Coalition Forces Advance

By Tom Barry | July 2004

The Bush foreign policy team is looking a bit down in the mouth lately. The much-heralded "coalition of the willing" proved, like the alleged weapons of mass destruction, to be a myth of the Iraq war.

But another coalition pieced together by the Bush administration—"the coalition of the liberalizers"—is advancing. That's what U.S. Trade Representative (USTR) Robert Zoellick calls the group of countries that have joined the United States in bilateral or regional trade pacts.

At first glance, the U.S. campaign to liberalize the world's trade and investment flows has also run into popular resistance over the past year. Developing countries refused to yield to the uncompromising U.S. and European free trade agenda at the World Trade Organization (WTO) ministerial in Cancun last September. At a hemispheric meeting in Miami a couple months later, U.S. trade negotiators acknowledged that their ambitious plans for a Free Trade Area of the Americas (FTAA) were meeting sustained resistance from a coalition of the unwilling led by Brazil.

But the administration's global economy team hasn't let these setbacks get them down. Instead, the USTR under Zoellick has been busy forging a "coalition" of trade partners that agree to open their markets and protect U.S. investment in order to ensure coveted access to the huge U.S. market.

While many smaller countries in the Americas have already joined this coalition, other prospective free trade partners—notably Brazil and Argentina—have backed off from a FTAA and are pursuing other avenues to ensure continued access to the U.S. market, the largest in the world. They and other Latin American and Caribbean countries want rules to assure increased access for their major export products, including beef, orange juice, cotton, soybeans, sugar, and tobacco. Although discouraged by Washington's hard-line negotiating posture, Latin American nations remain committed to negotiations because of their need for untroubled access to the U.S. market not only for their agroexports but also for their copper, steel, and manufactured goods. At the same time, they are building channels for increased South-South trade and forging new South-South alliances to gain leverage in negotiations.

Key Points

- A "coalition of liberalizers" is advancing the Bush administration's global economy agenda.
- The strategy of Bush team is "competitive liberalization" along parallel tracks of bilateral and regional free trade agreements (FTAs) and pressures within the World Trade Organization.
- In the bilateral and regional FTAs, the administration is pressuring trade partners to accept liberalization reforms that go far beyond WTO rules.

Washington's Free Trade Vanguard

In early 2003 Zoellick outlined a free trade strategy that anticipated rising opposition to Washington's liberalization agenda. Instead of committing itself to making the compromises necessary to completing another negotiating round in the WTO, the Bush administration announced that it would pursue its agenda through free trade agreements (FTAs) with single nations or subregional groupings. "Our FTA partners are the vanguard of a new global coalition of open markets," declared Zoellick.

At the beginning of the Bush administration, the United States had FTAs with only a few nations, including Canada, Israel, and Mexico. However, once Congress in 2002 gave the executive branch Trade Promotion Authority—the go-ahead to pursue "fast-track" trade negotiations—the Office of the U.S. Trade Representative has launched free trade initiatives around the world.

At a time when the war in Iraq was slipping badly out of control, Robert Zoellick and his aggressive band of trade negotiators were pointing to major advances on the

Key Problems

- Bilateral and regional trade agreements offer little negotiating leverage for small, developing countries.
- The competitive liberalization strategy will make it more difficult for developing countries to form their own negotiating groups in multilateral forums.
- Washington insists on treating poorer countries as equal negotiating partners despite large economic asymmetries.
- By concentrating on creating its own coalition of "liberalizers," the administration risks encouraging the creation of competing regional trade blocs.
- Priorities on opening markets to U.S. products and gaining protection for investors and intellectual property rights are not matched by a willingness to reduce subsidies and protections in the U.S.

economic front. Five Central American nations along with the Dominican Republic signed the Central America Free Trade Agreement (CAFTA) in May 2004. That same month the USTR announced the start of bilateral trade negotiations with Colombia, Ecuador, and Peru (and possibly Bolivia) as part of the planned U.S.-Andean Trade Agreement as well as the beginning of free trade negotiations with Panama.

