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## American Trade Politics in the Wake of the Uruguay Round

I. M. Destler

In his first two years, President Bill Clinton presided over the completion of two major American steps in trade liberalization. After negotiating side agreements to the North American Free Trade Agreement (NAFTA), he emerged victorious in a dramatic, uphill battle for congressional approval. After completing the Uruguay Round negotiations in December 1993, US Trade Representative Mickey Kantor won decisive, bipartisan legislative action a year later: Democrats and Republicans voted two-to-one in favor in the House, and three-to-one in the Senate. Just before that vote, Clinton flew to Indonesia to endorse an agreement by the nations of the Asia Pacific Economic Cooperation forum (APEC) to achieve free trade among themselves by 2010/2020. Just afterward, he hosted a hemispheric summit in Miami, at which leaders pledged to establish a Free Trade Area of the Americas (FTAA) by 2005. All in all, it was, in the words of one commentator, “a more ambitious record of trade liberalization than [that of] any President since at least Harry S. Truman” (“Clinton Drawing Visionary Blueprint of Global Economy,” *Los Angeles Times*, 5 December 1994).

Since December 1994, however, the American trade liberalization express has ground to a halt. Far from moving forward with the APEC and FTAA negotiations, the administration made no serious effort in the past 18 months to win from Congress the “fast-track” authority necessary for their serious pursuit. Meanwhile, the militant new Republican majority

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*I. M. Destler is a visiting fellow at the Institute for International Economics, professor at the University of Maryland's School of Public Affairs, and director of its Center for International and Security Studies.*

in the House was making populist noises at variance with the pro-business, liberal-trade stance that had dominated that party over the previous 25 years. Members of both parties revolted in January 1995 when the Clinton administration, backed by Republican Senate and House leaders, sought their enactment of a rescue package for Mexico's peso crisis. Thirteen months later, Pat Buchanan won the New Hampshire primary on a platform that prominently featured a particularly unvarnished form of antibusiness protectionism. Meanwhile, respectable academic support was developing for the view that international trade had played a role in the general wage stagnation and growing income inequality among US workers since the early 1970s. And administration support for the new World Trade Organization (WTO) seemed less than wholehearted.

What was the foreign observer to make of all this? What were Americans to make of it? Was the administration's new trade caution a reflection of a broader national reaction to its liberal-trade achievements? Were we perhaps even seeing the end of a 60-year US commitment to liberal trade, dating from the Reciprocal Trade Agreements Act of 1934? Or was this just another ebb tide in America's trade-political cycle, similar to those that followed the Kennedy and Tokyo Rounds?

Only time will tell, of course. But this paper will argue that the "ebb tide" characterization best captures the current situation. Moreover, the analysis here will suggest that the Clinton administration's domestic political positioning is a major part of the story, and that this reflects a continuation, not a reversal, of the political route taken to its victories in 1993 and 1994. Moreover, there may well be a renewal of liberal-trade initiatives once the November 1996 election is history.

## **NAFTA and the Uruguay Round: The Clinton/Kantor Path**

NAFTA was the most controversial trade agreement in US history; the Uruguay Round was the most comprehensive. Clinton and Kantor inherited both from Republican predecessors. A global follow-on to the Tokyo Round was first sought by US Trade Representative William Brock in the early 1980s, during the Reagan administration. His proposal for bilateral FTAs, a significant departure from prior American policy, was intended in part to get Europeans moving multilaterally by showing that Americans had another option. The Europeans did move, though not on Brock's watch: it was his successor, Clayton Yeutter, who led the American delegation to Punta del Este, Uruguay, in September 1986. And the Trade and Tariff Act of 1984, which Brock brokered in House-Senate conference, authorized for the first time the use of fast-track procedures for congressional action on bilateral or regional trade agreements.

