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# Assessing US FTA Policy

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As of January 2004, the United States has entered into free trade agreements (FTAs) with Israel, Canada, Mexico, Jordan, Singapore, and Chile. It is currently crafting bilateral FTAs with 12 countries (Australia, Morocco, the 5 Central American countries, and the 5 members of the Southern African Customs Union)—which some also count among the 33 partners in the negotiation of the Free Trade Area of the Americas (FTAA). In addition, the US Trade Representative (USTR) has notified Congress of his intent to open talks with Bahrain, Bolivia, Colombia, the Dominican Republic, Ecuador, Panama, Peru, and Thailand in 2004. Current FTA partners account for more than one-third of total US merchandise trade; upon completion of the new bilateral FTA negotiations and the FTAA, more than 40 percent of US trade will be covered by free trade pacts (see table 13.1).

Besides the current US negotiating partners, there is a lengthy queue of countries seeking to enter bilateral FTA negotiations with the United States. This list includes Uruguay in Latin America, Egypt in the Middle East, and New Zealand, Pakistan, the Philippines, Sri Lanka, and Taiwan in the Asia Pacific region. In addition, some members of Congress and business leaders in both countries have advocated adding South Korea to the negotiating queue. FTAs would cover about 50 percent of US trade if agreements were reached with all these countries as well as those already in train.

This spurt of negotiating activity—in parallel with the Doha Round of multilateral trade negotiations in the World Trade Organization (WTO)—is unprecedented in postwar US trade policy. The benefits and drawbacks of each individual initiative, including their implications for the world

## Table 13.1 US FTA partners, current and prospective

| Partners | 2001 GDP (billions of dollars)[a] | 2001 GDP per capita (dollars) | US merchandise trade, 2002 (billions of dollars): Exports to[b] | Imports from[c] | Trade balance | Total two-way trade |
|---|---|---|---|---|---|---|
| **Current** | | | | | | |
| Canada | 694 | 22,343 | 142.5 | 210.5 | –68.0 | 353.1 |
| Chile | 66 | 4,314 | 2.3 | 3.6 | –1.3 | 5.9 |
| Israel | 108 | 17,024 | 5.3 | 12.4 | –7.1 | 17.7 |
| Jordan | 9 | 1,755 | 0.4 | 0.4 | 0.0 | 0.8 |
| Mexico | 618 | 6,214 | 86.1 | 134.1 | –48.0 | 220.2 |
| Singapore | 86 | 20,733 | 14.7 | 14.1 | 0.6 | 28.8 |
| *Subtotal* | | | 251.4 | 375.2 | –123.8 | 626.5 |
| **Under negotiation** | | | | | | |
| Australia | 369 | 19,019 | 12.3 | 6.4 | 5.9 | 18.7 |
| Bahrain | 8 | 12,189 | 0.4 | 0.4 | 0.0 | 0.8 |
| Bolivia | 8 | 936 | 0.2 | 0.2 | 0.0 | 0.3 |
| Brazil | 503 | 2,915 | 11.2 | 15.6 | –4.4 | 26.8 |
| CAFTA-5 | 59 | 1,758 | 9.4 | 11.8 | –2.4 | 21.3 |
| Colombia | 82 | 1,915 | 3.3 | 5.4 | –2.1 | 8.7 |
| Dominican Republic | 21 | 2,494 | 4.1 | 4.2 | –0.1 | 8.3 |
| Ecuador | 21 | 1,632 | 1.5 | 2.1 | –0.6 | 3.6 |
| Morocco | 34 | 1,173 | 0.6 | 0.4 | 0.2 | 1.0 |
| Panama | 12 | 4,163 | 1.3 | 0.3 | 1.0 | 1.6 |
| Peru | 54 | 2,058 | 1.4 | 2.0 | –0.5 | 3.4 |
| South Africa | 113 | 2,620 | 2.4 | 4.2 | –1.8 | 6.7 |
| Thailand | 115 | 1,874 | 4.5 | 14.8 | –10.3 | 19.3 |
| *Subtotal* | | | 52.7 | 76.8 | –15.1 | 120.4 |
| **Prospective** | | | | | | |
| Egypt | 98 | 1,511 | 2.8 | 1.3 | 1.5 | 4.2 |
| South Korea | 422 | 8,917 | 21.2 | 35.3 | –14.1 | 56.4 |
| New Zealand | 50 | 13,101 | 1.7 | 2.3 | –0.5 | 4.0 |
| Pakistan | 59 | 415 | 0.7 | 2.3 | –1.6 | 3.0 |
| Philippines | 71 | 911 | 7.0 | 11.0 | –4.0 | 17.9 |
| Sri Lanka | 16 | 836 | 0.2 | 1.8 | –1.6 | 2.0 |
| Taiwan | 282 | 12,572 | 16.8 | 32.1 | –15.3 | 48.8 |
| Uruguay | 19 | 5,522 | 0.2 | 0.2 | 0.0 | 0.4 |
| *Subtotal* | | | 50.5 | 86.2 | –35.8 | 136.7 |
| **United States** | 10,065 | 35,277 | 629.6 | 1,154.8 | –525.2 | 1,784.4 |

CAFTA = Central American Free Trade Agreement

a. In current US dollars.
b. US domestic exports.
c. US imports for consumption.

*Sources:* For GDP, World Bank *World Development Indicators* 2003; Council for Economic Planning and Development Yearbook, Taiwan (2003); Central Bank of Nicaragua statistics (2002), www.bcn.gob.ni/; and IADB country homepages (2003), www.iadb.org/exr/country/eng/. For trade, USITC Trade Dataweb, http://dataweb.usitc.gov.

trading system, have been examined in the preceding chapters of this book. In this concluding chapter, I assess the US policy to date—including the criteria for selecting FTA partners—and offer recommendations on how the FTA strategy should be recast to meet US economic and foreign policy objectives and to complement ongoing negotiations in the Doha Round.

## US FTA Strategy

The United States has global trading interests. Throughout the postwar period, it has been a leader of the multilateral trading system and the *demandeur* of all nine rounds of GATT and WTO negotiations.