If Zoellick has his way, by the year's end new members of the coalition of liberalizers in the Western Hemisphere will include six Central American nations, one Caribbean nation, and five South American countries, together with Chile, Canada, and Mexico, whose trade agreements with the United States have already been approved by Congress. It's all part of the game plan to ensure that Latin American and Caribbean nations are irrevocably integrated into U.S. trade and investment flows. At the same time, these FTAs will serve to step up the pressure on recalcitrant countries, such as Brazil, Argentina, and the Caribbean countries, to join ranks in the hemispheric FTAA.

A Global Free Trade Strategy

Although the liberalizing coalition strategy is most evident in Latin America, it's being applied globally as U.S. trade negotiators attempt to enlist new free trade partners in the Middle East, Asia, and Africa.

Zoellick calls the strategy "competitive liberalization." By establishing numerous bilateral and regional agreements outside the WTO, the United States hopes to undermine opposition to its aggressive liberalizing agenda and weaken developing country demands for U.S. market access, subsidy reduction, and Special Treatment in the WTO. The Bush administration hopes that the strategy will result in a conclusion of current WTO negotiations that increases the reach of free trade and investment rules. But as Zoellick indicated at the WTO ministerial in September 2003, the United States may be willing to let the WTO founder as it unilaterally pursues its trade and investment ambitions.

In a July 10, 2003 op-ed in the *Wall Street Journal* the administration's trade czar clearly articulated the U.S. global trade and investment strategy. Zoellick explained that under WTO consensus procedures, "one nation can block progress" in extending economic liberalization to new areas. Explaining that Washington can pursue its liberalization agenda outside the WTO, Zoellick warned: "It would be a grave mistake to permit any one country to veto America's drive for global free trade."

Although other nations remain committed to a multilateral forum and universal trade rules, Zoellick signaled that Washington was willing to proceed unilaterally. He predicted, "The WTO's influence will wane if it comes to embody a new 'dependency theory' of trade, blaming developed countries..." Seeing the recalcitrance of many developing countries to approve new trade and investment rules, the Bush administration has adopted a "my way or the highway" approach to global economy issues. This unilateral posture with respect to trade and investment rules mirrors its unilateralism in foreign and military policy.

One-Way Street

The main sticking point of the current WTO negotiations, called the Doha Development Round, is the unwillingness of industrialized nations to make significant concessions to poorer countries. Despite the increasing economic polarization between wealthier and poorer nations, the USTR rejects the notion that trade rules should be preferential to the developing world. According to assistant secretary for economic affairs E. Anthony Wayne, "Global trade integration cannot be a one-way street where developed countries make all the compromises and concessions."

The day the WTO talks broke down in Cancun, the USTR said that the "won't do" countries had won the day over the "can do" countries. Referring to the developing country coalitions that had come together to block the must-do agenda of Washington and the EU, Zoellick issued a veiled threat to the multilateral process: "We're going to keep opening markets one way or another," he said.

But developing countries in Latin America and elsewhere insist that the free trade regimen promoted by Washington has proved to be a dead-end street. Instead of expanding free market rules, a bloc of developing nations insist that the industrialized nations cut agricultural subsidies, open up their own markets to agricultural exports, and stop using their disproportionate economic might to force open vulnerable domestic markets in their countries. Washington—together with the European Union and Japan—has benefited disproportionately from the partial free-trade model currently holding sway. Brazil and other third world countries contend that the United States is the "won't do" trade partner, and have begun to present cases against U.S. trade practices in the WTO.

Washington's Hard Line

Despite the rhetoric claiming that free trade is an unmitigated good and that government intervention in markets is bad for both consumers and producers, the Bush administration continues to provide vast subsidies to agribusiness, protects uncompetitive industries, and blocks access to U.S. markets for developing country exports. While espousing a radical free trade philosophy, the U.S. government alternates free trade with protection and support policies based primarily on the interests of U.S. corporations. When a politically influential economic sector demands special subsidies or protection—even though such measures violate trade rules—the Bush administration has repeatedly demonstrated its willingness to toss aside its rhetorical commitment to free trade.

