120 million. However, NAFTA also focused attention on the environment, drugs, immigration, human rights and sovereignty. In most of these area, as with employment, the marginal role of the NAFTA was probably small but these issues were far more salient politically. Concerns about these issues, brought about an alignment

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41 Sanctions were generally tougher in the environment side agreements than in the labor side agreements. In part, according to Mayer page 198 because the CTM union in Mexico feared competition from other unions and in part because unions in the US were less influential than environmentalists because even the toughest side-agreement would not have induced them to support NAFTA.
of strange bedfellows stretching from Patrick Buchanan and Ross Perot on the right to the AFL-CIO and Ralph Nader on the left.  

The Administration made huge efforts to gather support for NAFTA. A war room, under the leadership of William Daley, was established at the White House to monitor the campaign. Vice President Gore played a critical role in debating Ross Perot on CNN. The President and Cabinet Officials strongly lobbied members of Congress, cutting numerous deals to obtain support. Eventually, the NAFTA was supported by 102 Democrats and 132 Republicans in the House of representatives. Conspicuously, however, the House leaders Richard Gephardt and David Bonior remained opposed, despite the efforts that had been made to reflect their views in the side agreements.

It had taken a great deal of political courage for President Clinton to defy a majority in his party and many on his White House staff to lead the fight for the NAFTA at a time of high unemployment. Its passage was unquestionably a major accomplishment. Shortly after the NAFTA was implemented Mexico experienced a financial crisis. Despite the recession that followed, Mexico continued to meet its commitments – proving that the NAFTA had indeed locked in its economic reforms. The immediate decline in the US trade balance with Mexico that reflected the Mexican slump was used by opponents to suggest that the NAFTA had failed. However, over the following six years, US-Mexico trade enjoyed explosive growth.

**Beyond Nafta.** As discussed above, there is a debate among economists as to whether regional arrangements are more likely to be “building blocks or stumbling blocks” in the movement towards full multilateral liberalization. Some argue that members of such an arrangement who benefit from preferential treatment will resist further extensions. Others point out, however, that

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42 “Nafta is about more than trade” wrote Patrick Buchanan, “NAFTA is the chosen field upon which the defiant forces of a new patriotism have elected to fight Americas foreign policy elite for control of the national destiny” 387

43 For a more complete discussion see (Lawrence, Robert Z. 1995)and (Frankel, Jeffrey A. 1997)
those who are excluded will have an incentive to seek membership. Some call this latter force the domino effect. The European experience certainly supports the notion of ever expanding membership. After all, the EU started with just the three members of the BENELUX and today has fifteen full members and a large additional number about to join

The US is a global trader. As soon as it negotiates agreements with some of its trading partners, the US inevitably feels pressures from others to extend them similar benefits. President Bush Senior felt compelled to announce his Enterprise for the Americas Initiative that called for a free trade area in the Western Hemisphere at the same time as he announced his negotiations with Mexico. Similarly, during his second presidential campaign, he announced that he was prepared to negotiate free trade agreements with other nations outside the Hemisphere. Having successfully achieved the passage of the NAFTA and concluded the Uruguay Round, the Clinton Administration might have shifted its policy back toward a more exclusive reliance on Multilateral approaches to liberalization. However, it chose to continue with the multi-track approach by emphasizing two overlapping agreements involving nations from the Asia Pacific area and the Western Hemisphere.

APEC. On November 1994, the President participated in the APEC Summit in in Bogor Indonesia, where the 18 nations of APEC committed themselves to achieve free trade and investment in the region by the year 2020. (Industrialized countries would proceed more rapidly and achieve such measures by 2010.)

The APEC meeting in Indonesia clearly revealed both the strengths and the weaknesses of the APEC organization. The strength lies in the ability of APEC to bring together a large number of extremely diverse economies and to obtain agreement among them. These nations range from large and developed countries such as the United States and Japan to small countries

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44 On the domino theory of regionalism see (Baldwin, Richard 1996)
such as Brunei and developing countries such as Mexico and the Philippines. The weakness lies in the problems of forging an agreement that is acceptable, credible and binding given the diversity and scope of the membership.

Clearly the Bogor Declaration helped several nations meet short-term political goals. In particular, many Asian countries had been concerned about being shut out of the NAFTA market, but since both Canada and Mexico were part of APEC, an APEC free trade area would prevent this from happening. Similarly, some Asian nations were concerned that the United States could lose interest in the Pacific region; again APEC's initiatives helped keep the US involved. Several nations including the USA, Australia and New Zealand, are concerned that an exclusionary East Asian Economic Caucus could develop. Again the APEC arrangement and the agreement by Malaysia to host a future meeting, helped allay these concerns.

But over the long run, important differences remained to be resolved before the APEC commitments could be considered to be credible. First, several APEC members were clearly uncomfortable participating in a regional arrangement that might undermine their strong multilateral trading relationships. Accordingly, APEC strongly endorsed the concept of “open regionalism.” However the precise meaning of this term remained vague. In particular, did it simply imply that other nations could join APEC, or that even large countries such as the US would unconditionally extend their APEC liberalization measures to all their trading partners? For the US to win the support for meaningful liberalization benefits from congress, it would inevitably have to indicate that other APEC members had reciprocated in a legally binding way. However, other APEC members rejected the notion of legally binding commitments as incompatible with “the Asian way”. Likewise, the fact that the precise meaning of "free trade" was not defined raised important questions that future negotiations will have to deal with.
Indeed, several participants, most notably Japan, clearly went along with the Bogor agreement in order to be team players rather than out of conviction.

**Western Hemisphere.** On December 9 1994, just one month after the Bogor meeting, in Miami, a Hemispheric Summit was held at which 34 leaders from throughout the America's committed themselves to create a Free Trade Area of the Americas (FTAA) by 2005. In addition, President Clinton announced that the US, together with its NAFTA partners Mexico and Canada, would initiate negotiations with Chile on accession to NAFTA.

The nations of Latin America had moved extensively to liberalize their markets. As was the case with the NAFTA for Mexico, participating in an international free trade agreement with the United States made their reforms more credible and permanent. For the United States, NAFTA extensions would help cement economic and foreign policy relations with important neighboring nations that were extending hands of friendship.

**Europe.** The free trade initiatives that were launched in Bogor and Miami naturally raised the question of whether a similar initiative should be implemented between the United States and Europe. A free trade area between the world's two largest trading economies would be attractive, but it could also represent a threat to the multilateral system. If the US and the EU took care of their problems bilaterally, their trading partners would feel threatened and excluded. In addition, a formal free trade agreement would have to include agriculture, which would be extremely difficult for Europe because of its powerful farm lobbies. Moreover, the major problems facing US-EU trade and investment were not those of border barriers such as tariffs. Instead they related more to the obstacles presented by different regulatory systems and rules. At the U.S.-EU Summit in Madrid in 1995, President Clinton and European leaders launched an initiative to deepen the US-EU relationship known as the New Transatlantic Agenda. The trade component of this initiative, the Transatlantic Marketplace, reflected commitments by the parties
to work together multilaterally to eliminate tariffs on information technology, intellectual property rights and (at the OECD) to conclude a Multilateral Agreement on Investment (MAI). Other actions planned included efforts to achieve Mutual Recognition Agreements (MRA's) which would reduce regulatory burdens entailed by standards conformity assessment. These MRAs were in fact implemented in 1998.

Implementing the Declarations. In the aftermath of the Summit of the Americas in Miami, negotiators from the NAFTA countries and Chile met in series of meetings to prepare the basis for Chile's accession to the NAFTA. In the fall of 1995, however, "...the government of Chile determined it was inappropriate to continue negotiations until the U.S. Congress had provided the President "fast track" authority to negotiate trade agreements." Talks were therefore suspended and only resumed in late 2000, by which time Chile had been persuaded that the absence of such authority did not preclude negotiations.

