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The Politico-Strategic Dimension of the US Proposal for a Free Trade Agreement with the Philippines

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The Politico-Strategic Dimension of the US Proposal for a Free Trade Agreement with the Philippines

Renato Cruz de Castro

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The Politico-Strategic Dimension of the U.S. Proposal for a Free Trade Agreement (FTAs) with the Philippines[1]

By
Renato Cruz De Castro, Ph.D.

Abstract

This research paper examines the politico-strategic motivations of the Bush Administration's effort to foster Free Trade Agreements to a number of countries, including the Philippines. It argues that FTAs are being used by the U.S. as means of advancing the trade interest of American business, as well as ensuring its leadership in the global political economy. The article observes that the current attempt of the Bush Administration to push for FTAs is driven by political dynamics. Among these are the competition between the Congress and the White House, the U.S. strategy in the war on terror, pressuring the E.U to another round of trade liberalization negotiations, and ensuring American access to the East Asian regional economy. The article then discusses the specific politico-strategic motives of the Bush Administration in its offer of an FTA to the Philippines. In conclusion, it explores the possible political ramifications of an FTA with the U.S. on Philippine society and how the Philippine government can respond to this offer of a preferential trading arrangement from its major security ally.

Keywords: Competitive Trade Liberalization, Preferential Trading Arrangement, American economic hegemony, war on terror, Trade Promotion Authority Act, Trade Negotiating Authority of 2001, East Asian FTAs, Philippine Foreign Policy

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Executive Summary

The Bush Administration's recent efforts to negotiate and conclude free trade agreements (FTAs) with a number of countries, including the Philippines, are largely driven by politico-strategic motives. These motives include the U.S. interest of advancing trade opportunities for American businesses and retaining its role as a leader in the global political economy. In pursuing these objectives, Washington must strike a delicate balance between competing domestic interests, while meeting the challenges of realities brought about the war on terrorism and the emergence of regional economic blocs. It has been a policy of the U.S. since the end of Second World War to promote the reduction of trade barriers and to develop a rule-based system based on multilateral institutions. The U.S. believes that a more open trading system would provide more markets and businesses for American firms. Over the past seventy years, Washington took the lead in promoting a liberal trading system by through multilateralism. The U.S. took the lead in the formation of the General Agreement on Tariffs and Trade (GATT), which eventually became the World Trade Organization (WTO).

Recent international trends, such as the war on terrorism and the growing economic prowess of the European Union (EU) and China, are poised to undermine

American management and leadership role in the global political economy. The Bush Administration sought to offset these trends by forging bilateral FTAs with a number of countries in a "new coalition of the willing" in trade liberalization. Current U.S. trade policy is a result of the interplay of various political factors such as balancing interests between Congress and the President, complementing American strategy on the war on terror, exerting pressure for another round of multilateral negotiations and ensuring U.S. access to the East Asian regional economy. The U.S. must be able to reconcile these dynamics or it would risk isolating itself while other regional players such as the EU, China and Japan assume a more pronounced role.

The proposal of an FTA between the U.S. and the Philippines was first announced in March 2002. A few months later in October, the U.S. initiated the creation of the Enterprise for ASEAN Initiative (EAI). The EAI offers the prospects for an FTA to members states of the Association of Southeast Asian Nations (ASEAN). The U.S. was able to forge an FTA with Singapore and is currently negotiating with Thailand for an FTA. An FTA between the Philippines and the U.S. would further strengthen their bilateral relationship, especially in the security realm. A Philippine-U.S. FTA can also lead to an increase in Philippine exports to the huge U.S. market and contribute to its economic development. However, it is expected that the process leading to an FTA would entail numerous challenges for the Philippine government. Based on the Mexican experience during the negotiations and ratification of the North American Free Trade Agreement (NAFTA) in the early 1990s, it is presumed that the Philippines would experience intense political pressure from different interest groups who stand either to gain or lose from the agreement. An FTA with the U.S. would widen political cleavages

and generate more in a society plagued with insurgencies. This will also affect some sectors of the economy (agriculture and services) that will experience massive business closures and job displacements. Radical political change might also occur due to the reforms needed to meet the macro-economic requirements of the agreement. Finally, an FTA with the U.S. also risks limiting Philippine foreign policy and puts the country in a bind with American in the future.