For the past two decades, however, bilateral FTAs have been pursued both to complement and to cajole progress at the multilateral level. In the 1980s, frustration following the acrimonious GATT ministerial meeting of November 1982 led then-USTR William Brock to pursue bilateral options with Israel and later Canada (Schott 1983). As Howard Rosen explains in chapter 3, talks with Israel served as a convenient pilot project for the new FTA policy—offering a large political payoff with little economic consequence or impact on the GATT system. The Canada–US FTA advanced the policy dramatically by reinforcing the extensive economic integration already occurring in the North American market and by suggesting alternative negotiating options if a new GATT round was not launched (Schott and Smith 1988). This message was reiterated and amplified with the start of the NAFTA negotiations in 1991 after the GATT ministerial in Brussels in December 1990 failed to conclude the Uruguay Round (Hufbauer and Schott 1992, 42–43).

After the bitter NAFTA ratification debate and the lapse of "fast-track" trade negotiating authority in mid-1994, US trade policy refocused on "Big Emerging Markets" that potentially offered substantial growth opportunities for US exporters and investors. Two superregional initiatives were launched during this period, involving Asia Pacific and Western Hemisphere countries. US officials found willing partners among the developing countries in the Western Hemisphere and launched the FTAA process at the Summit of the Americas in Miami in December 1994. That meeting came three weeks after the United States and its partners in the Asia Pacific Economic Cooperation (APEC) forum committed at the APEC Summit in Bogor, Indonesia, to the ambitious goal of free trade and investment in the region by 2010–20. After early successes in pushing the conclusion of the Uruguay Round and later the WTO Information Technology Agreement, the APEC free trade initiative bogged down.[1] FTAA

1. APEC members never committed to a traditional FTA negotiation, but instead sought progress towards free trade through a process of "concerted unilateralism" (Bergsten 1996).

negotiations began in 1998, though US participation was initially hobbled by the lack of a congressional negotiating mandate until the reauthorization of fast-track authority—renamed "trade promotion authority," or TPA—in the summer of 2002.

Despite the fast-track interregnum, the FTAA talks proceeded—albeit sluggishly. The United States began bilateral FTA negotiations with Jordan and later Singapore and Chile, as a number of other developing countries sought to join the FTA queue. The US–Jordan FTA was implemented under regular legislative procedures, but the other FTA partners had to wait until new US trade authority was enacted before their deals could be consummated. The explanation for this activity may have more to do with the changing approaches to trade negotiations by developing countries than with new US trade strategies.

Traditionally, trade officials have tried to deflect demands for reform of their own trade barriers, acceding to the minimum change needed to complete a trade pact. But over the past decade or so, developing countries engaged in FTAs have turned such negotiating strategies on their head. Instead of limiting their own reforms, trade officials have tried to "out-reform" their competitors in an effort both to secure preferential access to key markets and, even more important, to lock in domestic reforms through contractual obligations and thus improve the investment climate in their markets. Mexico and Chile have been the most prolific proponents of this strategy, concluding FTAs with numerous neighbors plus the European Union. It is no exaggeration to say that these FTAs are primarily investment-driven and integrally linked with economic development strategies.

Fred Bergsten (1996) recognized this new negotiating dynamic and called it "competitive liberalization."[2] Increasingly, both developed and developing countries have adopted this approach to their trade policies. The reason is straightforward: FTAs offer opportunities not just to bolster exports but also to reinforce and secure domestic reforms crucial for economic development. These domestic reforms, in turn, make it easier for countries to undertake and sustain the obligations of broader multilateral accords. With TPA in hand, US trade officials have aggressively pursued this strategy—building on NAFTA—to encourage other countries to accelerate the pace of trade reform in bilateral and regional free trade pacts pursued concurrently with the Doha Round of multilateral trade negotiations (Zoellick 2002).

2. Bergsten (1996) developed the concept of competitive liberalization in his analysis of negotiating incentives in the Asia Pacific context, building on an earlier analysis by Hufbauer (1989, chap. 6). Since then, the phenomenon has taken root in all regions and has been adopted by USTR Robert Zoellick as the core strategy of US trade policy.

## Picking FTA Partners

In response to the numerous requests for FTAs by countries of widely diverse size, income, and geographic proximity to the United States, how do US trade officials pick their negotiating partners? Members of Congress often have suggested that US officials pursue pacts with specific countries but rarely have asked the executive branch to establish selection criteria that would set priorities among their prospective initiatives. Until recently, the selection process has been opaque but uncontroversial—since it was rarely used. That situation obviously has changed. The following sections provide a closer look at US objectives and selection criteria, and how the policy has been implemented to date.

Two introductory points bear mention. First, countries ask the United States to negotiate FTAs for several reasons. Bilateral fast-track authority, as amended by the Trade and Tariff Act of 1984, required that US trading partners take the initiative. For the past 15 years, countries have requested an FTA in response to the Canada–US FTA, and then NAFTA—reflecting concerns about discriminatory treatment against their exporters in the US market. For developing countries, taking the initiative is particularly important to demonstrate the political commitment (or "buy-in") to pursue the requisite reforms in domestic and trade policies that would be required by a free trade pact.

Second, the United States generally has preferred to deal with the European Union, Japan, and now China in the WTO rather than in bilateral FTA negotiations. To be sure, the Clinton administration vetted proposals for a TAFTA, or Transatlantic FTA, on several occasions. Each time, however, the idea was rejected because of skepticism that either side would remove long-standing protectionist measures as well as concerns about the impact on the global trading system if the two elephants of world trade gave each other preferential treatment. Proposals for a US–Japan FTA likewise suffered from serious doubts that Japan would undertake meaningful reform commitments in agriculture or eliminate nontariff barriers to trade. Interestingly, to get around that problem some former Japanese officials have publicly suggested free trade talks only in services (Hatakeyama 2002).

What this means is that picking FTA partners primarily involves US relations with developing countries and is affected by the myriad US political, economic, and security interests with those countries. On the economic front, this means advancing US trade and investment interests abroad by improving access to growing markets and "leveling the playing field" for US firms, workers, and farmers in competition with foreign suppliers, as well as by building alliances in support of US objectives in WTO talks. On the foreign policy front, this means using free trade to promote economic growth and the rule of law, to strengthen the foundations of democratic governance, and to secure support for global efforts against terrorism.

Such goals reflect the strategic vision of trade policy propounded by President Bush (commencement address at the University of South Carolina, May 9, 2003): "Across the globe, free markets and trade have helped defeat poverty and taught men and women the habits of liberty."[3]

While such a "strategic" approach to foreign relations is desirable in theory, in practice US policy often vacillates on how much priority to give commercial policy in overall US foreign policy. Why?