FTAA. Work proceeded on the FTAA for the following six years. After the Miami summit, twelve working groups laid the groundwork for eventual negotiations by compiling inventories of hemisphere practices, identifying areas of commonality and differences, and providing recommendations on how to proceed. In April 98 a Second Summit of America's was held in Santiago Chile at which formal negotiations were launched. Substantive talks began in nine areas. A draft text for the agreement, with many bracketed sections was completed just prior to the third summit which was held in Quebec in 2001.

APEC. It could be argued that the APEC initiative was on track in the Summits that followed in 1995, in Osaka, Japan and in 1996 at Subic, Philipines, at which countries presented their offers to join APEC. 45 An important companion to this Transatlantic Marketplace initiative was the Transatlantic Business Dialogue. Launched in Seville in November 1995, this forum of leading American and European business leaders provided private sector recommendations on how their governments could reduce barriers to US-European trade and investment. Subsequently other dialogues were launched among labor and environment,

45 These were: market access; investment, services, government procurement, dispute settlement, agriculture, intellectual property rights, subsidies, antidumping and countervailing duties, and competition policy.
and then developed both Individual and Collective Action Plans for Implementing the Bogor Declaration. Moreover, at Subic the APEC members provided valuable impetus and endorsement for the Information Technology Agreement that was then agreed to by the full membership of the WTO at the Ministerial held in Singapore in December 1996. The APEC members also made considerable progress in their collective actions plans in the nuts and bolts work of trade facilitation, streamlining and modernizing customs procedures, improving access for business travel, and providing technical assistance and training to less developed members. But APEC members also worked on an initiative to liberalize priority sectors that proved to be much less successful. When APEC met in Vancouver in November 1997, nine sectors were selected for immediate work, with implementation of liberalization to begin in 1999.\textsuperscript{47,48} APEC members succeeded in reaching an agreement providing mutual recognition of standards conformity assessment procedures in telecommunications equipment in June 1998. But Japan (which refused to open fish and forest products), Korea, and China were cool to the idea of sectoral liberalization and in 1998, in Kuala Lumpur, the ministers terminated the effort to open up additional sectors and called for the priority sectors to be liberalized in the WTO. Instead, the momentum for APEC liberalization had clearly stalled. At Auckland, in 1999, members again placed their hopes on the WTO, calling for a new three year round of WTO negotiations, which would include accelerated tariff liberalization sectors that they had identified in 1997-8. But three months later, APEC members were part of the failure to launch such a round in Seattle. The summit in Brunei in 2000 similarly accomplished little in this regard beyond a vague

\textsuperscript{47} These were environmental goods and services; energy equipment and services; fish and fish products; toys, forest products, gems and jewelry; medical equipment and instruments; chemicals and telecommunications.\textsuperscript{48} Work was also scheduled to begin in six other sectors: rubber, civil aircraft, automotive, fertilizer, oilseeds and food.
endorsement of resuming WTO negotiations, but no concrete efforts to deal with problems that had surfaced at Seattle.  

All told, the APEC free trade initiative cannot be considered a great success. APEC may have served some important political goals, it may also have helped to improve cooperation, but it has yet to prove its worth as a vehicle for trade liberalization. APEC is so large and diverse, that the preferences an APEC FTA would afford its members are unlikely to be particularly valuable or attractive. It is unclear, therefore, what could be accomplished at APEC that could not be done with more inclusiveness at the WTO.

**Africa.** In June 1997 President Clinton unveiled his "Partnership for Economic Growth and Opportunity in Africa" initiative. Its primary goals included increasing US-Africa trade and investment flows; supporting economic reform and growth in Sub-Saharan Africa and furthering Africa's successful integrations into the global community of trading nations. The President also announced his support for a bipartisan congressional initiative "The Africa Growth and Opportunity Act" (AGOA). These initiatives promised aggressive African reformers expanded GSP access, debt reduction, financial support for regional activities and the eventual establishment of Free Trade Agreements. However the bill was stalled in congress and was only passed in 2000. A bill providing benefits to the Caribbean Basin Nations was passed at the same time. In both cases, passage rested on including sufficiently tight restrictions on rules of origin for textile products to encourage foreign clothing producers to use American cloth.

**Other Free-Trade Initiatives.**

In 2000, the US completed negotiations on a free trade agreement with Jordan. This agreement represented yet another example of the “domino” effect, since Jordanians viewed such an agreement as important in their competition with Israel (which already had an FTA with the

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49 See Bergsten (2001).
50 (United States, Trade Representative 1998) page 234.
US) as a location for international investment. The agreement was part of a broader US strategy of encouraging free trade in the Middle East as a complement to the peace process. The agreement was also noteworthy because its text explicitly included provisions on the enforcement of labor and environmental standards. The countries also reaffirmed their belief that it is inappropriate to lower standards to encourage trade, and agreed in principle to strive to improve their labor and environmental standards. Each side agreed to enforce its own existing labor and environmental laws and to settle disagreements on enforcement of these laws through a dispute settlement process. In 2000, the US also initiated negotiations for an FTA with Singapore and resumed negotiations with Chile when it reversed its position requiring Fast Track as a condition for negotiating.

**US-Japan.** By the early 1990s, Japan had emerged as America’s most important international economic competitor and the focus of concerns about whether the US version of capitalism was fundamentally flawed. Many argued that Japan’s superior performance resulted from the close links between its government and its firms, its closely-knit corporate groups and its superior management practices. There was a popular view that the US should emulate these practices.

The concerns about US competitiveness were heightened by the problems faced by foreigners when selling and investing in Japan. These problems were highlighted by (a) many anecdotes relating to allegedly exclusionary practices by Japanese officials and firms; (b) a wide variety indicators that suggested that foreign participation in Japanese was unusually low; and (c) the large bilateral trade deficit between the US and Japan. While academic economists continued

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51 USTR Fact Sheet on the US-Jordanian FTA.
52 (Prestowitz, Clyde V. Jr. 1988)
to debate the reasons why Japan’s behavior was unusual, both the US government and the private sector strongly supported policy action to improve foreign access to the Japanese market.  

**Rules versus Results.** The primary policy debate concerned the manner in which Japan was to be pried open. Some argued the focus should be on eliminating regulatory practices that discriminated against foreigners. Others objected, however, that simply changing the rules would not necessarily guarantee results. Given their close relationships (“invisible handshakes”) and protectionist history, Japanese firms would continue to discriminate against foreign firms and products even when these were cheaper and/or superior. Likewise, Japanese officials would engage in protectionist actions even when the rules were no longer discriminatory. Accordingly many, particularly in the business community advised the USTR, that the Japanese government should be required to guarantee that foreigners gained a minimum share of the market.

Since the early 1970s, US efforts at opening Japan had generally emphasized changing the rules. In the mid 1980s, however, the US and Japan had negotiated the Semiconductor Trade Agreement which contained a “confidential” side-letter which mentioned a goal of 20 percent for foreign semiconductors in the Japanese market. This was a remarkable commitment since in 1986 the share was just 9.0 percent. Initially, the response was sluggish. However, in the late 1980s, foreign semiconductor sales in Japan began to rise sharply, and by 1991, when the agreement was renewed for five more years, the share had increased to almost 30 percent.