Despite these political ramifications, the Philippines cannot simply stay out of the U.S. system of bilateral FTAs. This will mean trade discrimination against Philippine exports to the American market. It is expected that such an agreement with a superpower would generate domestic opposition. The government must be prepared to face such domestic backlash with a promised abundance of economic benefits to the majority of the people. It is therefore recommended that the Philippines needs to create a strong political sponsor in the form of a broad based political coalition. This coalition would be responsible in informing the public and enlisting support from the different sectors of the society. The failure to do so would invite numerous protests that will erode the credibility of the government and widen cleavages in Philippine society.

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The Politico-Strategic Dimension of the U.S.' Proposal for FTAs to the Philippines: Possible Political Implications and Response

By

Renato Cruz De Castro, Ph.D.

"Trade, together with war, constitutes one of the oldest modes of international communication and affects the well-being of an ever-large segment of the world population. Because of this, it has always been a central issue in national, regional and international politics, reflecting the fact that policy decisions regarding, for example, levels of tariff at national borders, have differential effects on groups within and outside national communities…"[2]

Hocking and McGuire, 2004

"Regional economic groups are often inspired by political motives, despair over the achievement of genuine multilateralism, and among other things, by a desire to obtain more leverage in global economic negotiations…"[3]

G.R. Berridge, 1997

On March 11, 2002 Senator Richard Lugar presented to the United States Congress Senate Bill 2004. The bill authorizes the American president to negotiate and

[2] Brian Hocking and Steve McGuire, "Trade Politics: Environment, Agendas and Processes," Brian Hocking and Steve McGuire (eds.) *Trade Politics* (New York: NY: Routledge, 2004).p. 1.

[3] G.R. Berridge, *International Politics: States, Power and Conflict since 1945* (Trowbridge, the United Kingdom: Redwood Books, 1997).p. 41.

conclude a free-trade agreement (FTA) with the Republic of the Philippines. Washington's offer of an FTA to Manila has very strong political-strategic undertones.[4] It should be noted that Washington's choice of a bilateral negotiating partner is based on a number factors ranging from the open trade policy of the partner country, hemispheric political grounds (as in the case of Central America), global strategy (as in the proposed negotiations in the Middle East) to support for the wider U.S. foreign policy objectives (as in the cases of the Israel, Jordan, and Australia). The Philippines is not a major trading partner of the U.S. However, an FTA with the Philippines will have important strategic and foreign policy implications on the Bush Administration's current war on terror and on the revitalized security relation with Manila.

A free trade deal with the Philippines will not only manage practical trade problems with the latter, but more significantly build closer bilateral economic and security ties. The Bush Administration considers the proposal as part of its international counter-terrorism initiative. Washington extends an FTA to the Philippines to elicit political compliance and loyalty from the country. It is also aimed at minimizing political disputes between the two allies in the light of the war on terror and other future conflicts in East Asia. From the Bush Administration's view, an FTA deal will provide the Philippines a better chance to compete in a changing and globalizing international economy and, possibly, enable it to lift the majority of the population from poverty through international trade, and to contribute to regional stability and order.

[4] A free trade agreement consists of an arrangement between states by which they agree to remove all customs duties (quotas) on goods passing between them. Each party is free, however, to unilaterally determine the level of customs duty on imports coming from third party states. A good example of this arrangement was the European Free Trade Area of 1957.

From a larger picture, the U.S.'s initiative to forge an FTA with the Philippines is a component of the Bush Administration's global effort to pursue a policy of competitive liberalization. This policy is primarily aimed at creating a competition in [trade] liberalization that will "increase U.S. trade leverage and promote open markets in the western hemisphere and throughout the world."[5] It is part and parcel of the Bush Administration's coherent strategy of competitive liberalization that is directed to establish free trade relations with countries selected on the basis of the following criteria: 1) net economic gains for the U.S; 2) promotion of constructive economic reforms in the designated country; 3) importance for broader U.S. trade policy; and 4) significance for overall U.S. foreign policy objectives.[6] The Philippines is one of the East Asian countries being considered by the U.S. This is because Washington's aims to encourage economic reform and to cement economic and foreign policy ties with its oldest Southeast Asian ally. In addition, this move will give the U.S. additional leverage against any European stalling of the global trade negotiation, and more significantly, the ability to thwart the prospect of a new East Asian economic bloc that will exclude American economic interests in the region.