NAFTA itself was proposed and negotiated under George Bush, with its signing just 34 days before Clinton's inauguration. Bush pressed the agreement because he thought it was good policy, and also to squeeze his election rival: House Democrats had voted 170-91 against fast-track authority for the talks, so whichever way Clinton went he could expect to alienate important supporters. Candidate Clinton responded adroitly to this dilemma—endorsing NAFTA in principle and seeking no changes in its text but adding that he believed “side agreements” should be negotiated on labor standards, environmental impact, and import surges before NAFTA was sent to Congress for implementation. President Clinton oversaw the negotiation of such agreements and waited until their completion to launch his campaign for congressional approval.<sup>1</sup>

At the time, the side agreements came across mainly as a clever political device to help Clinton navigate through a difficult pass. What was useful in 1992 caused problems in 1993, of course; the White House game of waiting on the side agreements gave NAFTA adversaries a six-month window of opportunity to get members of Congress committed to their camp. But whatever balance one struck about the political utility of this device, it seemed to shed light mainly on Clinton's transition from aspirant to office holder.

With benefit of hindsight, however, it is clear that it meant something more. In essence, Clinton was signaling that a Democratic free trade administration would employ a policy/political calculus different from that of its Republican predecessors. Specifically, it would give particular attention to the care and feeding of two key constituencies: organized labor and the organized environmental movement. Both were important parts of the Democratic coalition; neither was exactly taken with trade liberalization. Labor (specifically the AFL-CIO, the main labor federation) had shifted to a protectionist stance after the Kennedy Round and had held to it for a quarter-century (Destler, forthcoming). Environmental groups varied in their stances, but their concerns ranged from rampant pollution on the US-Mexico border, to fears that free trade would trigger a “race to the bottom” in national regulatory regimes, to the constraints GATT imposed on use of trade sanctions for environmental purposes (Esty 1994, especially chapter 2).

Clinton and Kantor were determined to respond to these concerns. So was Albert Gore, as influential a vice president as the nation has seen. There was no illusion that these interests could be transformed into champions of trade expansion. Nor was the administration willing to remake trade policy in their trade-inhibiting image. But by bringing their issues into the trade policy domain, the administration could (1) smooth relations

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1. For detail on this and related trade-political matters, see Destler (1995, especially chapter 9).

with these key constituencies, or at least limit trade-inflicted damage to these relations, (2) win support of its trade enterprises from the more traditional, “mainstream” environmental organizations, and (3) win legislative support of NAFTA and GATT from some legislators who were close to labor and/or environmental groups.

Business backers of trade expansion were also an administration priority, of course. Their active support was recognized as necessary to get congressional approval for any important trade liberalization agreement. As a “new Democrat,” moreover, Clinton was pleased with the electoral endorsements he had gotten from executives in places such as Silicon Valley. But business options seemed limited. Moreover, as the main beneficiaries of the liberal-trade policy, they ought to be willing to accept some ancillary attention to those for whom trade’s impact was less benign. Or so the administration appears to have thought.

For 1993 and 1994, the strategy worked. The environmental side agreement helped to win endorsement of NAFTA by several large-membership environmental organizations, including the National Wildlife Federation and the Environmental Defense Fund, weakening the impact of NAFTA adversaries such as the Sierra Club and Friends of the Earth.<sup>2</sup> No such NAFTA results were achieved with labor. But neither the unions nor the green organizations mounted a strong campaign against the Uruguay Round agreements the following year.

It became clear early on, however, that the strategy risked provoking trade’s core corporate constituency. In the spring and summer of 1993, business leaders resisted publicly Kantor’s effort to make trade sanctions a primary means of enforcement for the NAFTA side agreements. Pro-trade Republicans denounced what Representative Jim Kolbe (R-AZ) called “a side agreement strategy based on appeasing interest groups while sacrificing broad support of the agreement” (*Congressional Record*, 20 May 1993, quoted in Mayer 1995, 5-42).<sup>3</sup> In the end, with the help of business and environmental moderates, Kantor found side agreement enforcement language acceptable to them both—and to the Mexicans. But it was a close-run thing.

Business anxiety multiplied in 1994, as Kantor pressed visibly if vainly for an international commitment to making trade-labor issues part of the work program of the nascent WTO, and Gore highlighted these issues in his address to the Marrakesh conference where the Uruguay Round was signed. So reaction was strong and swift when in June 1994 Kantor unveiled the administration’s proposed language, for inclusion in the round’s implementing legislation, to extend fast-track authority to future

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2. For a fuller list, see Esty (1994, 28n).

3. Mayer’s study offers a detailed and fascinating treatment of the politics of NAFTA from its origins to congressional approval.

trade negotiations through December 2001. Among the seven “principal negotiating objectives” were “labor standards” (fifth) and “trade and the environment” (sixth).

