

TFCTN Distinguished Guest Speaker Series

RSIS-TFTCN Public Lecture on “Look West: The Evolution of U.S. Trade policy Toward Asia”

Speaker: Professor Vinod Aggarwal

Professor in the Department of Political Science, Affiliated Professor of Business and Public Policy in the Haas School of Business, and Director of the Berkeley Asia Pacific Economic Cooperation Study Center (BASC) at the University of California at Berkeley

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Introduction

The talk discussed a novel analytical categorization scheme to conceptualize trade arrangements. Professor Aggarwal argued that there had been a misuse of concepts by economists and the (World Trade Organization) WTO when they referred to agreements as “regional arrangements.” Understanding different kinds of trade arrangements is important for studying the evolution of different kinds of trade arrangements and the relationships to broad trade arrangements such as the WTO. Based on this classification scheme, his talk explored several periods of US trade policies over time: 1) multi-product multilateralism, 2) liberal protectionism 3) a movement towards actual regionalism and 4) competitive liberalization and 5) discussion of a Free Trade Area of the Asia-Pacific (FTAAP) as well as likely future trends.

The speech

On categorizing different types of trade arrangements, Professor Aggarwal argued that there was a need to properly identify different types of preferential arrangements, as this needed to undertake systematic analysis. There are several dimensions that are useful to categorize trade arrangements. The first is based on the number of actors involved: unilateral (eg. UK corn laws, imposition of tariffs unilaterally), bilateral (e.g. preferential agreements), multilateral (agreements among small number of countries such as NAFTA or APEC) and multilateral/global broad-based arrangements. Secondly, one can look at the number of products involved—that is, whether there are a few or many products as a basis for the trade arrangement. Another category is whether the trade arrangement involved states that are geographically concentrated or dispersed. Finally, one must also look to see if the agreement is liberal or protectionist. He argued that it is highly erroneous to simply refer to all preferential trade arrangements as ‘regional trade arrangements’ as many are not “regional” but span continents. Thus, for analytical accuracy one should adopt categorization highlighted above.

Assessment of US trade arrangements: driving forces and outcomes

In his assessment of US trade arrangements, Professor Aggarwal broke down US trading arrangements to date based on specific time periods:

Late 1940s to early 1950s

During this period, Cold War bipolarity was very influential in determining US trade policy. The US was very interested in using trade policy as a way of resisting the Soviet Union. As a hegemon, US also desired free trade. This was coupled with the existence of a strong commitment to multilateralism and hence the US was very active in initiating the GATT rounds. The US also believed in free trade and multilateralism and in the relationship between free trade and peace. As a result, the primary American focus was on the GATT.

Late 1950s to early 1980s

In the mid to late 1950s, politically important economic sectors (automobiles, textiles) prompted the US to negotiate market-protecting agreements. By the mid 1950s, the US concluded its first voluntary export restraint with Japan in textiles and apparel. Eventually, pragmatic limited protectionism in the context of what John Ruggie has called the embedded liberal compromise became the American focus. The outcome was a US-Canada agreement and also more geographically based voluntary export restraints in a number of sectors.

1980s to mid 1990s

In this period, the EU rose as a challenger to US dominance of trade policy and there was a decline in institutional nesting concerns. Domestically, there was greater partisanship in trade as well as efforts to push the Japanese to engage in voluntary import expansion in semiconductors. Multilateralism began to be challenged and there was a movement away from type of trade arrangement. There was a view that multilateralism by itself would not guarantee a free trade system and that other options should be considered. The US moved towards promoting regionalism and transregionalism due to its frustrations as a result of the challenges from Europe.

Mid-1990s to 2008

This period was marked by the rise of new powers with continued disputes between the EU and the US. There was continued partisanship in trade. For example, Clinton's way of handling NAFTA got the NGOs more deeply involved and stimulated activity in the NGO sector on labor and the environment. With NGO pressures and problems in NAFTA, free trade came to be increasingly questioned. There was also a belief in bicycle theory of trade—that one had to keep moving forward all the time and that all

liberalization was good. This however proved to be problematic as it was not politically realistic. In his assessment of the new effort to liberalize on a sectoral basis with agreements in the late 1990s in telecom, financial services, and information technology, what Prof. Aggarwal labeled “open sectoral liberalization” based on his work with John Ravenhill. Professor Aggarwal argued that on the plus side, these agreements met the interests of domestic business interests and also created tangible gains for domestic industries. However, the arrangement undermined the coalition for free trade: the open sectoral approach bought off winners and thus reduced the possibility of future support for global negotiations.

There was also the rise of bilateralism. Some of the advantages highlighted were the ease of starting negotiations and how such an arrangement could achieve political and economic objectives and payoffs came quickly (especially when it was crucial to boast of economic developments during each administration: it was clear to whom credit was due). However, there were also several disadvantages. First were the significant trade and investment diversions. Second was the existence of patchwork of agreements that complicated the challenge for firms, particularly SMEs (one more step for higher competitiveness). Also, there was a pressure on smaller countries to make concessions. The main outcome during this period was the rise in bilateral agreements, with a large number of geographically dispersed bilateral arrangements.

On the Free Trade Area of the Asia-Pacific (FTAAP), Professor Aggarwal argued that Dr. Fred Bergsten’s view on the benefits of this agreement were misleading. First, it was ironic that Dr. Bergsten was advocating an FTAAP after just recently calling for competitive liberalization and suggested that an FTAAP was now needed to reign in the very agreements he had advocated. Second, the view that this would help the U.S. to be involved in East Asia and prevent creation of an East Asia agreement was problematic, because East Asian countries would view this strategy as being a cynical one. In addition, APEC was institutionally weak. Thus, there was a bleak outlook for the possibility of an FTAAP as Prof. Aggarwal has recently noted in a 2008 publication about FTAAP.