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53 For examples of the academic debate see (Lawrence, Robert 1993) (Saxonhouse, Gary 1993)
54 In the SII talks they had sought to make Japan more open through measures to relax restrictions on large-scale retail stores and tougher anti-trust policies. In other talks, some of which were part of the Super 301 measures implemented in 1988, they had focused on sectoral barriers such as government procurement of satellites and supercomputers and technical barriers in forest products.
55 The Japanese government stated that it “understood welcomed and would make efforts to assist foreign companies in reaching their goal of a 20 percent market share within five years”(Tyson, Laura 1992).
56 Page 436(Flamm, Kenneth 1996).
57 A second example using quantitative targets, occurred in 1992, when on his visit to Japan, President Bush had managed to obtained a voluntary plan of action in which Japanese auto companies agreed to a goal of increasing purchases of auto parts by $10 billion between 1990 and 1995. (Dryden, Steve 1995) page 375.
By the early 1990s, although analysts continue to debate the role of the agreement in obtaining this outcome, for many Americans the wisdom of a results-oriented approach had been proven by the Semiconductor experience. Many Japanese officials, however, came to the opposite conclusion. They felt it had been a great mistake for the government to agree to control private-sector outcomes. Japanese officials had intended the quantitative aspects of the Semiconductor Agreement to remain private. It was an embarrassment to have the government publicly concur with the notion that the Japanese system was amenable to government manipulation. Many economists, too, remained skeptical of this approach. Their fundamental concern was that a managed trade approach to deal with “Japan Inc” would actually strengthen the relationships between the government and business and reinforce the cartelization of the economy rather than weaken it. Setting targets could lead to fixing markets rather than freeing them.

The Framework Agreement. The Clinton Administration was intent on raising the profile of economic issues in the US Japan relationship and on implementing a tougher market-opening approach that would emphasize results. In July 1993, President Clinton and Prime Minister Miyazawa signed a so-called Framework Agreement. The agreement called for bi-annual economic meetings. It sought a significant reduction in Japan’s current account surplus and called for negotiations to “deal with structural and sectoral issues in order substantially to increase access and sales of competitive foreign goods and services.” Attention was to be given to issues such as intellectual property, distribution, deregulation, transparent government procedures, inward direct investment, but there were also to be sector-specific agreements. There

58 According to Lincoln it might also require the government to be more effective in other market-opening exercises. Page 124.(Lincoln, Edward J. 1999)

59 See the Paper by Tyson and discussions by Dixit in (Lawrence, Robert Z. and Schultze, Charles L. 1990)
was an increased emphasis on obtaining sizeable, measurable results. The two governments will assess the implementation of measures and policies taken in each sectoral and structural area based upon sets of objective criteria, either qualitative or quantitative or both as appropriate. Note however, there was no mention of specific numerical targets or quotas.

Progress towards implementing the Agreement was slow. At February 1994 Summit, Hosokawa and Clinton could not produce any agreements. However, spurred in part by Administration’s announcement of its intention to invoke Super 301, numerous agreements were eventually reached in 1994. They included intellectual property, government procurement of medical equipment, government procurement of telecommunications equipment, and financial services (aside from insurance).

The Automobile Agreement. By 1995, the major remaining bilateral problem in US-Japan relations was in autos. US concerns related to the paucity of dealers in Japan that carried foreign autos, and the small shares of foreign auto-parts in new cars (in both Japan and transplants) and after-market sales. With the talks bogged down, on the basis of a 301 action, on May 10 1995, the Administration announced the imposition of punitive 100 percent tariffs on 13 luxury Japanese imports, with collection of duties postponed for a month. The US also sent a letter of intent to file a case at the WTO within 45 days. Japan responded with a case of its own, alleging that US had violated its WTO commitments by this unilateral and discriminatory action. These pressures were effective in bringing about an agreement on June 28th, just hours before the US government would have begun to collect the tariffs. The agreement dealt with changes in Japanese regulations and clarified that existing Japanese dealers could carry additional lines of foreign cars. It also contained language on using objective indicators for the follow up evaluation.

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60 In autos, for example the agreement was to achieve “significantly expanded sales opportunities to result in a significant expansion of purchases of foreign parts by Japanese firms in Japan and through their transplants” (Lincoln, Edward J. 1999) page 127.
61 Lincoln, op. cit. page 127.
by the two governments. Conspicuously, however, the governments gave very different and separate interpretations about what had been agreed. The US provided numerical forecasts of the impact the agreement was expected to have on increasing purchases of US-made auto-parts, and the number of Japanese dealers who would carry US cars. But the Japanese made clear they had not participated in making these estimates. There seemed to be more disagreement than agreement.

It is important to understand the economic context in which these initiatives were occurring. In particular, the Japanese economy was reeling in the aftermath of the bubble economy of the late 1980s which burst in 1990. By 1993, the economy was stagnant. The strong yen was providing an incentive for greater imports, but it actually made government officials more resistant to change. Japanese were unwilling participants in these talks.

Results oriented policies proved almost impossible to define and implement. Treading the fine line between “managed trade with specific numerical targets” and “objective indicators or benchmarks” was extremely difficult. There were differences within the Administration itself over what it really wanted that added to the confusion. In any case, the demands for objective indicators backfired politically, because they allowed the Japanese to seize the moral high ground. In fact, Japan had, and continues to have, serious structural problems and the case for genuine deregulation in Japan had never been stronger, but it was not a popular strategy in a period of stagnation.

Rather than depart radically from its predecessors, in the end, the combination of the difficulties of defining a results oriented strategy and Japanese resistance, forced the Clinton Administration to follow a course that was quite similar. The data suggest too, that as in the past, the agreements did have an impact in some sectors, although, as in the past, it was not an impact that convinced skeptics that Japan was no longer an unusually closed market. Over the following
few years, imports in sectors in which agreements had been concluded, rose considerably faster than imports in general.  

After the Auto dispute in 1995, US trade relations with Japan became less visible and the focus shifted to the security relationship and the major macro-economic problems faced by Japan. Japan’s economic problems and the resurgence of the United States made the concerns about competitiveness less salient. In addition, the emergence of China, shifted the focus of US attention. There were additional negotiations in sectors such as insurance, telecommunications, civil aviation and harbor services.  

The US successfully launched cases at WTO in liquor taxes and copyright and unsuccessfully pursued a case on photographic film and paper. There was also an Enhanced Initiative on Deregulation and Competition Policy which produced reports and agreements designed to address the regulatory obstacles that impede market access in key sectors of the economy. For the Clinton Administration the era of major high-profile negotiations over trade barriers was over.

US -China. Even in the aftermath of the Tienanmen Square incident, President Bush had refused to link human rights with MFN. In 1992, he twice vetoed a conditional MFN bill linking trade with human rights. As a candidate, Bill Clinton was harshly critical of this Bush policy of engagement with China. During his acceptance speech at the Democratic convention, Clinton said that the U.S. needed a government that “does not coddle tyrants from Baghdad to Beijing”.

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62 See Lincoln, op.cit.
63 In 1996, conspicuously, a new pluri-lateral agreement on semiconductors eliminated numerical indicators.
64 The Bush administration was prepared to take actions on trade questions. It initiated Section 301 actions against China on its trade barriers. It had also named China as a “priority foreign country” under Special 301 for purportedly failing to provide adequate protection to patents, trademarks, copyrights and trade secrets. In both instances, threats to invoke sanctions had eventually ended in settlements.
65 In August 1992, the U.S. and China signed a Memorandum of Understanding (MOU) to ensure that China would not export products made with prison labor to the U.S. (Imports of goods produced with forced labor is prohibited under U.S. law.)
Clinton also noted in an interview that "there is no more striking example of Mr. Bush’s indifference toward democracy than his policy toward China." 66

When he became President, Clinton followed through with his vision, issuing an executive order in May 1993 which made the renewal of China’s MFN trade status in 1994 conditional on improvements in human rights and other areas. However, it proved easier to make threats about imposing economic sanctions than to follow through on them. The President’s order was extremely unpopular with the business community. The result was the formation of a coalition know as “the new China lobby” described by I.M. Destler as “perhaps the most formidable, pro-trade coalition ever sustained by US business on its own initiative.” 67

The efforts to change Chinese behavior were singularly unsuccessful. In the months following the executive order, the Chinese made a point of defying U.S. conditions by publicly arresting well-known political dissidents. 68 In March 1994, Secretary of State Warren Christopher went to China to press the linkage policy but he was roundly rebuffed by Chinese officials. A few days later, upon his return, the Secretary met an equally critical reception at a meeting of the Council of Foreign Relations in Washington DC. 69 Eventually, when the annual vote for extending MFN status to China came due in June 1994, the Administration faced the hard choice of either violating the spirit of the order or imposing costly economic sanctions. The President decided that engagement was ultimately a more effective policy than denial of MFN and stated he was “ moving to “delink human rights from the annual extension of Most Favored Nation trading statues for China” 70

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66 These quotes are drawn from (Deveraux, Charan 2001)
67 Destler 1995 page 234.
68 (Deveraux, Charan 2001)
69 Destler op. cit.
70 (Destler, I.M and Balint, Peter J. 2000) page 235.
Intellectual Property Rights. It was striking that while it appeared impervious to Administration pressures on the broad question of human rights, China was later to prove more susceptible to pressures on the question of intellectual property rights. Apparently, while demands that China alter its human rights practices were seen as a fundamental threat to its regime, the demand for intellectual property enforcement was seen as a more limited request that could be complied with. In June 1994, USTR once again designated China as a Special 301 “priority foreign country” due to the lack of progress in enforcing IPR. After negotiation in which the US threatened to impose sanctions, China and the U.S. reached an agreement on IPR enforcement on February 26, 1995.