First, with the advance of globalization, economic interactions between nations have become an increasingly important component of foreign relations. Economic aid and economic sanctions are used in turn to promote good relations or to coerce good behavior from foreign governments. Growing commercial ties create a web of interlocking interests, as Henry Kissinger has often said, but they can also create a set of conflicting policy objectives within each country. Should political and security interests trump commercial concerns? In the Cold War era, the obvious answer was yes.[4] In the immediate post–Cold War era, economic interests gained in relative importance. However, the tragedy of September 11, 2001, restored the primacy of security concerns in US international relations.

Second, coordination among executive branch agencies is in short supply; initiatives of State, Defense, Commerce, Treasury, and the USTR often work at cross purposes owing to conflicting directives from Congress and the White House. Some members of Congress and the business community believe that trade should be unfettered and not a handmaiden to foreign policy. At the same time, however, other members have put forward legislation limiting US trade with or financial assistance to countries that violate specified norms of good behavior such as human rights abuses, proliferation of weapons, and support of terrorism and drug trafficking.

Given this cacophony of stated policy goals, it is difficult to formulate a coherent US trade strategy. US trade officials must negotiate on two fronts: at home with domestic lobbies and Congress, and abroad with US trading partners. Often the bargaining at home is more difficult than dealing with other trade officials in Geneva or elsewhere—since the Congress must pass legislation to ratify and implement US participation in trade agreements. In any event, the demands of bi-level negotiations require that all US trade initiatives meet both domestic and international objectives. This conundrum is evident in the USTR's approach to selecting partners for FTA negotiations.

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3. This statement preceded the announcement of a new Middle East trade initiative that seeks to establish a US–Middle East FTA within a decade; it was part of a speech on US efforts to promote democracy in postwar Iraq.

4. FTAs were less useful for advancing US political goals in the Cold War era. Most developing countries weren't ready for FTAs with industrial powers and, in any event, preferred the GATT process because they didn't have to offer reciprocal trade reforms.

## Current US Selection Criteria

In informal comments at "FTAs and US Trade Policy," the IIE conference in early May 2003 that gave rise to this volume, USTR Robert Zoellick discussed 13 factors that he takes into account in determining whether to launch FTA negotiations with a particular country (see *Inside U.S. Trade*, May 9, 2003). On the basis of those remarks, I array current US selection criteria under four broad and somewhat overlapping categories: impact on domestic US politics, economic objectives, level of commitment of the partner country to trade reform, and foreign policy considerations. This ordering does not necessarily reflect US priorities, though passing the domestic politics test undoubtedly is a prerequisite for the launch of new FTA negotiations.

### Domestic Politics

The enactment of trade promotion authority in the Trade Act of 2002 has helped to facilitate the Bush administration's pursuit of FTA negotiations. However, that legislation passed the House by an extremely narrow margin; this is worrisome, since members were voting only on procedural rules. When Congress is asked to ratify agreements that could require changes in existing laws and practices that would have an immediate impact on their constituents, the task of securing a majority vote in the House may be much more difficult.[5] Thus, the first set of criteria focuses on whether new FTAs will help to broaden support for US trade initiatives among members of Congress and private-sector interest groups. Three factors seem to guide the process:

- Do members favor helping prospective FTA partners for both economic and political reasons?
- Is there negotiating flexibility to manage—or possibly exempt—the liberalization of products that are especially important for key congressional constituencies?
- Can FTA provisions help to build support among business and farm lobbies as well as groups in civil society that have heretofore been skeptical of trade agreements?

5. To be sure, US FTAs with Chile and Singapore passed Congress relatively easily in 2003. Those pacts posed few competitive challenges for US industries and farmers and elicited only mild opposition from organized labor. The Central American Free Trade Area and other FTAs will face a harsher welcome from members of Congress.

The current challenge for US officials is twofold: to convince moderate Democrats in the House that FTAs can help to build stronger bonds with countries in which their constituents have strong interests and that they are part of a broader program of US support for the economic development of the country and its region; and to secure support from Republicans whose constituents favor trade protection. Some members who oppose trade pacts in general may support agreements that involve countries (e.g., those in southern Africa or in Central America and the Caribbean Basin) they have long sought to help for economic and political reasons. However, some members may oppose prospective FTAs unless the US partners accept "special treatment"—for example, lengthy phase-in periods for trade reforms—for sensitive US imports so that trade protection can be maintained for their constituents. Finally, some members may find FTAs more acceptable if the pact promotes greater compliance with national laws and international commitments on labor and the environment, and seeks to resolve long-standing problems in these areas. Yet at the same time, those members will continue to be wary of new trade pacts if they exacerbate US unemployment problems or fail to address the needs of displaced US workers.[6]

## Economic Policy Considerations

The next set of criteria involve the "traditional" reasons for pursuing FTAs—that is, advancing US economic interests. In judging candidate countries, the following questions are posed:

- Will the FTA expand US export opportunities and protect the interests of US investors in the partner country?
- Will the pact level the playing field for US exporters by offsetting the preferences that benefit other foreign suppliers under existing FTAs to which the candidate country is a party?
- Will the FTA establish precedents for future negotiations in areas such as services, intellectual property, labor, and the environment that then can be used as building blocks for broader regional and multilateral pacts?

US trade officials tout FTAs as opening new export opportunities for US firms, workers, and farmers.[7] NAFTA clearly contributed to the sharp in-

6. Note that TPA would not have passed without the enhanced trade adjustment assistance programs included in the Trade Act of 2002 at the insistence of Senate Democrats.
7. Less convincingly, they also sometimes try to sell the pacts as engines of net US job creation.

crease in regional trade and investment over the past decade; US trade has grown twice as fast with Canada and Mexico as with the rest of the world (see Hufbauer and Schott, forthcoming). Nonetheless, compared with overall US trade, the potential merchandise trade creation from new FTAs should not be oversold: almost all the current candidates are developing countries, and many of them are small economies. Bigger countries could offer larger trade payoffs. In almost every case, however, such gains accrue only if the United States liberalizes barriers protecting import-sensitive sectors such as agriculture, textiles, and clothing—reforms that would raise hackles on Capitol Hill, undercutting the benefits sought in the first set of selection criteria.

This analysis, of course, ignores an important part of US economic relations with its FTA partners. US trade in services with, and US foreign direct investment (FDI) in, several of these countries are substantial (see table 13.2). US companies engaged in these transactions stand to benefit significantly if an FTA can remove investment requirements that discriminate against US firms as well as other regulatory barriers to trade that limit access to the foreign market.[8] In addition, FTAs can be valuable as negotiating laboratories that create precedents for regional and WTO accords, and that help to teach trade negotiators how to deal with evolving problems in the global economy.