Not only did business see a new threat of regulation, on an international basis, it could not help noticing that, on this issue at least, Kantor was more sensitive to labor and environmental groups than to their own interests. This time, there was no compromise language to be found. Republicans declared that the administration was proposing to use a set of trade procedures built upon long-standing bipartisan consensus to advance its partisan agenda on issues for which no such consensus had ever existed. They responded by proposing that new fast-track authority exclude labor and environmental issues. Kantor made some progress in negotiating a compromise with House Ways and Means Committee leaders. But Senator Pat Moynihan (D-NY), chair of the Senate Committee on Finance, was resistant to including fast-track in the implementing bill in any form, and the administration had to yield.<sup>4</sup> The legislation that cleared Congress in December 1994 contained no follow-on negotiating authority.

The politics of NAFTA and GATT involved many other issues, of course, ones I have addressed at length elsewhere (Destler 1995, chapter 9). And in the end, it should be stressed, both were approved on a bipartisan basis, with Republicans stronger for NAFTA and both parties equally supportive of the Uruguay Round. But on labor and environmental issues, the Clinton path diverged from that which a second Bush administration would have taken. That path was to have consequences for 1995 and beyond.

## **The GATT Aftermath: Stalemate without Backsliding**

It is common in American trade politics for the great victories in liberalization to be followed by protectionism resurgent. After the Kennedy Round agreement of 1967 came a strong and effective campaign to extend quota restrictions for textiles and apparel, one that dominated trade policy in the first Nixon administration and led to House passage of the quota-laden “Mills bill” in 1970. After the Tokyo Round, concluded in 1979, there were years of trade policy turmoil. First came the second oil shock, which enmeshed the US auto industry in crisis. Then came the deepest

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4. At one point during the “non-markup” session with the Senate Finance Committee, Deputy USTR Rufus Yerxa arrived to present a compromise fast-track proposal he had stayed up all night working on. Moynihan walked up to him and said, “Do not present your fast-track proposal today.” When Yerxa protested, Moynihan continued, “I’m instructing you not to. If you do, there will be a 22-0 committee vote against it.” So Yerxa backed off. Shortly thereafter, the administration decided it would not be possible to get Senate Finance support of any fast-track language, and the president’s implementing bill would therefore go forward without such language.

recession in postwar America. Then came the remarkable rise of the dollar. Responding to the impact of these on trade, the House twice passed a domestic-content bill for autos, the Senate unanimously voted a resolution attacking the trade deficit with Japan, and Congress three times forced presidential vetoes of bills to provide statutory quotas for textiles. And a president who was ideologically a free trader was driven, in the words of his most influential international economic official, Secretary of Treasury James A. Baker, to “grant more import relief to US industry than any of his predecessors in more than half a century” (Speech, Institute for International Economics, Washington, 14 September 1987).

Seen in this light, the last 18 months look pretty tame. There was the Washington takeover by a new breed of Republican congressional populists, but they did not include trade among the many spheres in which they wished to turn policy around. Rank-and-file Republicans (and rank-and-file Democrats) resisted the Mexican rescue package that Bill Clinton, Bob Dole, and Newt Gingrich urged upon them, and the congressional attitude toward NAFTA clearly soured in the wake of the peso crisis and the reversal of the US-Mexico trade balance. But while Pat Buchanan has been busy denouncing trade on the stump, there have been no serious congressional moves to restrict it. The WTO remains a popular political target on the left and the right, with its name evoking visions of world government. But Majority Leader Robert Dole (R-KS) was unable to win approval of his WTO monitoring proposal before he retired from the Senate in mid-June 1996.

Near the other end of Pennsylvania Avenue, the Office of the US Trade Representative has continued to press Japan to open its markets and China to curb piracy of intellectual property and to take a tough stand on multilateral sectoral talks in the Uruguay Round’s aftermath. US authorities have responded to their “loss” to Venezuela and Brazil in the first WTO dispute settlement case by winning useful clarifications at the appellate level and moving cautiously toward compliance. Meanwhile, by official count, the number of new US antidumping petitions plunged to 16, just one-third of the average over the past 10 years (USTR, *1996 Trade Policy Agenda and 1995 Annual Report*, 129).