China-WTO. The TRIPs is an integral part of the WTO rules to which all parties both developed and developing are expected to adhere. Thus an important element in China’s compliance with the US initiatives on Intellectual Property in the 90s, was its desire to win WTO membership. China had requested the restoration of its status as a full contracting party to the GATT in 1986, but had been unable to enter because of controversies associated with the obligations it would have to assume. In particular, China sought to join as a developing country which would grant it certain exemptions and longer transition periods for meeting WTO obligations. While many other developed nations were willing to allow China to join under such conditions, the United States refused to concur. The US Administration insisted that China could join only on “commercially meaningful terms”. In 1995 the USTR laid out a “roadmap” which laid out the conditions that the US required. The demands were extensive and entailed not simply major reductions in tariff and non-tariff barriers, but also market access for service

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71 In May 1996, the USTR again put the Chinese on notice for failing to enforce IPR by designating China as a Special 301 “priority foreign country”. Ultimately, after the closure of 70 factories that were mass-producing “pirated” U.S. products, USTR Barshesky announced that the U.S. was satisfied that China was taking steps to fulfill the 1995 IPR agreement.

72 (Deveraux, Charan 2001) page 5.
industries, and major liberalization of the mechanisms by which the Chinese conducted international trade. It became clear to the Chinese, that WTO entry on these terms would require a commitment to major domestic reforms.

The Clinton Administration took the view that China was already a large trading nation and given its rate of growth over the 80s and 90s, was likely to become even larger. Allowing China to enter the WTO but not to play by all of its rules could seriously undermine the system. Moreover, China’s entry gave the US a one-time opportunity to try to ensure that in the future, the Chinese market would not present the problems for the US that Japan had. From one vantage point these US demands were unreasonable. Surely China is a developing country. But the US demands also provided China with a unique opportunity to galvanize domestic reform. Indeed, by acceding to the WTO under these terms, the Chinese leadership could signal to both domestic and international audiences, that China was irrevocably committed to a genuine rules-based market system. Before 1997, the leadership was not prepared to do this. But in 1997 the Party announced a set of policies that established the legitimacy of private enterprise in China and indicated the intention to compel state-owned enterprises to operate as profit-making firms.

In 1998 US-China negotiations became more intense but agreement could not be reached by President Clinton’s state visit to China in June. However, it was agreed that Premier Zhu Rongi would visit the US in the Spring of 1999. When he did visit, the agreement was almost completed, but the Administration backed away partly because the agreement was not viewed as satisfactory in some areas (textiles, brokerage firms and auto-financing) but primarily because of domestic political difficulties. The deal was unpopular on the left, with labor and human rights groups and on the right, with those concerned with national security.73

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73 News had just broken that a nuclear weapons scientist, Wen Ho Lee had been arrested and accused of espionage at Los Alamos National Laboratories.
Despite the political damage his visit had inflicted on Zhu Rongi, and despite the souring of relations after the calamitous accidental bombing of the Chinese embassy in Belgrade, agreement was reached in November 1999. The agreement was remarkably comprehensive and rigorous. It covered tariff and non-tariff barriers to exports of industrial goods, agricultural products and services. China agreed to apply specific rules to address import surges, anti-dumping and subsidies. It agreed in addition to constraints relating to export performance requirements, local content, offsets and technology transfers. Many of the commitments would come into effect when China completes its accession. Almost all were to be phased in within five years.

China would not have granted these benefits to the US without the elimination of the annual vote on extending it Permanent Normal Trading Relations. Accordingly, the US was obligated to secure PNTR for China on the basis of the agreement. The Administration made the passage of PNTR its chief trade objective for 2000 and its extensive campaign succeeded, despite the fact that in the House, only 73 out of 211 Democrats supported it.

When China will be able to join the WTO and whether it will fully meet its obligations remains to be seen. But the prospect of entry has already had a powerful impact in accelerating the pace of reform in China. Enterprises throughout China have undertaken changes to prepare their own strategies for meeting the international competition they are anticipating China’s entry will bring. Likewise, the obligation, contained in GATT Article 10, that members implement trade policy in “a transparent and impartial manner” has provided support for those seeking Chinese government reform.

74 Ambassador Charlene Barshefsky, accompanied by Gene Sperling Head of the National economic Council, partly as a display of President Clinton’s political commitment, had spent almost a week in Beijing completing the deal.

75 Many in congress were concerned that PNTR would reduce the attention that had been paid to Chinese human rights violations as a result of the annual MFN votes. Under the leadership of Representative Sandy Levin bipartisan support was provided to establish a commission, modeled on the Helsinki Commission to monitor human rights. The commission allowed swing voters to support the vote
**Helms-Burton.** The United States has had an embargo on most trade with Cuba since 1962. On March 12 1996, President Clinton signed into law the Cuban Liberty and Democratic Solidarity (Libertad) Act of 1996 (also known as the Helms-Burton Act) in the aftermath of the downing of two unarmed U.S. civilian aircraft over international waters. Among its numerous measures, this Act created a private right of action which allowed U.S. nationals whose property was confiscated by the Cuban government to sue Cuban governmental entities or foreign investors who use or profit in any way from these properties. This provision was scheduled to become effective Aug 1 1996. However, the Act allowed the President to suspend the right to file suit if he determines this is in the national interest and would expedite a transition to democracy in Cuba. Several trading partners objected to the US seeking to extend its rules to apply beyond its borders (i.e. extra-territoriality). In response, the President suspended the Act for six months in July 1996 in an effort to achieve a common approach with US allies and trading partners. Both Canada and the EU issued laws refusing to aid in collecting judgments against their firms and the EU brought the issue to a WTO dispute settlement panel. After another six month suspension, in April 1997 the US and EU reached a settlement in which they agreed to work cooperatively to develop binding disciplines on dealings in property confiscated in Cuba and the EU suspended the panel, but retained the right to reinstate it. The episode was a prime example of the ability of the US congress, independently to take measures which create political problems for US trade relationships – a theme to which I will return in later discussion.

**Softwood Lumber.** On May 29, 1996 the United States and Canada entered into a 5 year agreement intended to prevent material injury to US producers resulting from imports from Canada. The Agreement established annual allocations and fees for lumber exports of the Canadian provinces of British Columbia, Quebec, Alberta and Ontario. The Agreement reflected

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76 (United States, International Trade Commission 1997) page 160
US concerns over the Canadian practices which promoted domestic lumber production by (a) providing private firms with the right to harvest trees in government owned forests with stumpage fees that were extremely low and (b) banning the export of logs. The settlement had been in reached in part because of a case that had eventually gone to a NAFTA dispute panel.