It is imperative for the Philippines to understand, analyze, and effectively respond to the Bush Administration's offer of a free trade agreement. This entails determining whether it will be in the country's interest to consider and possibly accept this proposal. Thus, this research addresses the following background issues of an FTA proposal: 1)

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[5] Statement of the Honorable Robert B. Zolleck, United States Trade Representative, Testimony before the Subcommittee on Trade of the House Committee on Ways and Means. Hearing on Summit of the Americas and Prospects for Free Trade in the Hemisphere. May 8, 2001. Quoted from William Copper, "Free-Trade Agreements: Impact on U.S. Trade and Implications for U.S. Trade Policy*," Congressional Research Service (CRS) Report for Congress* (Washington D.C.: The Library of Congress, April 9, 2002). p. 5.

[6] C. Fred Bergsten, "Foreign Economic Policy for the Next President," *Foreign Affairs* 83, 2 (March/April 2004).p. 95.

what are the strategic and political dimensions of a free-trade arrangement? 2) What are the strategic and political agenda of the Bush Administration in its current effort to promote competitive liberalization in international trade? How will the American FTA proposals in East Asia affect the regional considering the growing economic competition among the United States, China, and Japan? What are the possible politico-strategic issues pertinent to the U.S. offer of an FTA to the Philippines? What are the possible politico-strategic implications on the Philippines? And what should be the Philippine political strategy to the FTA proposal from the United States?

Motives behind FTAs

In the last few years since the end of the Cold War, the U.S. has been actively forming bilateral and regional FTA with a number of countries. Currently, the U.S. is conducting negotiations with 33 Latin American countries to create a Free Trade Area of the America (FTAA) by 2005 and with various Asian and Pacific-Rim to form a free trade and investment area by 2020.[7] Since 2002, U.S. efforts to form bilateral and regional free trade areas have intensified. The Bush Administration negotiated and signed FTAs with Singapore, Chile, Australia, Morocco, Bahrain, Thailand, and member states of the Central American Common market and the Southern African Customs Union although these countries are not among the U.S.'s top 10 trading partners. The U.S. motives behind its FTA are a mixed of economic and political factors. One important factor is to protect American exporters from being discriminated by foreign companies

[7] William H. Cooper, Free Trade Agreements: Impact on U.S. Trade and Implications for U.S. Trade Policy (Washington, D.C.: Congressional Research Service, April 9, 2002). p. 2.

that get preferential treatment from FTAs that exclude the U.S. Another consideration is to reaffirm American political and strategic support to certain countries and strengthen its ties with these states. As the world's only superpower, the U.S. efforts to form an FTA cannot be separated from its wider politico-strategic interests. Its large market and strong economy have laid the very foundation not only for its economic growth and prosperity but also its military prowess in the 20th century. Consequently, trade liberalization has been an integral component of American foreign policy. It has made the U.S. economy vibrant, and is immensely credited with developing the country as ultimately the only superpower in the world.

American integration of this economic agenda to its overall foreign policy stems from the political leadership's recognition that global economy is far from being a perfect market. Thus, the government has to play an active role in improving the country's balance of trade and national welfare.[8] Faced by colonial preferences and protected markets in the aftermath of the Second World War, the government found it necessary to assist American firms to generate positive externalities (technological spillovers and a large market) as well as to shift profits and earnings away from foreign firms to American companies. Since the late 1940s, trade liberalization has helped American firms increase their productive capabilities, and has paved the way for the building of excess production capacity for the country's economy.[9] Thus, the foreign economic policy agenda of every U.S. administration in the last 70 years has been directed at

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[8] Robert Gilpin, *Global Political Economy* (Princeton, New Jersey: Princeton University Press, 2001).p. 124.

[9] *Ibid*. p. 124.

reducing barriers to international exchange at home and abroad; and developing a rule-based trading system built around strong multilateral institutions.[10]

The U.S. government's strategic approach to international trade became more apparent during President Bill Clinton's famed emphasis on economics as the central preoccupation of his Administration. In the early 1990s, the Clinton Administration gave much attention to trade negotiations and the creation of jobs through export-oriented programs such as the Big Emerging Markets strategy.[11] It managed an ambitious record of successful trade deals particularly the Uruguay Rounds the North American Free Trade Agreement, and trade with China despite being battered by powerful domestic anti-trade liberalization trends, and often appearing unaware of its strategic trade promotion policy.[12] With its comparative advantage in services and agriculture, the Bush Administration is aggressively pushing U.S.-sponsored initiatives to eliminate the discrimination that goes head-on with preferential trade arrangements formed by West Europeans and possibly by East Asians.