But if backsliding has been limited, so also has forward movement. And the cause lies mainly within the administration. House Ways and Means, led by Chairman Bill Archer and Trade Subcommittee Chair Philip Crane, tried to move forward on fast-track negotiating authority—holding hearings and marking up legislation. But USTR proved a reluctant partner, with Kantor unwilling to absorb the costs with labor and environmental constituencies that compromise would bring. His partisan political priorities were made clear by his willingness to forgo progress in areas ostensibly high on the administration’s trade agenda: hemispheric and APEC free trade. It may well be that Kantor in fact preferred inaction in major

negotiations: better to sacrifice substantive progress for a couple of years than to further alienate the NAFTA-wounded labor and environmental constituencies before the November 1996 election.<sup>5</sup> (Of course, the overreaching of House Republicans in the 104th Congress has done rather more to mend these constituencies' relationships with the Democratic administration.)

With fast-track stalled in the House, Dole jumped on the go-slow bandwagon with a floor statement in the Senate. Declaring somewhat inexplicably that "the administration seems to be in a great hurry to pile on not just one, but many more trade agreements," he put forward his own view that, after "the largest restructuring of our trading relationships ever" with "GATT and NAFTA," it was "good common sense to step back a little and assess the results." Thus "it would be a mistake to extend new fast-track authority at this time" (statement on the Senate floor, 4 November 1995).

There is reason to doubt that a more active policy would actually have hurt Clinton in the elections. Presidents generally gain from the image of clear leadership, especially if the home economy is performing reasonably well. However, the president may have felt that overall his trade record served him more than adequately with the electorate. There is survey evidence that his Japan policy won points with some working-class voters: both the aggressive posture and the perceived results on automobiles ("Majority Back Clinton on Japan, JOFC Poll Says: President Gains among Democratic NAFTA, GATT Foes," *Journal of Commerce*, 8 September 1995). The global trade deficit persists, but the deficit with Japan is down, and exports are up. The decision to take the Kodak-Fuji dispute to the WTO comes across nicely as both conciliatory and aggressive and puts any final confrontation safely beyond the November election. And care is being taken to preempt opportunities for Republican attack, as in the recent bashing of the Mexicans to delay implementation of NAFTA's trucking provisions.

## Prospects after November

If serious movement on broad new trade agreements was effectively on the shelf for 1996, what about after the election? Will a reelected President Clinton fire up the trade express once again? Or will the president prefer to spend his discretionary time and political chips on other issues? And if he does seek new negotiating authority, how will Congress respond?

The campaign never generated either new commitments or new constraints. After the Buchananite flurry, there were two major-party candi-

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5. Kantor was named secretary of commerce after the tragic death of Ron Brown in April 1996. He continues to have important influence over administration trade policy.

dates who on the one hand consistently supported trade liberalization when push came to shove and, on the other, saw no current political advantage in advertising this fact. This, plus a strong economy, plus the lack of any major ongoing trade action to provide a target made it an unlikely topic for the top 10 list of presidential campaign issues. Nor did trade seem important in the struggle for control of Congress. This is very much the norm in postwar America. One result of this campaign inattention to trade is also typical: a president and Congress with flexibility to act if broader currents drive them to it and if major interests can be accommodated.

Forecasting is difficult, of course, particularly about the future, as Yogi Berra reminded us. But this analyst's educated guess is that the president is likely in 1997 to seek progress on FTAA and/or APEC, if not on a new global round. One important reason is that maintaining US international economic leadership will require it, particularly within the hemisphere and across the Pacific. A second is that trade has for many years been one of the few areas where presidents can lay claim to historic accomplishment with bipartisan support and without spending a lot of money. If we assume a future of continued budgetary tightness and narrow partisan majorities in Congress, this situation will continue.

For Clinton to win congressional approval of new fast-track legislation would, of course, require greater flexibility on whether and how trade-related labor and environment issues are addressed. But various compromises are possible, such as language that neither includes nor excludes them. Compromise should be made easier by the reality that, whatever an authorizing bill may say, major labor or environmental agreements simply won't be politically viable as passengers on a fast-track implementation bill. A truly bipartisan approach will stress issues where there is cross-party consensus.

The next question is how Congress will respond to such presidential leadership. If post-1934 history is a dependable guide, Congress will say yes, though it may take two years and there will be barnacles attached to the legislation. The consistent pattern has been for legislators to talk tough but follow the executive lead. In the end, trade liberalization has consistently won support from centrists in both political parties—Republicans in particular, but many Democrats as well (Destler 1995, especially chapter 2).