**Steel.** The steel industry has a long history of seeking trade protection. Other Presidents of both parties have succumbed to these pressures. But despite being faced by a crisis with two episodes the Clinton Administration was unusual in providing the industry with only the relief provided for by the trade rules. In 1998, the US experienced a surge in steel imports, primarily because of the collapse in world steel demand occasioned by the Asian crisis. Steel imports from Japan, Korea, Russia and other nations increased by more than 9 million metric tons -- 33 percent above their 1997 levels -- raising import penetration from 24 to 30 percent. Steel prices declined precipitously and steel employment fell by 10,000. In response there were calls for protection, and for the passage of a quota, supported by the United Steel Workers, which would protect the industry. There were also calls on the Administration to support an easing of the conditions under which industries could obtain safeguard relief.

In January 1999, the White House announced a steel action program. The plan called for enhanced monitoring of steel imports and trade trends, the early release of steel import statistics, and examination of subsidies and market distorting trade barriers. The Administration rejected the proposals for quotas and did not support a relaxation of the safeguards standards. Instead it relied on vigorous enforcement of the anti-dumping laws and tough bilateral consultations with

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77 (Lindsey, Brink, Grisworld, Daniel T. et al. 1999)
78 The Administration negotiated a comprehensive agreement with Russia (not a WTO member) that placed quotas on all steel imports.
79 In 1999 the Commerce department completed 34 anti-dumping and countervailing duty cases and began another 24 additional cases. Investigations of hot-rolled steel from Japan and Russia, and several other cases were expedited
steel exporters from Japan, Korea and the Newly Independent States. On March 17 1999, the US House of Representatives voted 289 to 141 to impose steel quotas but the bill was defeated in the Senate.

Steel imports fell in 1999 and capacity utilization rates recovered to their previous highs. In May 2000, however, domestic demand for steel in the US slackened and by late 2000, the US economy had slowed down with dire consequences for an industry which had been weakened by the earlier crisis. The industry sought relief, requesting that the Administration initiate a 201 action and or launch an investigation on National Security grounds. In both cases the Administration took no action. The Administration’s willingness to withstand pleas from the steel industry were underscored when, in striking contrast, in early 2001, the Bush Administration succumbed to these requests and agreed to initiate a 201 action.

Section III: Appraising the Arguments.

Several charges have been levied against US trade policy in the 90s. Let us first consider arguments that are made by free-trade critics, next those made by people favoring protection and those seeking tougher labor and environmental standards and then appraise the record in economic and political terms.

Multilateral Free traders. Proponents of these views argue that the US has erred in following a multi-track approach to trade liberalization. Instead of seeking more Free Trade

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80 The USTR initiated “high level dialogues” with Korea and Japan, (which involved essentially jawboning these countries to reduce steel exports to the US).
81 In 1999 the President also signed into law the Steel Loan Guarantee Program which would guarantee loans for companies most severely impacted by the crisis.
82 Prominent among these are economists associated with the American Enterprise Institute (Krueger, Anne O. 1995; Bhagwati, Jagdish 2000) and the Cato Institute. See http://www.freetrade.org/
Agreements, once the Uruguay Round had been completed the US should have confined itself to the pursuit of multilateral liberalization at the WTO and WTO mechanisms to settle disputes.

The last point is readily dealt with. In fact, once the Uruguay Round was concluded with a more effective dispute resolution mechanism, charges of US unilateral-ism have much less merit. Indeed, US trade sanctions against WTO members were only undertaken in response to findings by a WTO panel.

What about regional FTAs? Multilateral Free-trade critics oppose free trade agreements because they favor insiders and may be less efficient than multilateral free trade. In economic jargon they are “second best” compared to multilateral free trade which is “first best.” But multilateral free trade is currently not the relevant option so the real debate is whether it is best to advance towards fully free trade exclusively by partial multilateral liberalization (which is also “second best”) or by complementing multilateral efforts with additional preferential agreements. The experience of the both the US and the European Union suggest that these approached can be complementary. In addition, they indicate that more extensive liberalization can occur regionally. (Note the NAFTA’s rules on services and investment and deeper integration in the European Union). To be sure, complex protectionist rules of origin are a problem with free trade agreements, but that is a reason to make them simple rather than to avoid concluding such arrangements. Multilateral Free traders also ignore the role that can be played by credible regional arrangements in locking in domestic economic reforms. This is particularly the case, as with NAFTA when the agreements go beyond what has been achieved in multilateral agreements. For example, the NAFTA allowed Mexico to signal its commitments to free foreign direct investment in a manner not possible through WTO membership.

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83 Though it did come dangerously close to imposing unilateral sanctions in the US-Japan auto dispute.
84 See (Lawrence, Robert 1996) for a more complete discussion
85 Likewise trade diversion may be a problem but with free trade agreements, countries can always lower their external barriers.
Free trade critics also claim that the US has been hypocritical in seeking liberalization abroad, but refusing to talk about its own protectionist measures -- in particular, the anti-dumping laws, at home. The US has also failed to take adequate account of the needs of developing countries by not liberalizing sufficiently.

On these points the critics make valid arguments but they underestimate or ignore the political difficulties involved in any President implementing their recommendations. Undoubtedly, the US would have been be a more credible leader internationally if it had been prepared to remove all trade barriers to goods from the least developed countries, undertake major tariff reductions in textiles and agriculture (particularly sugar) and indicate a willingness to negotiate changes in the anti-dumping rules. But, all these measures faced fierce resistance in the congress. The anti-dumping rules, in particular, have many ardent supporters in the Congress. This is the case even though, as measures supposedly designed to prevent predatory behavior, they are poorly crafted and widely abused. The textile and apparel industries, facing the elimination of all quota protection from the Multifiber Arrangement (MFA) in 2005, are extremely resistant to additional liberalization, and again US sugar growers enjoy congressional support for an uneconomic system which keeps domestic sugar prices far above those in world market. Ultimately these particular issues come back to politics. But without making progress on these questions, the US ability to act as a credible global leader will remain weak.

**Opponents of free trade agreements.** These groups are even more critical of US trade policies in the 1990s. They divide into two camps. One group is protectionist, and seeks repeal

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86 The Administration was able, with considerable effort to eventually achieve passage of The Africa Growth and Opportunity Act, but even this achieved rather modest liberalization in which tariff reductions were accompanied by strict quotas: Even after eight years, African imports cannot exceed 3.5 percent of all US textile imports.  
87 As David Sanger notes “Just prior to the Seattle meeting, more than 300 members of congress wrote the president a letter warning that they would work to defeat any deal that threatened America’s ability to apply its dumping laws unilaterally. “page 73.  
88 For a more complete discussion of the antidumping rules see (Lawrence, Robert Z 1999)
and or rejection of trade agreements. Their reasons include: (1) High-wage US workers cannot compete with low wage foreign labor; (2) Trade agreements impinge excessively on US sovereignty and (3) these agreements harm developing countries.\footnote{Free trade critics include Patrick Buchanan on the right and Ralph Nader on the left.}

The protectionists ignore the degree to which the US has prospered in the 1990s. They fail to understand that international competition reflects relative costs, and countries with high wages compete by offsetting higher wages with higher productivity.\footnote{To be sure, they cannot compete in all industries, so they must specialize.} These critics also generally exaggerate the extent to which trade agreements constraining domestic US regulatory action.\footnote{For a more complete discussion see (Burtless, Gary, Lawrence, Robert et al. 1998) pp 110-126. Although critics have a point in their concerns about the impact of NAFTA Chapter 11 See (Graham, Edward M 2000) pp 37-40.} As the numerous WTO cases described above have made clear, the major focus of the trade rules is not on preventing regulations which are necessary to preserve the environment and maintain public health and safety both domestically and internationally but rather those that \textit{discriminate} against foreigners.\footnote{These points are emphasized in the Venezuelan case on clean air and the shrimp-turtle decision. The Beef hormone case was not about discriminatory treatment but rather the use of \textit{regulations} that are not based on science or appropriate analysis.} Finally the fact that developing countries have sought WTO membership in such large numbers is surely testimony that they do not believe it is harmful to their development.

