

The Multilateral System and Free Trade Agreements: What's the Strategy?

Presentation Summary and Comments

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Claude Barfield: While acknowledging that the effectiveness of different negotiating frameworks varied among individual nations and is best judged empirically, Barfield argued that the bilateral framework is the least desirable arrangement from the U.S. perspective. He made three main points: (1) multilateral agreements should remain the priority of the U.S. Trade Representative (USTR); (2) it is important in regional agreements to prevent parties from excluding whole sectors from the agreement; and (3) all nations should commit to keeping free trade agreements (FTAs) open for other countries to join.

Barfield elaborated that the USTR should favor multilateral agreements because a multiplicity of bilateral or regional agreements containing many different rules on tariff and market access would create a politically and economically inefficient world. Plurilateral, or regional, agreements represent the middle ground on the frameworks spectrum, but successful plurilateral agreements (for instance, the Free Trade Area of the Americas (FTAA) or the moribund Asia Pacific Economic Cooperation (APEC)) seem unlikely. To date, the Administration has placed little faith in truly regional agreements, choosing instead bilateral and trilateral agreements as ways of building toward multilateral agreements. Barfield also noted one danger in bilateral and regional agreements consists of the possibility that trade remedies will tilt in favor of those inside the agreement, as evidenced by the U.S. decision to exempt certain FTA partners from the steel safeguards (announced in March of 2002).

Another danger in regional agreements is that countries will avoid making tough decisions by excluding whole sectors from agreements. For instance, the European Union's (EU) bilateral FTAs often keep agriculture off the table; Japan's 1999 offer of an FTA with Korea would have done the same. Barfield suggested two new rules as a method of uniformly improving negotiation outcomes: (1) require that no tariffs exceed previous levels; and (2) require that all sectors must be included in final agreements. Toward this end, he

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suggested that countries be required to use the most open market access provided by the country as a baseline for tariff negotiations and to include at least 95 percent of trade.

Finally, Barfield suggested that all nations should commit to keeping their FTAs open so that a country would have to negotiate an FTA with any willing country.

Regina Vargo: Vargo argued that the bilateral framework is a crucial component in liberalizing trade, as it represents another level in the “competition of liberalization” triumphed by the current USTR. While free trade agreements proliferated in recent times, the United States primarily remained a spectator. One hundred ninety FTAs exist worldwide. The EU has over thirty FTAs. Of the thirty FTAs involving Western Hemisphere countries, the United States is a party to only one. In contrast, Mexico has concluded eight FTAs since the North American Free Trade Agreement (NAFTA), and Canada has been negotiating with several countries in the Western Hemisphere. Additionally, while FTAs traditionally are concluded between countries within a region, FTAs are increasingly used to solidify and open trade across regions. Recent passage of Trade Promotion Authority will allow the United States to show more leadership on the trade negotiation front.

The inclusion of bilateral agreements in the negotiating *repertoire* creates a greater variety of forums and allows the USTR to pursue innovative provisions and to tailor agreements to the specific trade and investment context of a country. Strategic thinking can alleviate the potential weakness of creating bilateral and regional FTAs—incongruent agreements and piecemeal market access—so that FTAs support larger policy objectives. Ultimately, the existence and use of different frameworks allows trade liberalization on multiple levels in an integrated and complementary way.

Luis de la Calle: De la Calle first outlined the advantages of bilateral agreements and then explained the relationship between the three levels of trade agreements (bilateral, regional, and multilateral). According to de la Calle, there are three advantages for bilateral agreements: (1) nations engaging in bilateral negotiations are able to think strategically and choose their partners; (2) nations are able to undertake deeper commitments in bilateral agreements; and (3) good bilateral agreements can actually promote the multilateral trading system. For example, in the early 1990s, NAFTA was an important impetus for completing the Uruguay Round.