## Commitment of Partner Country

US officials argue that their FTAs are "state-of-the-art"—with comprehensive coverage (i.e., limited exceptions) and rule-making obligations that go beyond what has been developed in the WTO. While one can debate the relative value of some of the "new" provisions (e.g., the detailed, industry-specific origin rules and constraints on the imposition of short-term capital controls), there is no disagreement that the FTA obligations require significant reforms in both the trade and domestic regulatory practices of the US trading partners. Countries must be committed to an extensive reform program that allows them to participate in new accords developed bilaterally and in the WTO. The third set of criteria for selecting FTA partners thus judges their willingness and ability to change their own policies in order to meet the requirements of a reciprocal free trade pact, and to work cooperatively with US negotiators to pursue positive results in WTO negotiations:

8. For example, US services trade with Australia is valued at $8.1 billion, or almost 44 percent of merchandise trade. With Brazil, the services trade is $6.7 billion, or about 25 percent of goods trade. In both countries, the stock of US FDI exceeds $30 billion (see table 13.2).

**Table 13.2 Economic ties with FTA partners, current and prospective** (millions of dollars)

| Partners | Total trade with the United States, 2002: Merchandise | Total trade with the United States, 2002: Services | US foreign direct investment, 2002 | Average tariff on US goods (percent) | Military and economic aid, 2001 | FTAA/APEC partner (Y/N) | EU PTA negotiating partner (Y/N) |
|---|---|---|---|---|---|---|---|
| **Current** | | | | | | | |
| Canada | 353,061 | 42,708 | 152,522 | 4.1 | 0 | Y | N |
| Chile | 5,901 | 1,876 | 11,625 | 7.0 | 1 | Y | Y |
| Israel | 17,741 | 3,846 | 5,207 | n.a. | 4,789 | N | Y |
| Jordan | 809 | n.a. | n.a. | 16.6 | 336 | N | Y |
| Mexico | 220,197 | 26,969 | 58,074 | 18.0 | 54 | Y | Y |
| Singapore | 28,834 | 7,836 | 61,361 | 0.0 | 0 | Y | N |
| *Subtotal* | 626,542 | 83,235 | 288,789 | | 5,181 | | |
| **Under negotiation** | | | | | | | |
| Australia | 18,692 | 8,138 | 36,337 | 4.4 | 0 | Y | N |
| Bahrain | 802 | n.a. | n.a. | 8.5 | 0 | N | Y |
| Bolivia | 342 | n.a. | n.a. | 9.2[a] | 192 | Y | N |
| Brazil | 26,816 | 6,668 | 31,715 | 13.8 | 25 | Y | Y |
| CAFTA-5 | 21,269 | n.a. | 2,263[b] | 33.1 | 287 | Y | N |
| Colombia | 8,727 | n.a. | 3,735 | 12.0 | 153 | Y | N |
| Dominican Republic | 8,276 | n.a. | 1,123 | 9.1 | 52 | Y | N |
| Ecuador | 3,612 | n.a. | 1,082 | 11.6 | 33 | Y | N |
| Morocco | 970 | n.a. | n.a. | 26.1 | 26 | N | Y |
| Panama | 1,594 | n.a. | 20,003 | 7.9[a] | 8 | Y | N |
| Peru | 3,394 | n.a. | 3,237 | 13.6 | 276 | Y | N |
| South Africa[c] | 6,682 | 1,912 | 3,428 | 8.2 | 89 | N | Y |
| Thailand | 19,272 | 1,949 | 6,883 | 15.8 | 22 | Y | N |
| *Subtotal* | 120,448 | 18,667 | 107,543 | | 1,161 | | |
| **Prospective** | | | | | | | |
| Egypt | 4,151 | n.a. | 2,959 | 17.7 | 3,005 | N | Y |
| South Korea | 56,434 | 12,094 | 12,192 | 8.4 | 0 | Y | N |
| New Zealand | 4,004 | n.a. | 4,383 | 3.0 | 0 | Y | N |
| Pakistan | 2,994 | n.a. | n.a. | 16.5 | 90 | N | N |
| Philippines | 17,943 | 2,788 | 4,097 | 5.3 | 86 | Y | N |
| Sri Lanka | 1,978 | n.a. | n.a. | 8.5 | 18 | N | N |
| Taiwan | 48,840 | 9,853 | 10,091 | 7.0 | 0 | Y | N |
| Uruguay | 380 | n.a. | n.a. | 15[a] | 0 | Y | Y |
| *Subtotal* | 136,724 | 24,735 | 33,722 | | 3,200 | | |
| **Total** | 883,715 | 126,637 | 430,054 | | 9,541 | | |

n.a. = not available
APEC = Asia Pacific Economic Cooperation
CAFTA = Central American Free Trade Agreement
FTAA = Free Trade Area of the Americas
PTA = preferential trade agreement

a. Data for 2001.
b. Based on latest available data from Costa Rica, Honduras, and Guatemala.
c. Data only for South Africa, which represents the predominant share of the Southern African Customs Union (SACU-5).

*Sources:* World Bank's World Integrated Trade Solution Database 2003; USITC Trade Dataweb3, http://dataweb.usitc.gov; US Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, September 2003; USAID *Greenbook* 2003; and European Commission Bilateral Trade Relations (2003), http://europa.eu.int/comm/trade/bilateral/index_en.htm.

- How committed is the partner country to implementing and enforcing domestic economic reforms, and to deepening economic integration with its neighbors?
- How committed is the partner country to working with the United States to forge common objectives, and to promote their acceptance, in WTO negotiations?

In essence, these criteria test the readiness of countries to adjust to a more competitive environment in their domestic markets. The willingness to do their "homework" is critical to their participation in FTAs and WTO negotiations. Almost all the prospective FTA partners (except Australia) are developing countries, so there is a legitimate concern about their ability and political commitment to pursue and sustain over time reforms of macroeconomic, trade, and tax and other regulatory policies. In many cases, such initiatives also are linked with ongoing efforts at regional integration with neighboring countries (especially in Central America and southern Africa).

Since an FTA also seeks to promote convergence of interests in more open trade, it follows that FTA partners will have areas of common interest that they should want to advance in the global trade talks. The United States and the other major trading nations can no longer dictate the terms of global trade deals; instead, they need to build coalitions to help to promote consensus among the WTO's 146 member countries. In light of the difficulty in developing such a consensus (as evidenced most recently at the failed WTO ministerial meeting in Cancún in September 2003), FTAs can be used to forge alliances among "like-minded" countries that can contribute to the consensus-building process so necessary for agreement on WTO accords.[9] Note that this suggests that FTAs with key developing countries, including members of the G-20 coalition, could help to move the Geneva process forward in the coming years.