A second group of critics, “standards-setters” accept that globalization is inevitable but are concerned that without agreements, there will be a race to the bottom as standards are weakened to attract foreign investment and improve competitiveness.\footnote{For an excellent discussion of race to the bottom see(Wilson, John Douglas 1996)} They argue that they would support trade agreements provided that these reinforce labor and environmental standards. They point out that the trade regime has responded to corporate need by implementing the TRIPs and call for similar treatment for blue (collar) and green concerns. On these questions, however,
the free-traders and standards-setters part company. The view of the free-traders is that unless they are international in scope, environmental issues should be dealt with at the national level. Likewise, most aspects of labor standards should be matters for national governments to decide. To the degree that there are international aspects of these issues they should be dealt with in institutions specifically set up for this purpose: the International Labor Organization for labor standards and the Secretariats of International Environmental Agreements. The WTO does not have the competence or the mandate to deal with these questions. There is a danger that such rules could become a pretext for protection. Moreover, the more forceful the WTO is on these issues, the more threatening it will become to national sovereignty.

A Third Way? President Clinton clearly agreed with free traders on the potential benefits that trade could bring (a) in stimulating economic growth, both in the United States and the rest of the world and (b) in promoting world peace. He disagreed with those who would rely only an multilateral approaches and he sought freer trade wherever he could get it. He supported NAFTA, concluded the Uruguay Round, participated in APEC and the FTAA, sought a new multilateral round, MFN and PNTR with China and, even in the waning hours of his administration, free trade agreements with Jordan, Chile and Singapore. Clinton also believed that the US needed to be more assertive in furthering its economic interests. Hence the establishment of the National Economic Council, the aggressive campaign from the Commerce Department to promote exports in his first term, the US Japan Framework talks and the willingness to remove export barriers through bringing disputes to the WTO.

But Clinton also understood that trade has the potential to create losers and require adjustments that are painful. This means that ultimately political support for free trade can be

94 Some free-traders argue the TRIPs should not have been part of the WTO rules.

95 The idea that he deliberately sought to prevent the launching of a new round at Seattle could not be further from the truth. (Bhagwati, Jagdish 1999)
tenuous. In his view, trade protection is not the correct response to this dilemma. Instead, it requires domestic policies that help people deal with economic change and a trading system that commands political support because it is perceived as fair and its benefits are widespread. Clinton therefore supported measures such as the NAFTA Trade Adjustment Assistance Program and he agreed with those in his party that measures to promote core labor standards and environmentally sound policies would help achieve that support. Moreover, he believed that these standards could be achieved without raising trade barriers and inhibiting the growth of developing countries -- both in the context of trade agreements and through strengthening other international institutions and agreements. Clinton’s desire to put “a human face” on the global economy was the subject of numerous speeches in his last few years in office. Long before that, however, his decision to negotiate side agreements to the NAFTA which covered labor and the environment exemplified his desire to achieve a third way in trade rules.

Implementing this approach proved difficult politically. Bringing labor and the environment into trade helps gain political support from unions and greens – but does not necessarily win their vote. At the same time, however, it leads to less support both at home, from Republicans and business groups, and abroad, from many in developing countries who fear that ultimately these standards could compromise legitimate diversity and lead to disguised protectionism. The side agreements to NAFTA were successful in bringing support from some environmental groups, but they failed to move Richard Gephardt, the majority leader who led the fight against it. The fast-track formulation crafted by Mickey Kantor in 1994 which sought to give labor standards a more prominent role, helped bring Democratic support, but it alienated Republicans. The fast-track formulation crafted by Charlene Barshefsky in 1997 was more

96 Clinton also argued in this speech at the WTO ministerial in Geneva “We must do more to ensure that spirited economic competition among nations never becomes a race to the bottom – in environmental protections, consumer protections, or labor standards. We should be leveling up, not leveling down” page 231. Waldman.

97 See [Elliot, 2000 #1]
acceptable to Republicans but it alienated Democrats as not surprisingly did the formulation crafted by the House Republicans in 1998.

**Section IV: Appraising the Record.**

Was trade policy in the 90s a success?

**Economic Outcomes.** Judged in terms of economic outcomes the answer is surely yes. Trade and investment became increasingly important to the US economy in part because US trade policy succeeded in opening markets at home and abroad. US trade with Mexico enjoyed explosive growth, in part because of NAFTA. The US resisted pressures to act extra-legally using quotas or voluntary restraint arrangements. US industries were granted additional protection on occasion, but only through WTO-legal mechanisms that entailed the use of anti-dumping, safeguard and countervailing duty provisions.

US trade policies also played an important role in creating an environment in which the US and other economies could benefit from technology and innovation.\(^{98}\) The Uruguay Round strengthened intellectual property rights (TRIPS) improved market access in goods and services, enhanced the role of standards based on risk analysis and sound science – an important rule for biotech.\(^{99}\) The US also played a major role in the WTO agreements to liberalize basic telecommunications and financial services, remove tariffs on information technology products, and establish open commerce in cyberspace by keeping the internet a duty-free zone. Bilateral sectoral negotiations with Japan emphasized sectors such as semiconductors, financial services, telecommunications, and cellular telephones.\(^{100}\) The US was also able to facilitate trade in electronics, instruments and pharmaceuticals through mutual-recognition agreements on

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\(^{98}\) For an excellent discussion of future challenges for high-tech trade see (Barshefsky, Charlene 2001)

\(^{99}\) The US had also emphasized intellectual property protection through its use of the Special 301 law in the 1988 Trade Act. While the TRIPs encourages more innovation it could also discourage use. Thus its overall impact is more controversial.

\(^{100}\) In 1996. The semiconductor agreement with Japan was broadened to include Europe, Taiwan and South Korea and to cover issues such as R&D, market access and private sector cooperation with government. (Barshefsky, Charlene 2001) page 138.
conformity assessment with Europe and in APEC. US trade policy also kept the US market open to foreign goods and investment.

**America Can Compete.** For anyone who followed the debates in the 1980s, the major surprise in trade policy in the 90s was the minor role played in trade policy by concerns about US competitiveness. In the 1980s, many argued that the US, with its open market and lack of assistance to domestic firms, simply could not compete with other industrial countries that had more closed markets and more interventionist economic strategies. Of particular worry, were the implications of these practices for US leadership in high-technology industries. Japan and the Newly Industrializing Asian Economies (NIEs) in particular, had been the focus of these fears.

Economic theorists had raised the credibility of these views by demonstrating how (under appropriate assumptions) governments could implement strategic trade policies that would shift rents (higher than normal profits and wages) in favor of their nationals. But over the 1990s, the US had restored its global leadership in the industries of the future, the Japanese economy had collapsed, and the newly-industrial countries in Asia experienced deep crises. In its first few years, the Clinton Administration was concerned about preventing US decline; by the end of the Administration, the concern was sustaining growth in the rest of the world. To be sure, several US industries, notably steel and apparel, experienced difficulties in competing internationally but their problems were generally viewed as sector-specific rather than indicative of an endemic weakness. US capitalism had turned out not only to be viable, but remarkably successful in simultaneously generating rapid productivity growth and low unemployment. There remained little talk of America needing a new “industrial policy”.

While the Administration had not sought to protect US firms at home, it was more ambivalent about the use of managed trade abroad. It tried, in its first few years, to craft a

101 For an elaboration see (Lawrence, Robert Z. and Schultze, Charles L. 1990)
102 For the case that the US system has been successful see (Freeman, Richard 2000)
tougher approach to market entry in Japan that could be based on “objective indicators”. But over time, partly because the approach was intrinsically problematic, and partly because Japan’s stagnation made its market less enticing, the policy shifted back to the more traditional approaches to deal with sector-specific and generic structural problems.