Along with the EU, Mexico has the biggest network of free trade agreements. The multitude of agreements translates for Mexico into many stable trading relationships. Additionally, the web of agreements allows Mexico to be a significant player in various forums—the WTO, APEC, and FTAA—because it has less to lose than other, less-anchored, nations. As a reflection of its influence, Mexico is the host of FTAA and APEC discussions.

De la Calle argued that the three levels of trade agreements are inter-linked. Bilateral free trade agreements can have a significant impact on regional and multilateral negotiations, at least in the short term, because they can change incentives. If the United States can negotiate with individual Latin American countries, for instance, why would these countries even want an FTAA? This is true particularly since the FTAA faces two major challenges as a regional agreement: (1) substantive differences between Latin American countries, particularly concerning agriculture, that impede the negotiation of the final product and (2) difficulties surrounding the negotiation of rules of origin.

With regard to the question of how to reconcile the three levels of negotiations, de la Calle argued for making the Doha Development Agenda the final frontier. The United States and the EU should lead the global effort by offering zero import duties for manu-

facturing products. The lowering of tariffs to zero would eliminate conflicting rules of origin and present a way by which intrinsic contradictions of doing bilateral, regional, and multilateral negotiations can be reconciled.

I.M. Destler: The best framework for liberalization, Destler argued, is the global (WTO) framework. At the same time, however, bilateral and regional free trade agreements tend to reinforce, not undercut, WTO agreements. The ratification of NAFTA, for example, created pressure on Europe leading to the Uruguay Round/WTO agreement. It is clear, however, that at present the WTO has primacy over the FTAA on agriculture. U.S. farm interests are reluctant to open domestic markets to Brazilian competitors, until they secure economically significant concessions from the European Union. In other respects, from the U.S. perspective, regional agreements offer opportunities for more aggressive liberalization, particularly when global negotiations stall or will take years to complete. Movement on the FTAA could provide leverage on different issues, in a manner similar to how NAFTA broke the ice during the Uruguay Round and offered opportunities to build support for free trade. Thus, bilateral and regional agreements can produce a constructive dynamic that USTR Robert Zoellick has called “competitive liberalization.”

Questions and Answers: A question relating to article XXIV of the GATT was raised. If vigorous enforcement is necessary for a strategy of competitive liberalization, does that kind of enforcement exist today?

Vargo replied that standards in article XXIV are not sufficiently clear to determine consistency of FTAs with the WTO rules. While it is relatively easy to judge when barriers overall have been raised, it is difficult to determine the exact meaning of “substantially all” trade. It is unclear what makes an acceptable percentage of liberalization of sectors; should it, for instance, be 95 percent or 99 percent of all sectors? Further, she stated that “squishiness” exists in article XXIV, and it remains unclear how the United States would go about taking action if certain agreements fundamentally upset U.S. interests.

De La Calle responded that in approaching article XXIV and possible disputes relying upon it, the United States should defend WTO interests, not U.S. interests. Barfield stated that the United States has maintained a good record of following article XXIV in its own agreements.

A question was asked regarding the complex politics of agriculture, and whether the creation of unilateral preferences would facilitate implementation of article XXIV. Destler asserted that the United States has not behaved consistently on agricultural issues; for instance, the Administration’s flip-flop on the recent farm subsidies bill versus U.S. pressure on the EU to reform the Common Agricultural Policy. The Administration was unwilling to confront the clear contradiction in its position for political reasons; it wanted farmers’ votes in the coming election, plus farm representatives’ support of Trade Promotion Authority.

De la Calle added it would be interesting to see how the agricultural issue unfolds in the NAFTA over the next few years, since NAFTA encompasses the most ambitious agreement on agriculture to date. Under NAFTA, following January 2003, no duties or quotas will exist on any agricultural products, except for powdered milk, sugar, and corn.

Regarding article XXIV, Destler stated that fewer and less complex rules of origin would facilitate free trade, but countries would need to renegotiate and recommit to article XXIV. Vargo suggested that the establishment of a single rule of origin might disqualify whole economic sectors from claiming benefits of an agreement and lead to the loss of broad political support.