## Foreign Policy Considerations

The fourth set of criteria involves two distinct US policy objectives: rewarding friends for their support in international ventures, and demonstrating the global reach—or geographic diversity—of US trade and foreign policy interests. In brief, the USTR bases its decisions on three tests:

9. To be sure, FTA preferences also can create disincentives to moving forward with WTO reforms (as noted in chapter 1), if FTA partners try to maintain the value of their trade preferences by slowing or stalling multilateral accords (some AGOA beneficiaries seem to fall into this camp).

- Is the country cooperating with the United States on foreign policy issues?
- Will the FTA contribute to the economic development of the partner country and thus encourage a deepening of democratic processes and the rule of law?
- Would negotiations with the country contribute to a geographic balance of initiatives on each continent?

The first criterion is simply a concrete manifestation of the carrot-and-stick approach to diplomacy that dates back to the days of Thucydides. That said, the application of the policy remains erratic. Australia is honored for its support of the US war against Iraq by an acceleration of the pace of FTA negotiations; New Zealand is shunned for its opposition. While Iraq seems to be the litmus test for many current candidate countries, other international initiatives may also spur or impede trade talks in the future. FTA talks with Bahrain commend that country's role in promoting democratic reform and peace talks in the region, while Egypt is first extolled and then criticized for failing to advance customs and other economic reforms.[10] In the future, will talks with Colombia run afoul of that country's support for the International Criminal Court—despite its backing of the war in Iraq and of the war against drug trafficking?

The second criterion follows a US policy standard since the Marshall Plan sought the reconstruction of postwar Europe. Countries that are prosperous encourage political pluralism and a strengthening of democratic governance. In turn, these countries are more stable politically and better markets for US exporters and investors (though often stronger competitors to US trading interests as well).

The third criterion is meant to signal that US policymakers seek to expand relations and trade opportunities all over the world. Obviously, the clearest way to send this signal is by engaging in multilateral trade negotiations like the current Doha Round. FTAs are meant to offer another way to demonstrate global trading interests. The USTR has launched initiatives in Southeast Asia and the Middle East (e.g., Thailand, Bahrain), and prospectively in South Asia with Sri Lanka, to complement the array of initiatives in Latin America and the Caribbean and in Africa in hopes of establishing building blocks that over time can yield broader regional pacts.[11] But the value of those FTA outposts is exaggerated. If the United

10. In addition, Egyptian trade officials drew the ire of US negotiators when they backtracked on support for US initiatives in the WTO on genetically-modified foods and seeds.

11. No central or eastern European countries are on the US list, presumably because those that are "ready" are already in line to join the European Union. The USTR geographic balance sheet also omits countries in Northeast Asia because of their reluctance to reform agriculture.

States wanted regional initiatives that underpinned its global trading interests, the talks would have to be with bigger trading powers. Unfortunately, FTAs with many of the larger countries are either unviable (because the prospective partner is not willing to open its trade) or undesirable (because of the potential impact on the WTO).

## Implementation of US Selection Criteria

The four broad categories of selection criteria outlined above capture the complexity of addressing the myriad economic and foreign policy issues at play in US relations with diverse countries in the developing world. Few would criticize the mixture of trade and foreign policy goals; few agree, however, on what priority to give to economic and political factors in determining how to utilize the government's limited negotiating resources. Opinions differ as well both on how the selection criteria have been applied and on whether the United States is negotiating FTAs with the right set of countries.

Some criticize US policy for thinking small and negotiating pacts that cover only modest volumes of trade. These critics fall into two camps: those who want bigger deals in economic terms (e.g., Baucus 2003, US Chamber of Commerce 2003), and those who argue that the US policy is cherry-picking easy-to-do pacts and leaving the tough issues for the WTO—a strategy that they claim diverts attention from, and makes it harder to reach agreements in, the WTO talks (e.g., Guy De Jonquières in chapter 1).[12] In response, US officials defend the policy as maintaining momentum for trade reform, and establishing precedents for broader regional and multilateral initiatives. Conducting parallel talks at the bilateral, regional, and multilateral levels generates the constructive process of competitive liberalization and offers channels for pursuing liberalization in case so-called foot-draggers stall progress in the Doha Round (Zoellick 2002).

In fact, looking at the long list of current and prospective partners reported in table 13.1, both sides are (partly) right. This ambiguous verdict stems from how the FTA policy has been implemented to date.

First, most of the US initiatives have focused on FTAs with trading partners in the Western Hemisphere. The most significant initiative in economic and political terms is NAFTA, which is in its final stages of implementation (see Hufbauer and Schott, forthcoming). In many respects, however, NAFTA is still a work in progress with an ongoing agenda for deepening economic integration in North America.[13] While new NAFTA-

12. See also Martin Wolf, "The Abominable No-Men Menacing World Trade," *Financial Times*, September 24, 2003, 13.

13. For a discussion of initiatives that could be taken to further integration in the NAFTA region, see Schott and Hufbauer (2004) and Pastor (2001).

like pacts under development steal the headlines, the continuing work to elaborate the existing agreement remains the most important regional initiative being pursued by the United States.

Second, most of the new FTAs under negotiation involve Latin American countries with which the United States is also negotiating the FTAA.[14] These pacts thus can be seen either as small individual deals or as components of a much bigger regional trade agreement. Brazil, Argentina, Paraguay, Uruguay, Venezuela, and the small Caribbean Basin countries (which already receive extensive trade preferences in the US market) are the only FTAA participants not in the current US FTA queue. Unfortunately, those countries account for more than 50 percent of the total GDP of Latin America and the Caribbean (excluding Mexico).

Whether the Latin American initiatives constitute a big economic deal or not depends on one's assessment of how these pacts will influence the larger South American countries—particularly Brazil—in the negotiation of the comprehensive hemispheric accord.[15] The US strategy seems to be to "surround Brazil" with FTAs with other Latin American countries in order to up the ante of the US–Brazil deal that eventually will be required to construct the FTAA. Alternatively, as I argue below, the United States could try to engage Brazil in FTA talks as a big stepping-stone to the hemispheric FTAA.