The U.S., however, is not only a trading state. More importantly, it sees itself and acts as a leader or a hegemon in an open and a liberal trading order. According to American economist Charles Kindleberger, an open and a liberal international trading system requires a strong political leadership by the most advanced economy at a certain point in time. This concept is known as the theory of hegemonic stability, which states that the leader or the hegemon facilitates international economic cooperation and

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[10] C. Fred Bergsten, "Foreign Economic Policy for The Next President," *Foreign Affairs* 83, 2 (March/April 2004). p. 94.

[11] Brian Hocking and Steven McGuire, "Trade Politics: Environments, Agendas, and Processes," Hocking and McGuire, *op. cit*. 7.

[12] John Peterson, "The Politics of Transatlantic Trade Relations," *Ibid.* p. 41.

prevents states from defecting through the use of side payments (bribes), sanctions, and/or other means but can seldom, if ever, coerce reluctant states to comply with the rules of a liberal international economic order. This theory likewise assumes that a liberal and open international trading regime requires certain private good that will be provided by the hegemon or the U.S. A private good has the properties of non-exclusivity (inclusiveness) and non-rivalrous consumption.[13] In managing the international economy, the hegemon provides for the following public goods: (1) maintenance of the flow of capital to countries; (2) provision of some order and stability in the foreign exchange rates, at least among the key countries, and (3) arrangements for at least moderate coordination of macroeconomic policies among the leading economies.[14] A hegemon provides these goods for the liberal trading order primarily to promote its own interests, and in the case of the U.S., its political/security interests. .

In the post-World War II era, U.S. trade policy under various presidential administrations has been focused on the promotion of an open and interdependent liberal international economy (composed mainly of the U.S. and its allies) in order to strengthen the anti-Soviet coalition. Trade policy has been directed by foreign policy and national security reasons and designed to foster international trade in order to promote world economic growth. In pursuing these objectives, U.S. political leaders have formulated and implemented a trade liberalization policy. The U.S.'s most popular and commonly used instrument are multilateral negotiations aimed at establishing and developing a rules-based trading system. The U.S. was a major player in the development and signing

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[13] Robert Gilpin, *Global Political Economy: Understanding the International Economic Order* (Princeton, New Jersey: Princeton University Press, 2001).pp. 97-98.

[14] *Ibid*. p. 98.

of the General Agreement on Tariffs and Trade (GATT) in 1948. It headed the eight rounds of negotiations that have expanded the functions of GATT and paved the way for the creation in 1995 of the World Trade Organization (WTO), the current international organization that administers the GATT and other multilateral trade agreements.

Collectively known as the Tokyo and Uruguay Rounds, these multilateral trade negotiations are attempts to respond to the changed international trading system, and reform the postwar system of trade management by developing rules in new areas and addressing non-tariff barriers to international trade.[15] The Tokyo Round was instrumental in promulgating new rules that significantly modified the GATT system by extending trade management to non-tariff barriers to trade. The Uruguay Rounds led to the general improvement of market access in many sectors of the economy by reducing tariff and non-tariff barriers. It also extended world trade liberalization to agriculture, modernized the international trading system by establishing rules for services, intellectual property rights and investment, and provided the dispute-solving mechanism in trade matters. The U.S. continues to use this approach as it initiates the launching of another round of trade negotiations known as the Doha Rounds of Talks.

Another approach used by the U.S. to effect trade liberalization is the bilateral approach. Unlike in traditional negotiations where partners make balancing concessions, under this approach, the U.S. uses threats of retaliation. These usually come in the form of restricting trade partners' access to the vast American market, with the intention of forcing the partner to liberalize its market to U.S. exports or discontinue offensive commercial practices and policies. From the 70s to the 90s, the U.S. used a bilateral

[15] Joan Spero and Jeffrey A. Hart, *The Politics of International Economic Relations* (New York: New York: St. Martin's Press, 1997).p. 80.

approach in forcing Japan to amend domestic laws, regulations, and practices that inhibited U.S. products from entering the Japanese market.