**Jobs.** Economists may point to the benefits of open trade in improving living standards, but the most salient political trade concern is employment. The major fear about NAFTA was that it would destroy jobs and lead to mass unemployment. It is certainly true that some workers have been displaced as a result of NAFTA but others have been provide with job opportunities. It is hard to quantify the net impact of NAFTA from the data, since other developments – most notably the Mexican financial crisis have occurred in the interim. Nonetheless, after NAFTA was implemented in early 1994, US employment creation was robust. Between 1993 and 1997, for example, total US payroll employment increase by 10.3 million and manufacturing payrolls were up by 600 thousand. The flaw in the claim of a mechanical relationship between the trade deficit and overall employment was also clearly exposed in the late 90s as the economy simultaneously achieved full employment and a large trade deficit.

**Wages.** A second area of controversy has been the impact of trade on US wage inequality. The US did experience rising wage inequality between 1980 and 1993. Generally explanations has been split between two schools, one emphasizing the role of trade and a second the role of skill biased technical change. The remarkable feature of the US economy in the second half of the 1990s, however, was that real wage gains in the lowest deciles matched those

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104 The US has experienced a large and growing trade deficit over the course of the 1990s which has been the subject of some concern and debate. While this is an important issue, the deficit is essentially a reflection of aggregate US spending patterns rather than its competitiveness or its trade policy.

105 For a survey of the debate and evidence see (Lawrence, Robert Z. 1996)
in the highest. Indeed between 1994 and 1999, the broadest measure of inequality in the US, the Gini coefficient was basically unchanged. These developments were particularly noteworthy since over this period (i) the economy became more open that it had ever been before, (ii) the trade deficit increased dramatically, (iii) relative prices of manufactured goods from developing countries declined and (iv) the pace of technological change as measured by productivity growth accelerated. The alleged drivers of earlier inequality became more powerful, yet inequality did not increase. Why?

An important missing element in the earlier explanations was the aggregate state of the labor market. Unemployment rates of less skilled and disadvantaged Americans are often twice those of workers who are well educated. In the 80s, the (annual) unemployment rate did not fall below 5.3 percent and for much of the decade it was above 7 percent. As the US economy moved closer to full employment in the 90s, however, with unemployment rate more than a percentage point lower, workers at the bottom experienced increasing wages and employment opportunities. Ironically, it was precisely the alleged drivers of inequality, rapid productivity growth (due to technological change) and openness to trade (and excess capacity abroad) which helped the U.S. economy to operate and sustain a high-employment economy without inflation and improve wages and employment for less-skilled workers.

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106 State of Working America Table 2.18
107 Citation. (United States, Council of Economic Advisers 2001)
109 Tighter labor markets have relatively more powerful effects on the demand for less skilled workers. According to the Bureau of Labor Statistics, between January 1993 and December 2000, the unemployment rate of workers who are over 25 with less than a high school degree fell by 4.8 percentage points (from 11.1 to 6.3 percent). By contrast, over the same period, the unemployment for workers with a high school degree fell by 3.2 percentage points (from 6.6 to 3.4 percent) and rate for those with a college degree fell by just 1.5 percent age points (from 3.1 to 1.6 percent.)
110 The earlier shocks due to technology and trade could have dissipated over time. The decline in relative wages of less skilled workers could have induced “unskill-biased” technical change. The economy could also have become more specialized, producing products which were not directly competitive with those produced by developing countries and thus less subject to downward wage pressures.
Political Outcomes. Yet, the paradox of US trade policy was that, despite this economic success, the ability to advance trade agreements was reduced in the second half of the 90s. This is apparent in congressional voting behavior. The study by Baldwin and Magee found that a district’s unemployment rate played a greater role later in the decade. They conclude “The main reason for the defeat of the 1998 Fast Track bill was that legislators were more willing in the late 90s than in the early 90s to vote against trade-liberalizing measures on income distribution grounds”. This is again, paradoxical because unemployment rates were much lower in 1998 than in 1993.

One plausible hypothesis is that US public opinion increasingly shifted against free trade over the decade, but perhaps surprisingly, this does not seem to be the case. Scheve and Slaughter have studied public opinion of trade liberalization. They do find that “a wide range of public opinion surveys report that a plurality or a majority of US citizens oppose policies to further liberalize trade, immigration and FDI” Moreover preferences are aligned with education, with more educated citizens favoring trade. But they observe that “public opinion is not markedly more skeptical about globalization in the 90s than in the late 1970s and 1980s.”

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111 To be sure, PNTR for China was passed in 2000 but as Wall Street columnist Albert Hunt observed “More remarkable than the passage, however, was how tough it was to approve a measure so demonstrably beneficial. Americans are currently enjoying the best economy ever. If it’s a struggle to pass free-trade bills in this environment, what would it be like in less bullish times?” quoted by (Scheve, Kenneth F. and Slaughter, Matthew J. 2001) page 5.

112 (Baldwin, Robert and Magee, Christopher S. 2000) page 42.

113. (Scheve, Kenneth F. and Slaughter, Matthew J. 2001)

114 “The probability that an American supports trade protection falls by 30 percentage points when that American increases his or her schooling from 11 years to 16 years” page 9.

115 (Shaffer, Gregory 2000)

115 The idea that he deliberately sought to prevent the launching of a new round at Seattle could not be further from the truth. (Bhagwati, Jagdish 1999)
This suggests that what has happened recently is that these anti-trade sentiments have been more effectively mobilized and translated into political action. Why?

One reason is money. Business groups found it less necessary to give money to the Democrats when they were no longer in the majority. As a result, Democrats became more dependent on labor support which was against freer trade agreements. Baldwin and Magee find that “13 Democratic votes (against Fast Track in 1998) can be explained by the increased dependence of Democrats on labor PAC contributions relative to business contributions”\(^{117}\) A second reason is that the anti-trade organizations have become more effective. The experience of the NAFTA brought a variety of anti-trade groups together, and induced many environmental organizations to become involved in the trade debate. The MAI experience taught groups how to use the internet effectively.\(^{118}\) Seattle demonstrated their ability to organize and further emboldened trade opponents. A third reason is that the political alignment of a Democratic President and Republican Congressional majorities created an environment in which bi-partisan cooperation on trade was extremely difficult.\(^{119}\) Fast-Track authority in particular, requires Congressional trust in the President. Republicans were reluctant to provide this trust unless they could tightly restrict his negotiating scope. A fourth reason is that the US economy became more globalized, so that trade concerns became relatively more important. But probably the most important reason was that as the focus of trade policy broadened to include issues of deeper

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\(^{116}\) Scheve and Slaughter report that survey responses prior to the 1970s were less protectionist than those in 70s.  
\(^{117}\) Baldwin and Magee op. cit. page 38.  
\(^{118}\) At the same time, the lessons of China PNTR are also important. Demonstrate that these forces are not invincible. There was actually learning on both sides, and the efforts for China mobilized pro-trade groups more effectively. Clinton war room, and creative ways of co-opting groups of legislators.  
\(^{119}\) One hypothesis is that in the early years Democrats were unwilling to vote against the President. But in fact, almost as many Democrats supported giving George Bush Fast Track to negotiate NAFTA (91) as eventually voted for the agreement itself. (102). It is more likely, however, that in the first two years Republicans were more willing to support NAFTA and the Uruguay Round, which had been initiated by Republican Presidents than they did later on.
integration, debates about trade agreements became a major locus of domestic political conflict. While the broad public has long been opposed to free trade, more educated opinion leaders and the media tend to support it. As trade issues became entangled with other concerns, support in some sectors wavered.

The Rise of Trade and…

While the record on traditional trade policy issues of competitiveness, employment and labor were strong, over the 90s the focus of trade policy shifted from disagreements over the economic merits of free trade to disagreements over the role of trade in enforcing other goals.