Third, trade is clearly subservient to broader political objectives in some of the FTA initiatives. Talks with Morocco and Bahrain make sense as demonstration or pilot projects—following the US–Jordan model—for a Middle East FTA.[16] These pacts aim to set standards for future adherents in the region with which the United States has important, albeit complex, economic and political relations, such as Egypt (and possibly Saudi Arabia and Iraq, once these countries pass muster and join the WTO). The US motivation in these cases is primarily political, though the FTA provisions set out a detailed agenda of domestic economic reform that prospective partners would need to pursue if they wanted a comparable accord.

By contrast, the negotiation with the Southern African Customs Union (SACU) is unlikely to serve as a demonstration project for other countries in sub-Saharan Africa. The United States insisted on negotiating with the five SACU members instead of just South Africa, in part to help to deepen integration efforts among the SACU partners (a similar objective drives

14. Many of these countries suffered trade and investment diversion because of NAFTA and therefore have sought "NAFTA parity" to level their playing field with Mexico in competing for US market share.

15. As Albert Fishlow argues in chapter 10, that assessment in turn depends on developments in the Doha Round as well as the evolution of bilateral trade relations between the United States and the Mercosur countries.

16. In May 2003, President Bush proposed a series of trade initiatives—culminating within a decade in an FTA with countries in the Middle East "that demonstrate a commitment to economic openness and reform" (USTR 2003).

US talks with the Central American countries).[17] But unlike the relative parity among CAFTA countries, there is a big gap between South Africa and its regional partners in terms of both economic power and political importance (see chapter 12)—and the gap is even wider with other sub-Saharan countries. Getting the other SACU members to meet the terms of an FTA with the United States will be difficult enough; adding other African countries—through future negotiations that allow them to "dock" onto the existing accord—will be harder still.

The Commission on Capital Flows to Africa (2003) recommended a US–Africa FTA with African countries that establish their own regional FTAs. I believe such an initiative to be too ambitious, though offering the prospect of an FTA with the United States could spur those countries to accelerate free trade initiatives within their own regions, which in turn would help to promote the economic reforms needed to integrate those nations more fully into the world trading system.

Fourth, the FTA with Australia is the outlier in the pack: it is the only current negotiation with a developed country. Bilateral trade is about the same as total US trade with other FTA aspirants such as Colombia, Thailand, and the Philippines. Although the US–Australia pact raises sensitive agricultural problems involving sugar, beef, dairy, and lamb that politicians would like to avoid in an election year, President Bush decided to move forward on an accelerated timetable for the talks as a reward for Australian support of US foreign policy initiatives.

Finally, prospective talks with Thailand (and possibly Sri Lanka) seem designed to establish FTA outposts in Southeast and South Asia. Annual US–Thai trade volume is about $20 billion, and a pact—building on the US–Singapore FTA—would set standards for similar deals with other Association of Southeast Asian Nations (ASEAN) members, once those countries are ready, willing, and able to undertake and enforce the requisite obligations.[18] The United States launched the Enterprise for ASEAN Initiative in November 2002 to guide those preparations, and to spur a process of competitive liberalization among the ASEAN members (which have not yet achieved free trade among themselves despite efforts that span more than three decades).

Overall, the implementation of US FTA strategy gets mixed marks. Much of the US effort to date has been directed toward building big trading pacts (NAFTA, the FTAA) in the Western Hemisphere. Those initiatives seem to fulfill US economic and political objectives in negotiating FTAs, and they broadly complement parallel talks in the WTO. On the other hand, too much effort has been invested in low-risk, low-reward (in both economic and political terms) negotiations with small countries around the globe.

17. South Africa also preferred broader negotiations to avoid complaints by its SACU partners that it was proceeding alone on trade (as it previously did with the European Union).

18. Total US–ASEAN merchandise trade exceeded $140 billion in 2002, so an US–ASEAN FTA would be a big deal (as Dean DeRosa discusses in chapter 6).

## Lessons from the European Experience?

The European Union has long been the most active participant in regional trading arrangements; indeed, it is the most successful example of economic and political integration among neighboring states, apart from the United States of America! Thus, it is not surprising that policymakers ask whether there are lessons from the European experience that could inform US policy toward FTAs. Some scholars argue that certain aspects of the European approach merit emulation (see, e.g., Pastor 2001). I am more skeptical.

The postwar European efforts at integration have had both strong political and economic dimensions. Countries were willing to cede sovereignty to supraregional authorities as part of the process of creating a more politically unified Europe. Part of the glue of the alliance was transfers mandated by the common agricultural policy. In addition, new entrants received subsidies in the form of regional development grants funded by the richer, northern members as inducements to join the Community. More recently, the association pacts that Brussels concluded with central and eastern European and Mediterranean countries clearly were understood to be way stations to eventual membership in the common political and economic institutions of the evolving European Union.

The above obviously is only a caricature of the process of European integration. However, it suffices to make the simple point that the European experience in its neighborhood has had much broader economic and political goals than those sought in US trade pacts.

The European Union also negotiates with countries that are not geographically proximate. Outside its neighborhood, however, the European Union has been playing catch-up with the United States for the past decade (with the exception of the EU–South Africa FTA). In large measure, it now emulates US initiatives in Latin America and East Asia—though with a somewhat different tactical approach.

In East Asia, the European Union's TREATI (Trans Regional EU–ASEAN Trade Initiative) seems to be cast from the mold of the Enterprise for ASEAN Initiative of the United States. Its strategic priorities cover both political and economic objectives, such as supporting regional stability and the fight against terrorism; promoting human rights, democratic principles, and good governance; and expanding trade and investment with the region.

In Latin America, the European Union negotiates FTAs incrementally and does not have an integrated negotiation like the FTAA. It has concluded pacts with Mexico and Chile, is negotiating with the Mercosur, and is preparing to enter FTA talks over time with the Andean Community and the Caribbean signatories of the Cotonou Agreement (see Schott and Oegg 2001).[19] Its criteria for selecting partners seem largely to be to follow the leader in the region and to focus on the main markets (Chile was supposed to be blended into the Mercosur). European FTA partners also must pass a democracy test (though EU officials seem to apply this standard flexibly in judging prospective partners—particularly those in the Middle East).

Unlike the United States, the European Union has committed not to launch new free trade talks until after the conclusion of the Doha Round. EU trade officials are not on the sidelines, however. Current talks under way with Mercosur and the Gulf Cooperation Council will continue, and those mandated in existing pacts (e.g., Cotonou) presumably also would not be affected by the moratorium. The European Union has some type of preferential trading arrangement with 10 of the current or prospective US FTA partners (table 13.2), though EU negotiators—constrained by their position on farm reform—do not seem to subscribe to the leveraging tactics implicit in the "competitive liberalization" approach of the United States.