The third and more contemporary approach used by the U.S. are bilateral and regional negotiations aimed at forming FTAs. Washington has pursued a number of regional and bilateral free trade arrangements primarily because such arrangements are easier to negotiate and often can lay the ground work for larger accords (like a multilateral trade negotiations) as well as serve wider U.S. foreign policy goals. [16] The U.S. forged its first FTA with Israel in 1985. This was followed by another agreement with Canada in 1989. In 1992, the U.S. Canada, and Mexico signed the North American Free Trade Agreement or NAFTA. NAFTA's formation saw the veering of the U.S. trade liberalization policy from multilateralism towards a bilateral and regional arrangement. The creation of a free trade group also provides a totally different approach relative to trade liberalization for four reasons: 1) NAFTA has a very minimal institutional arrangements; 2) it is an arrangement between highly unequal partners and thus, fosters a highly asymmetrical pattern of diplomatic-economic relations; 3) it has a very strong element of negative integration, which reflects its extremely commercial orientation; and 4) it is exclusive and has the potential to be trade distorting and detrimental to multilateral trading arrangements.

Since the 1950s, U.S. economic leadership has been challenged by rival economic centers and practices in the form of economic integration by the European Union (EU). The formation of an economic union in Western Europe is poised to strain the U.S.'s central role in the management of global political economy. In the face of the more

[16] Fraser Cameron, *US Foreign Policy After the Cold War: Global Hegemon or Reluctant Sheriff*? (London and New York: Routledge, 2002).p. 119.

popular European Union model of geographically closed economic integration, the U.S.'s system of FTA presents itself as a very attractive alternative is based on a single economically dominant state, extremely market-driven, deprived of any institutions, and more deferential to national autonomy.[17]

A year after the signing of NAFTA, the Clinton Administration impressed upon the world that an FTA would become a fixture in U.S. trade liberalization policy when it declared to a group of 33 South American trade ministers that it would work toward the establishment of a Free Trade Area of the Americas (FTAA) by 2005. The Bush Administration has continued this legacy of using FTA as a means of exercising U.S. leadership in the global political economy. However, in contrast to the multilateral emphasis of the Clinton Administration, the current Administration is interested in a series of bilateral trade agreements, and favors the Northern American Free Trade Area (NAFTA) as the model for any free trade agreement anywhere in the world.

The Bush Administration also hopes to trigger a "competition for liberalization" that can provide the necessary leverage in all of the country's trade negotiations, establish models of success that can be used on many fronts, and develop a fresh political dynamic that puts free trade on the offensive. It has affirmed U.S. trade policy goals through the multilateral trade system. Nevertheless, it emphasizes the formation of bilateral trade ties through free trade agreements.[18] In fact, this Administration is extremely straightforward about its commitment to FTA. Unlike the previous Democratic Administration, President Bush makes no pretense that he will support any kind of linkage between labor

[17] Robert A. Pastor "North America's Second Decade," *Foreign Affairs* (January/February 2004) 83, 1 p. 128.

[18] Cooper, *op. cit*. p.5

rights/environmental standards and trade policy.[19] Thus, he offers free-trade arrangements bereft of any ethical or normative agenda. Finally, the current Administration tends to view the FTA not only as a commercial transaction but also as an ideological tool for exporting American values like freedom, respect for human rights, and democracy to its trading partners.

The Domestic Dynamics

Despite the U.S.'s central role in the establishment and maintenance of a liberal trading regime, American trade policy is "the stuff of the country's domestic politics."[20] Tariffs, quotas, and non-tariff barriers are important issues for a broad spectrum of economic groups, from farmers to manufacturers, labor unions and retailers. Given that trade policy often determines the prosperity and marginalization of a large sector of the economy, it is often the source of political contention in American society. Since 1945, U.S. trade policy has been consistently influenced by three principal elements to it: adherence to an economic theory, federal legislation, and political expediency. In the hierarchy of the three, President Bush's current efforts for trade liberalization are primarily driven by political expediencies.[21] The current Administration considers FTA as the most credible and significant foreign policy instrument as it enables the U.S. to use its large and attractive market as a significant tool to influence other countries' foreign

[19] Karen Hansen-Kuhn, "Bush Trade Policy: The NAFTA Express: A Global Affairs Commentary" *Foreign Policy in Focus* (December 2000). hhtp://www.foreignpolicy-infocus.org. p. 1.

[20] Joan E. Spero and Jeffey A. Hart, *The Politics of International Economic Relations* (New York, New York: St. Martin's Press, Inc., 1997).p. 49.