Commenting on President Obama’s trade policy based on the 2009 USTR 2009 Report, Professor Aggarwal pointed out that in his view, trade policy was a relatively low priority at this point. There was a commitment to the Doha Round but little movement was likely as the US was unwilling to devote effort to this round in view of the financial crisis which clearly was the highest priority.

In his conclusion, Professor Aggarwal highlighted the main points of his presentation. Firstly, regionalism consisted of a variety of different types of trading arrangements that might have different implications. Second, an open sectoral approach might look tempting but such an arrangement might undermine the coalition for free trade. On likely trends, he noted that bilateralism is on the rise but the U.S. president does not have trade negotiating authority from the Congress and thus other countries would continue to pursue bilateralism, a trend that poses dangers for the WTO and inter-regionalism. Lastly, the FTAAP at this point is a non-starter as there were too many political impediments.

Note: This talk is based on a paper that is currently being considered for publication. For a discussion of FTAAP, see *An APEC trade agenda?: The political economy of a free trade area of the Asia-Pacific* by Charles Edward Morrison and Eduardo Pedrosa, Pacific Economic Cooperation Council, APEC Business Advisory Council, Institute of Southeast Asian Studies, 2007. Prof. Aggarwal's publications are available at: <http://basc.berkeley.edu/aggarwalresearch.html>.

Q&A Session

1. Question: How can we overcome the desire to go backwards and promote free trade? (with reference to the 'Bicycle theory' and applying it to the current economic environment)

Aggarwal: To prevent a rise in protectionism, it is important that the WTO provide oversight of national actions. It has the right to review government stimulus packages to ensure that they conform to the government procurement agreement.

2. Question: Doha Round: How can we improve the WTO process given the rise of preferential arrangements? Is there a need to look into fundamental reforms?

Aggarwal: A qualified majority voting in WTO might be one possibility; full democracy is complex and straight majority voting would not work. Even a regional approach would not work given widely differing views within regions. Ultimately, reform in the WTO was important but we should ensure that the WTO continue to function in view of the importance of the dispute resolution mechanism.

3. Question: The problem with the WTO was that in the search for transparency, there was no effective mechanism for governance. Decisions were being made through informal mechanisms through self-agreement processes. What was needed was an equivalent of an executive decision-making board.

Aggarwal: I agree that there is a need to promote WTO reform.

Recorded by: Tuty Raihanah Bte Mostarom, Research Analyst ICPVTR

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Vinod K. Aggarwal is Professor in the Department of Political Science, Affiliated Professor of Business and Public Policy in the Haas School of Business, and Director of the Berkeley Asia Pacific Economic Cooperation Study Center (BASC) at the University of California at Berkeley. From 1991-1994, he was

Chairman of the Political Economy of Industrial Societies Program. He is also the founder and Editor-in-Chief of the *journal Business and Politics* and Co-Chair of the U.S. Consortium of APEC Study Centers.

Prof. Aggarwal received his B.A. in political science and psychology from the University of Michigan and his M.A. and Ph.D. in international political economy from Stanford University. He has been a Research Fellow and Guest Scholar at the Brookings Institution, a Rockefeller Fellow, Council on Foreign Relations Fellow, a Visiting Fellow at the East-West Center, and a Fellow at the Woodrow Wilson International Center for Scholars in Washington, D.C. He has also been a Visiting Professor at the Graduate Institute of International Studies in Geneva, the University of Geneva's IOMBA program, INSEAD, and Bocconi University. He is also a member of the Council on Foreign Relations and founding member of the U.S. Asia Pacific Council.

Prof. Aggarwal consults regularly with multinational corporations on strategic planning, trade policy, and international negotiations. His clients include Cisco, Statoil, ING Clarion, Hewlett Packard, Qualcomm, Herman Miller, Italcementi, ARCO, and Nestle. In the public sector, he has been a consultant to the Mexican Government, the U.S. Department of Commerce, World Trade Organization, OECD, the Group of Thirty, IFAD, the International Labor Organization, ASEAN, and the World Bank. In 1990, he was Special Adviser on Trade Negotiations to the United Nations Conference on Trade and Development (UNCTAD) in connection with the GATT Uruguay Round negotiations and has also worked with the APEC Eminent Persons Group. He is a frequent speaker in Executive Education programs in the United States and Europe. In 1997, he won the Cheit Outstanding Teaching Award at the Haas School of Business for PhD teaching; in 2003 he was first runner up for the Cheit Award for MBA teaching and won first place for the MBA program in 2005.

His authored books include *Liberal Protectionism*, *International Debt Threat*, *Debt Games*, *Le Renseignement Stratégique d'Entreprise*, *Une Nouvelle Approche des Phénomènes Sociaux*, and he has edited *Institutional Designs for a Complex World*, *Asia-Pacific Crossroads*, *Winning in Asia: European Style*, *Winning in Asia: Japanese Style*, *Winning in Asia: U.S. Style*, *Sovereign Debt Management*, *European Union Trade Strategies*, *The Strategic Dynamics of Latin American Trade*, *Bilateral Trade Agreements in the Asia Pacific*, and *Asia's New Institutional Architecture*. His newest book is entitled *Northeast Asia: Ripe for Integration?* Prof. Aggarwal has also published over 80 articles and book chapters on the politics of trade and finance. His current research examines comparative regionalism in Europe, North America, and Asia with a focus on implications for the international system and multinational corporations. Prof. Aggarwal speaks five languages. He was born in Seattle, Washington.