The Bush administration's decision to raise agricultural subsidies by $80 billion in the 2002 farm bill under-

Competitive Liberalization Around the World

In Asia, Washington has signed an FTA with Singapore and is also negotiating a free trade agreement with Australia. Negotiations were also underway with neighboring New Zealand before it refused to join the "coalition of the willing" in the war on Iraq. Chile also learned that criticism of U.S. foreign policy often has economic repercussions when Washington decided to delay the approval of the bilateral accord with Chile in response to that country's lack of cooperation in the UN Security Council in early 2003. At a time when most Asian nations are looking to China to jumpstart their own economies, the U.S. has invited all the members of the Association of Southeast Asian Nations (ASEAN) to enter FTAs with the United States as part of its Enterprise for ASEAN Initiative.

Although the president's lofty plans for a regional Middle East free trade agreement have been overshadowed by the deepening anti-Americanism in the region, the USTR announced in May 2004 that it had initiated free trade negotiations with Bahrain and that FTA talks were continuing with Morocco. In late 2001 Congress approved a bilateral free trade agreement with Jordan. Zoellick promised, "An FTA with Bahrain will promote the president's initiative for a Middle East Free Trade Area that will advance economic reforms and openness in the Middle East and the Persian Gulf."

Free trade is also at the top of the U.S. economic agenda in Africa, where Washington has begun FTA negotiations with the five countries of the Southern African Customs Union (Botswana, Lesotho, Namibia, South Africa, and Swaziland). Just as in Latin America and the Caribbean, Washington plans to entice individual countries and African subregions to join the coalition of liberalizers. In a hemisphere wracked by misery, AIDS, and conflict, Washington sees opportunity. According to the USTR, "The 48 countries of sub-Saharan Africa represent a largely untapped market for American business."

Besides launching FTA negotiations around the world, the USTR has also been negotiating a series of trade and investment "framework agreements" as a foundation for the more comprehensive FTAs. Among the more recent framework agreements includes accords with Sri Lanka, Brunei, Tunisia, Thailand, and the Western African Monetary Union. The United States also has bilateral investment treaties (BITs) with more than three dozen nations. In May 2004 the office of the U.S. Trade Representative signed a new investment treaty with Uruguay, which addresses such issues as intellectual property rights and telecommunications investment.

Several dozen countries have signed framework agreements that establish the foundation for more expansive trade and investment relations with the United States.

Key Solutions

- Washington should end its narrow focus on competitive liberalization, and should place priority on development goals.
- The U.S. government should recommit itself to multilateralism in trade negotiations while desisting from its current practice of establishing an array of separate trade and investment agreements.
- If the United States wants to restore a healthy domestic economic and ensure the sustainability of a global economy, it should redefine its role as a global leader, not a global bully.

scored the charges that the United States is a free trade hypocrite. But protectionism and subsidies have political payoffs. When Zoellick returned from the failed Cancun talks, he was praised by leaders of the American Farm Bureau Federation for not budging on the issue of farm subsidies. This hypocrisy galls many developing countries, who see their competitively priced exports blocked by U.S. protectionism while at the same time heavily subsidized U.S. exports flow into their own domestic markets.

The USTR has relentlessly pressured other nations, particularly poorer ones, to liberalize their economies. For itself, however, free trade serves more as a battering ram to knock down national barriers to U.S. trade and investment than a universal principle.

A WTO-Plus Agenda

One of the attractions of the "competitive liberalization" is that it allows Washington to pursue a "WTO-plus" agenda. In bilateral or regional agreements, such as the proposed U.S.-Andean Free Trade Agreement, U.S. negotiators seek provisions such as extensive intellectual property and foreign investment rights that extend far beyond WTO rules. In the name of freedom, Washington aims to sweep away all national laws and practices that restrain the rights of U.S. corporations to take over foreign utilities, even such basic services as public water works.