These conflicts were apparent internationally. In the Uruguay Round, the issue of culture (protecting the domestic movie industry) became a major point of contention between the US and Canada and France. In the Uruguay Round, and in many bilateral negotiations, the use of trade to enforce intellectual property protection was a source of friction between developed and developing countries. It was China’s poor record on human rights that threatened the ability to provide it with permanent normal trade relations. The differences between the US and Europe on beef were a harbinger of problems relating more generally to fundamentally different views of the dangers of advances in biotechnology, such as Genetically Modified Organisms (GMOs).

But they were also in evidence in the US domestic debates about trade. There were important economic issues debated during the passage of NAFTA, but it was the questions about environment and labor rights that really ignited passions. Disagreements over the appropriate role for labor and environment in trade agreements served as the stumbling block to obtaining fast track authority in the US and were partly responsible for the failure to launch a new trade round at Seattle. The concern that rules on expropriation could unduly hinder environmental policies was important in the failure of the MAI.
As all these issues were raised, the controversy over trade agreements changed from a debate over economics to a debate over policies which had once been considered matters of purely domestic concern or matters for non-trade international organizations. This dramatically changed the nature of the politics. To achieve traditional liberalization, it used to suffice to create coalitions of export interests whose gains outweighed import-competing interests. For the most part, the major players were firms and workers with relatively narrow economic interests on both sides. And generally, while there were always opponents of liberalization in the Congress, they tended to reflect relatively narrow, often regionally based, economic interests. It was therefore, possible to craft bi-partisan support for agreements. But as trade policy moved to deal with these other questions, it became the battleground in which controversial questions were fought. Groups, that had not previously engaged in trade policy, found they had interests at stake. Trade policy tended to divide more strongly along partisan lines, with the Democratic Party strongly opposed to liberalization.

The Negotiating Record. Trade agreements are often crafted to reflect the demands of particular political actors rather than the requirements of good policy. On the other hand, congressional critics have often complained that the US does not advance its commercial interests with sufficient fervor, suppressing them in favor of geopolitical and foreign policy goals. Indeed, the Omnibus Trade Act of 1988 with its Super and Special 301 provisions reflected efforts on the part of the Congress to pressure the President to be tougher.

But there can be little doubt that the Clinton Administration was an extremely tough negotiator, fully prepared to walk away from agreements that failed to achieve its objectives. Examples include the refusal to paper over disagreements in the first Clinton-Hosakawa meeting in 1993, the insistence on reopening NAFTA to include surge protection and provisions on minimum wages, the refusal initially to sign the multilateral agreement on financial services
because of inadequate commitments to liberalize, the refusal to conclude the agreement with
China despite Zhu-Rongji’s visit in 1999 and the refusal to bring anti-dumping into the new
WTO round even when it meant Seattle would fail.

The Administration was also quite prepared to impose sanctions to back up its demands,
even on other major developed countries; for example on Japanese automobile imports in 94, on
European Beef and Bananas in response to the EU’s failure to comply with WTO rulings on
China in the negotiations over Intellectual Property. One reason is that the Clinton
Administration in particular viewed toughness as desirable. The President appointed two USTRs,
Kantor and Barshefsky who were both professional negotiators par excellence.

A more basic reason that the US is such a tough bargainer internationally is the structure of
the US political system. Unlike parliamentary systems, each agreement must muster sufficiently
large support in Congress to ensure passage. The combination of a weak President – a
Democrat who needed Republicans – and the breakdown of the congressional consensus in
support of free trade made striking bargains particularly difficult. This afforded individual
members and other special interests the ability to exert influence that is far greater than they
would achieve in a system with party discipline or broader free trade support. Thus the US
system serves to bring to the fore, issues which may matter intensely to just a few decision-
makers. This can have a detrimental impact on coherence.

The passage of the NAFTA and China-PNTR in particular, stand as testimony to the success
of US negotiating tactics. But from the viewpoint of its long-term interests, ironically, the US
can be “too tough”, too responsive to short term political considerations and insufficiently
attentive to the long run system in which it has an interest. A prime example here is the position
taken by the Administration on the issue of the Anti-dumping rules. Not being willing even to
place these on the table severely impaired the ability of the Administration to lead.
**Section V: Final Reflections.**

**The only game in town.** Trade policy is currently in a precarious position because trade policy has in many respects become the only game in town. It has become the forum in which debates reflecting many domestic and international concerns, takes place. In part, this is testimony to trade policy’s success. A rule of law has been established to govern trade, and now many are seeking to have their concerns enforced by it. But there is a great danger when success leads to mission creep. Indeed, it seems that trade policy will be overloaded with issues until it will eventually fail. This problem, at an institutional level, resembles Peter’s explanation for why things always go wrong. His Peter Principle is that “In a hierarchy, people are always promoted to their level of incompetence.”

Part of the solution lies outside the arena of trade policy. It requires strengthening other international institutions so that they can be more effective in achieving goals such as enforcing labor and human rights, environmental standards and competition policies. But part of the solution also requires dealing better with these issues at home. It is striking that among developed countries, the United States is probably the most vocal advocate of bringing core labor and international environmental standards into trade agreements. Yet, at the same time, it is among the weakest in supporting these standards at home. It is astonishing, given its international posture, that the US has actually ratified only two of the conventions which enforce the four core ILO labor standards in its domestic legislation, having failed to Act on the conventions covering non-discrimination and rights to bargain collectively. By contrast

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120 See (Peter, Laurence J. and Hull, Raymond. 1969)
121 See (Shaffer, Gregory 2000)
several other developed countries with much more extensive social rights at home, seem less insistent on labor standards internationally.

Apparently, trade policy has served as a focal point for domestic political conflicts and frustrations. Indeed, the US labor movement has been diverted to focus more on trade issues and standards, in part because domestic labor-rule reform has made so little progress. Likewise, the US which has failed at home to ratify the Convention on Biodiversity and which passed a resolution critical of the Kyoto Protocol by a vote of 95-0 is scarcely in a position to insist on international environmental standards as a precondition for trade.

More fundamentally, Americans fear open trade because of job insecurity and the impact on their incomes of job loss. Again, the solution lies in enhanced programs to facilitate trade adjustment in particular and to deal with dislocation more generally. Likewise, concerns over inequality are better met through redistribution through the tax system and measures such as the earned income tax credit.

It is also striking that US efforts to enhance labor and environmental standards have raised the specter of enforcement through government-imposed trade sanctions. This detracts from approaches which provide countries with positive inducements to improve their records in these areas. Providing open markets is important for developing countries, but technical assistance and adequate financial assistance should be part of the package.

When it comes to trade policies specifically it will take compromise from both trade purists and those seeking more extensive rules on labor and the environment so that we will be able to enjoy the benefits of globalization in a system which commands widespread support. Above all it will take imagination. The side-agreements to the NAFTA have their critics, but the approach should be improved upon rather than discarded.
None of these ideas is particularly novel. And indeed, the Clinton Administration sought to implement many of them. But its success was limited, in part because measures such as labor market and labor-law reform and foreign aid are not exactly popular in the Congress. In the American system for conducting trade policy, no single actor, even one with Presidential power, is ever in control. The result is outcomes that are not always rational or coherent. At the end of the day, however, the Clinton Administration should be credited with promoting more major trade liberalization agreements than any of its postwar predecessors. It was also particularly successful in avoiding “extra-legal” quota protection at home and unilateral sanctions which violated WTO rules abroad. These policies helped create an economy whose performance was remarkable. Free trade critics may carp that the President has deviated from their blueprints, but as good economists, they should understand what it is to maximize “subject to constraints.”

While the third way for trade policy remained a work in progress, the achievements of the Clinton Administration were especially impressive because the President came from a party in which two thirds of the members were often against his policies. The fact that many of his trade policy actions weakened his domestic political base is compelling evidence of his personal courage and commitment to free trade. These achievements were also impressive because in the 1990s, the politics of trade has become increasingly entangled with other issues.

**Bibliography.**


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122 As Roger Porter has observed “what (the US system) has not produced are consistently coherent policies”. see (Porter, Roger 1988)


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