## Setting FTA Priorities

Does US policy toward FTAs need a major overhaul, or just a tune-up? Some critics of current policy advocate forswearing FTAs (except NAFTA) in favor of working exclusively on the WTO negotiations (e.g., see Richard Cooper's comments in chapter 1). Others want a different lineup of negotiating partners that better fit the commercial policy interests of US–based firms.[20] Ideally, it would be desirable to focus negotiating efforts on the pacts with the biggest economic payoff—that is, to primarily devote attention to the WTO and then to FTAs involving substantial US trade and investment interests that complement and reinforce the multilateral process. In practice, however, each case or situation poses different sets of economic and foreign policy opportunities and challenges—some mutually reinforcing, others conflicting. Trying to establish priorities among the selection criteria that could apply equally to all prospective FTA partners is a futile task.

19. EU policy envisages revising trade ties with former colonies gradually under the Cotonou Agreement from one-way preferences to reciprocal FTAs.

20. For example, the US Chamber of Commerce (2003) issued a policy statement on FTAs in February 2003 that recommended FTA talks primarily with larger economies such as the European Union, Japan, Russia, Turkey, and India as well as several others already in the FTA queue. Their selection criteria focused exclusively on economic factors, ignored the political problems that can arise in reforms affecting import-sensitive US industries (especially textiles and apparel), and would severely tax USTR negotiating resources.

The current US approach has several advantages. Most important, it tries to link domestic politics with international initiatives and attempts to build a strong base of domestic support for trade and other foreign policies. Second, it integrates commercial diplomacy and foreign policy, recognizing that economic advances abroad can serve US political interests (especially with nascent or aspiring democracies) and that political alliances help to encourage flows of trade, investment, and people between the partner countries.

However, the US approach also has some drawbacks. First, the advantage gained by integrating trade and foreign policy interests is impeded by inefficient policy coordination within the US government (as noted above). The fact that the USTR has taken the lead in formulating US policy for initiatives that span important geopolitical as well as commercial interests is unusual, to say the least, and probably not sustainable. Second, the diverse set of FTAs has spawned different and complex trading rules, especially regarding origin requirements for some industrial and agricultural products. As I argued in chapter 1, US negotiators need to continue to push for the elimination of industrial tariffs in the Doha Round inter alia to minimize the costs of discriminatory rules of origin in FTAs. Third, the strategy stretches the limited resources of the USTR by engaging with a number of small countries that do not represent political or economic power centers in their region (e.g., Morocco in North Africa, Bahrain in the Persian Gulf, and Sri Lanka in South Asia). These countries may be suitable partners for pilot programs, but they cannot be expected to yield big economic or political payoffs.[21] More critically, such small initiatives divert the attention and resources of US trade officials from WTO negotiations and from other FTAs that are potentially more lucrative.

Considering the broad-ranging negotiating objectives set by Congress in the Trade Act of 2002, USTR operates on a shoestring budget—another example of conflicting US policy objectives. Significant additional funding is unlikely given the soaring US budget deficit, so USTR will need to recast their FTA priorities.

If the United States wants to establish influential outposts in various regions to advance its economic and foreign policy interests, then it should engage other—and bigger—partners in FTA talks. However, before I name names to be pursued in bigger deals, two caveats bear mention.

The bigger the deal in economic terms, the bigger the prospective payoff in terms of increased growth for the US economy. That's why talks with Turkey and South Korea, among others, are favored by companies

21. USTR Zoellick (2003) argues that, excluding countries with which an FTA would have adverse effects on the WTO (e.g., China, Japan, and the EU), these small deals combined actually account for a large share of the rest of US merchandise trade. Nonetheless, it is a large proportion of a small volume of trade.

with export or investment interests in those markets (US Chamber of Commerce 2003). However, some of the US gains come from reductions in US trade barriers and subsidies, and thus entail significant US economic adjustments. As a result, these FTAs will provoke opposition from US import-competing farmers and industries (especially steel, textiles, and clothing) that would face greater competition in their home market. In short, "big stakes" FTAs elicit broader political support from potential winners but also more intense opposition from potential losers threatened by the increased competition.

From a political perspective, bigger deals also complicate the calculus for picking FTA partners. Good trade relations can generate substantial political benefits that can be used to forge common approaches to regional problems (e.g., dealing with North Korea). On the other hand, such deals can produce perverse incentives from a trade policy perspective, since the US partner may demand exceptions to trade reform as a payoff for the political alliance.[22]

What needs to be done? First, US officials should seek the biggest bang for the buck in trade negotiations and thus give priority to the WTO. Given the extensive problems evidenced recently in conducting such negotiations, however, the United States should also continue to pursue FTAs that complement the WTO process and provide constructive incentives for advancing global trade reforms. Second, US officials should up the ante on FTAs by selecting partners that can produce big dividends in economic and foreign policy terms—without undercutting the multilateral system.

If one looks at the broad US economic relationship with countries seeking FTAs—including merchandise and services trade, foreign direct investment, and development assistance—a few individual countries stand above the rest (see table 13.2). Most notable are South Korea and Brazil.[23] These countries play crucial roles in regional political stability. FTAs with them would raise contentious and politically difficult problems, but the economic and political gains would be substantial—if the pacts cover substantial reforms in agriculture, industrial goods, and services.

US trade with South Korea is larger than that with any other current or prospective FTA negotiating partner. In 2002, two-way trade in goods and services exceeded $68 billion. As Inbom Choi and I report in chapter 7, an FTA could yield significant welfare gains for both economies, *if* agriculture is included in the deal (otherwise, the gains are cut in half). Such a

22. Take, for example, the case of the Philippines. It is an ally in the war on terrorism, but a footdragger on trade reform and unhelpful in the WTO (where it tried to block the US compromise on intellectual property and access to medicines prior to the Cancún ministerial).

23. US–Taiwan trade and investment is also substantial, but negotiating an FTA now would inflame US relations with China. Such talks should be postponed to allow cross-straits ties between Taiwan and China to deepen.

pact would also reinforce political and security relations at a time of increasing tension on the Korean peninsula.