Will the next Congress be different? Probably not in its ultimate action, but it will be clearly different in important respects. On balance, these differences may make new negotiating authority a bit harder to obtain. For they suggest that while there remains a broad center in support of trade liberalization, strong pro-trade leadership may be harder to come by than it has been in recent years.

First and most remarked-upon is the Republican "class of 1994," which stormed Washington in January 1995 bent on fundamental change. The

freshmen's virulent reaction that month to the Clinton-Dole-Gingrich proposal to legislate a rescue for the Mexican peso reinforced the impression that they were not at all the business-oriented liberal traders who had dominated their party since around 1970. Their election was hardly a mandate for antitrade populism, however, Pat Buchanan notwithstanding.<sup>6</sup> And these new freshman members have not been heard from very much on trade, since there were no floor votes in 1995-96 to authorize new negotiations or approve new agreements.

There was one important test of House trade sentiment, however: the 27 June 1996 vote on whether to override Clinton's action continuing most-favored nation (MFN) trade status for the People's Republic of China. Early prognoses suggested that the president might not prevail, but once the issue was drawn and US commercial interests became active, he won going away, 286-141. Most interesting, however, was that fact that the freshman "class of 1994," including Republican freshmen, supported China trade in greater proportion than did the House as a whole.<sup>7</sup> This suggests, to say the least, that reports of new militants posing a mortal threat to free trade are greatly exaggerated. And there are signs of the mellowing of militancy on other fronts: specifically the House acquiescence to a minimum wage increase and moderate health care reform before the August 1996 recess.

The China vote suggests that there remains a strong congressional center that can be mobilized in support of trade liberalization. There has been, however, a clear erosion of congressional trade leadership, particularly in the key committees. At Senate Finance, William Roth has been a longtime supporter of liberal trade, but he is no Lloyd Bentsen (to paraphrase the now-retired Texan). Instead of stalwart John Danforth as subcommittee chair, we were treated in 1994 to the spectacle of Max Baucus casting a small-bore vote against the Uruguay Round for petty constituent reasons. And Bill Bradley will be sorely missed. On the House side, Dan Rostenkowski is gone, and Sam Gibbons is retiring—as did Bill Frenzel before him. Bob Matsui is an effective pro-trade voice, to be sure, but he seems a bit lonely among senior Democrats. Republicans Jim Kolbe and David Dreier are strong also, but neither is on Ways and Means. It is uncertain, moreover, whether Chairman Archer (or a Chairman Charles Rangel) can deliver the committee and the House in the Rostenkowski—or the Wilbur Mills—manner. Speaker Newt Gingrich has proved in the

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6. Denouncing Clinton's commitment to China-MFN renewal as appeasement, Buchanan called on Republicans to "stand by the values that made us a congressional majority" and vote no.

7. The percentages were 67.0 percent (286-141) for the House overall, 75.3 percent (64-21) for House freshmen, 72.0 percent (167-65) for Republicans overall, 73.6 percent (53-19) for Republican freshmen, 61.3 percent (119-75) for all Democrats, and 84.6 percent (11-2) for Democratic freshmen.

past to be an effective pro-trade force. A team of Dick Gephardt and David Bonior in a House restored to Democratic control would be more problematic. (Both of them voted against China MFN renewal.)

These congressional changes could make new fast-track legislation a bit more difficult to enact. But they are marginal, not fundamental. An issue worth watching over the longer term, however, is the impact of trade on wage stagnation and income inequality. Labor has been claiming for years that trade depresses wages without greatly enlarging its following. Now trade economists are beginning to make the same argument. If their correlations look persuasive, we could find more "liberal" Democrats acting protectionist out of conviction rather than political circumstances, for this connection could give an intellectual respectability to trade-restrictive arguments that they have long lacked. It is unlikely to reverse the ongoing internationalization of the US economy, but it could slow further reductions of trade barriers.<sup>8</sup> And if the economy goes into recession, the audience for this argument will increase.

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8. On the economics of trade and wages, see Collins (forthcoming) and Cline (forthcoming). For a more alarmist view of the substance and the politics, see Kapstein (1996, 16-37).