In a speech to the right-wing Heritage Foundation in Washington, Zoellick made the case that there is no alternative to globalization and that U.S. companies and consumers were already benefiting in countless ways from this new wave of corporate-led economic integration. To drive his point home about all the new opportunities, Zoellick noted: "Even the funeral business has gone global, with a Houston-based company now selling funeral plots in 20 countries."

The competitive liberalization strategy of the Bush administration is sparking opposition from both supporters and opponents of increased economic integration. Leading economists warn that the plan to create a "coalition of liberalizers" will ultimately lead to disintegration of the global economy by undermining the WTO as a multilateral forum for the negotiation of trade rules. Washington's competitive liberalization could result in economic regionalism and the harsh terms of FTAs could undermine the stability of developing countries throughout the world.

Rather than consolidating a single trade system that brings together most of the world's nations, economists such as Prof. Jagdish Bhagwati of Columbia University argue that the U.S. strategy will weaken free trade rules and foster mercantilist practices by the major economic powers. One obvious danger of regional trading blocs existing outside the WTO is that economic competition sparks political and eventually even military conflicts. Bernard K. Gordon writes in *Foreign Policy* that competitive liberalization is a "high-risk trade policy." One of the main risks is that countries of East Asia will drop their commitments to the WTO and multilateral trade negotiations, seeking instead to form a regional trade bloc to compete with the United States.

Anti-free trade activists have focused primarily on the WTO and FTAA processes until recently. But as the U.S. turns its attention to bilateral and regional free trade agreements, trade activists both in the United States and in affected countries are mobilizing against competitive liberalization. Although the Central American Free Trade Agreement has been signed, it still needs to be approved by the U.S. Congress. Recognizing that CAFTA will face strong congressional and popular opposition, the Bush administration has postponed the vote on the agreement until after the election. In the case of the Andean trade agreement, groups in Peru, Ecuador, and Colombia are already mobilizing. They are taking to heart Zoellick's boast that new free trade agreements will usher in U.S. corporate control of all parts of their economies—from water works to funeral services.

Eager to lock in a place in the U.S. market, some governments have willingly signed trade accords that run contrary to the interests of their citizens and most economic sectors. Negotiated without any public review or consultation, the new series of free trade agreements is creating new sources of internal dissent and discontent.

As occurred with Spain, political leaders that prove too willing to follow the U.S. agenda for global hegemony may eventually find themselves voted out or otherwise removed from office when the adverse impacts of increased liberalization set in.

There are some hopeful signs that global and regional economic integration can deviate from the U.S. plan. The coalition that came together to block the U.S./EU agenda at the last WTO ministerial raised the possibility that the global trade negotiations will need to respond to the demands of the poorer nations, who comprise the majority of the WTO membership. Similarly, Latin American and Caribbean trade negotiators succeeded in having Washington scale back its ambitions for the Free Trade Area of the Americas.

If Washington is truly interested in fostering a more integrated regional and global economy that is healthy and sustainable, it must end its narrow focus on competitive liberalization and prying open foreign markets for its surpluses. A pragmatic alternative is to commit itself to multilateral economic talks that establish broad economic development as the end goal of trade and investment policies. When looking at the deepening impoverishment and economic polarization in Latin America and elsewhere in the developing world, even many of the most vociferous advocates of free trade are starting to acknowledge that liberalization is at best only part of the solution to stagnant economies. Without consumers with disposable incomes, without a well-educated work force, and without good public infrastructure, the markets are bare and the investment opportunities scarce.

The United States badly needs a new global economic policy. It is not enough, however, to talk about inserting labor and environmental clauses into trade agreements. Moreover, it would hardly constitute a step forward for the U.S. government to rely on protectionism, to resort to more anti-dumping tariffs, or to increase subsidies to business to revive the job market at home. If the United States wants to restore a healthy domestic economic outlook and to ensure the sustainability of a global economy, it should aim to reassume its role as a global leader, not a global bully. A good start would be for the United States to commit itself, as it did in part in the aftermath of World War II, to multilateral economic negotiations and institutions that put development and financial stability into the center of a global economic strategy.

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For more information:

Websites:

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http://www.americaspolicy.org/

Alliance for Responsible Trade
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