To date, however, officials in both countries have been cautious about moving toward an FTA. Liberalization of long-standing US barriers to South Korean exports of textiles, apparel, and steel would trigger loud rebukes from domestic industries already suffering sharp competition from Chinese suppliers. In South Korea, FTA-induced reforms would provoke even harsher reactions from Korean farmers. Few South Korean politicians have dared cross that constituency; indeed, President Roh declared in May 2003 that his country would not pursue FTAs if they required reform of agricultural policies. As a result of such intransigence on farm reform, US officials have not given serious consideration to a bilateral FTA with South Korea.

Nonetheless, recent trade developments in East Asia may force Korea to soften its resistance to agricultural reforms. In particular, Korea–Japan FTA talks will unleash demands for comparable trade initiatives from countries whose exporters will face new discrimination in both Northeast Asian markets. Indeed, competitive liberalization could explode with a vengeance in East Asia—led by the United States as it seeks to level the playing field with Japan. China, which is rapidly becoming Korea's top trading partner, may follow suit. For both countries, agriculture will be a central focus of their demands. In addition, any prospective deal in the Doha Round will be possible only if the major trading nations, including Korea and Japan, agree to significantly reduce their farm trade barriers. Korean exporters will pay a heavy price if their trade negotiators continue to block progress in the WTO over agriculture.

Changing demographics suggest that Korea could deflect at least some of the domestic opposition to farm reforms by switching from trade protection to income support for Korean farmers. Indeed, this is the direction that European policy seeks to go in its reform of the common agricultural policy. A combination of "decoupled" support for Korean farmers and substantial, albeit incomplete, reform of import barriers could provide a big boost to Korea's economy. Such reforms could be phased in over time to mitigate the economic adjustment pressures and to help to manage the political fallout. Under such conditions, an FTA is doable over the next few years.

Brazil presents different, but equally important, opportunities and challenges. Bilateral US–Brazil trade currently is far below potential due to both trade restrictions and burdensome tax and regulatory policies that create disincentives to trade and investment. Projections from gravity models suggest that a bilateral FTA could quickly stimulate a doubling of trade, increasing US–Brazil merchandise trade to the level of current US-South Korea trade. As in the South Korean case, sensitive trade barriers would have to be reduced, if not eliminated. That means that concrete concessions would have to be offered to expand Brazilian access to the US market for products such as sugar, ethanol, citrus, and steel.[24] Brazil, in turn, would have to improve access to its services markets, bidding on government contracts and coverage and enforcement of intellectual property rights (IPRs). Both countries would need to eliminate their tariffs, including those on sensitive agricultural products as well as on textiles, clothing, and footwear.

For Brazil, it is a propitious time to move forward on the trade front. Brazil needs to offset sluggish domestic demand and propel economic growth. An FTA could complement domestic efforts to push the needed reforms to both domestic economic and trade policies. Brazil's new government has a narrow window to take advantage of its competitive exchange rate, which has dampened protectionist pressures, in order to reduce the notorious "Brazil cost" at home and barriers to Brazilian exports abroad. Success both in the Doha Round and in Western Hemisphere FTAs could be achieved before Lula da Silva faces reelection in late 2006.

For the United States, closer ties with Brazil would reinforce efforts made over several decades to promote economic development and to strengthen democratic processes in the region. Increased trade and investment can help to boost income and employment in both countries, open new channels for political cooperation and cultural exchange, and strengthen prospects for hemispheric integration.

To date, US–Brazil talks have been channeled through the FTAA process. This approach is understandable, since the FTAA is the biggest prize in the US FTA policy—but only if Brazil (which accounts for about 50 percent of South American GDP) is part of the agreement. However, the hemispheric talks have slowed to a crawl amid continuing differences between the United States and Brazil over the scope and coverage of the prospective accord. Brazil has been reticent until recently to put forward even minimal offers on services, procurement, and IPRs. And, of course, agriculture remains a major source of contention—particularly sugar and domestic farm supports.[25] Given the impasse at the FTAA ministerial in Miami in November 2003, US policymakers have opted to move forward with most other Latin American and Caribbean countries, choosing to let Brazil and its Mercosur partners catch up when they are ready to proceed in the FTAA.

To energize the grudging pace of FTAA and WTO talks, an alternative approach to US–Brazil trade relations should be considered. Instead of leav-

24. I recognize that US sugar lobbies threaten to block an FTA with Brazil if the pact liberalizes the extensive US protection of their industry. They also are trying to scuttle the CAFTA and US–Australia pacts. Exempting sugar could cause the collapse of key US trade initiatives, and should be avoided.

25. In principle, all farm trade issues are subject to FTAA reforms, although important problems caused by domestic subsidies are not amenable to regional solutions and must instead be handled in the WTO (where the United States and Brazil may have common objectives).

ing a US–Brazil deal for the end of the FTAA process, it might be more productive to move forward with bilateral talks to catalyze the hemispheric process. As Albert Fishlow reports in chapter 10, President Lula da Silva has suggested just such an initiative in talks with President Bush. Such talks could also deepen the understanding of the common interests both countries have in a successful Doha Round, thus encouraging them to work together (instead of at cross purposes, as in Cancún) to craft a big package of WTO accords, including substantial reductions in domestic farm subsidies.

Would South Korea and Brazil agree to enter FTA negotiations with the United States? Admittedly, neither country has indicated a willingness to undertake comprehensive trade reforms. Domestic opposition is substantial and the negotiating payoff—-in terms of increased access to the US market—-is uncertain. But both countries will have to confront these lobbies in any event in the near future, if they hope to achieve their economic development goals. Thus, a US initiative hopefully would catalyze new reforms.

FTAs with South Korea and Brazil would dramatically alter the profile of US FTA policy. Both are doable, if the US partners are willing to accept a comprehensive free trade deal in return for concrete reforms of sensitive US trade barriers. Both would force US officials to make difficult political decisions but would reward the effort with substantial economic benefits for US firms, workers, and farmers. Both would provide positive "shocks" for the regional and multilateral trade talks by advancing farm reforms in each country. Both should move to the head of the FTA queue.

Do US officials dare advance so aggressively? In fact, they already committed to doing so in proposals put forward in the Doha Round in 2002 that would eliminate industrial tariffs and farm export subsidies and would substantially reduce domestic farm supports. Such changes in US trade measures always will be difficult to sell to Congress, and thus will require a big package of benefits—both economic and foreign policy—to offset the opposition from US constituencies that will lose their subsidies and other trade protection. To succeed in that task, US officials have to think big—and big FTAs should be part of their trade strategy to complement and catalyze world trade reforms.

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