[21] Petersen, op *cit*. 40.

economic policies[22] Access to the U.S. market is a powerful inducement for other countries to negotiate and sign an FTA with Washington. The present administration's policy of promoting and negotiating free trade agreements to a number of U.S. trading partners is a result of interplay of certain domestic forces within American society. Among these are: a) the dynamics between the protectionist Congress and an Administration that is ideologically committed to the principles of free trade; b) the current war on terrorism; and c) the Bush Administration's belief that competitive trade liberalization is the key to another round of multilateral trade liberalization.

Congressional-Executive Dynamics

The U.S. Constitution provides the necessary conditions for the disagreement in trade policy by granting the U.S. Congress the power to levy tariffs and regulate foreign commerce while at the same time giving the White House authority in foreign economic policy.[23] Hence, competition and conflict between the Congress and the U.S. president are inherent in U.S. trade policy.[24] Congress is generally protective of local constituents, and is, therefore, responsive to domestic interest groups. The demands of the relatively few but influential interest groups can direct Congress to come up with extremely protectionist laws for the U.S. Congress tends to relate trade policy with particular domestic interests, while the U.S. executive branch often links the country's trade policy

[22] Greg Mastel, "The Rise of the Free Trade, Free Markets," *Challenge* 47, 3 (July/August 2004). p. 48.

[23] Spero and Hart, *op.cit*. p. 49.

[24] *Ibid*. p. 49.

with larger foreign policy and economic goals.[25] Given the fact that an FTA affects the U.S. economy, with varying impact on the different sectors of the economy, Congress plays an important role in U.S. efforts to forge FTAs with other countries in two ways: [26] 1) U.S. participation in a free trade deal occurs only after the legislative concurrence of the Congress; and 2) the power to negotiate with a free trade agreement another country depends on whether the Congress will grant the president fast-track (trade promotion) authority.

Congressional grant of fast-track authority to the president was instrumental in negotiating and implementing five major trade agreements. Two of those five agreements were multilateral agreements concluded during the Tokyo Rounds and the Uruguay Rounds of trade negotiations under the GATT. The three other agreements were for FTAs: the U.S.-Israel FTA, which was negotiated under special authority in the Trade and Tariff Act of 1984: the U.S.-Canada Free Trade Agreement, and the North American Free Trade Agreement. During the 104th Congress (1995-1996), President Clinton proposed the extension of fast track authority for agreements that could be concluded before December 31, 1999. He also asked for a two-year extension beyond that date. His intention was to use fast-track authority to extend the North American Free-Trade Agreement to Chile. However, President Clinton's efforts to negotiate new free trade deals in South America encountered Congressional opposition. For eight years, Congress refused to authorize the president to negotiate new trade agreements. In the latter part of

[25] *Ibid.* p. 49.

[26] Cooper, *Ibid.* p. 1.

the 1990s, U.S. trade policy was in a stalemate due to a legislative and executive gridlock.

There are a number of reasons why Congressional opposes any new FTA was due to a number of reasons. The first is Congress' apprehension that any future trade negotiations might infringe on its prerogative to pass antidumping and countervailing duty laws. American legislators became alarmed when with the country's ascension to the WTO, Capitol Hills made a number of revisions to existing laws to comply with WTO rules. These amended laws, in turn, could trigger trade distortions in the U.S. economy as industries ranging from steel to semiconductors, and a variety of agricultural sectors could be adversely affected by dumped and subsidized exports from other countries.[27] The second is infighting in Congress hampered the passage of any authority to negotiate for a free trade deal. Many Democrats opposed FTA deals without any labor and environmental clauses, while Republicans declared that they did not want to include any labor or environmental provisions in any FTA agreement at all. Those who favor the inclusion of labor and environmental clauses on FTAs argued that increased trade with countries with lax labor and environmental standards may lead to pressure to lower U.S. standards. Those who call for the exclusion of labor and environmental provisions, on the other hand, are concerned that if trade deals allow trade sanctions as means to enforce environmental and labor standards, such sanctions might end up being used as protectionist barriers.[28]

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[27] Senator Max Baucus, "Doha and Beyond: The Role of Congress in a New Trade Round," *Economic Perspectives* 7, 1 (January 2002).p. 19.

[28] Lenore Sek, Trade Promotion Authority (Fast-track Authority for Trade Agreements): Background and Developments in the 107th Congress (Washington D.C.: Congressional Research Service, December 7, 2001) pp. 4-5.

The final and main reason is the fact that trade liberalization has harmed business interests and individuals in the U.S. even as it has benefited the whole economy. Changes caused by technological advancement and globalization have disrupted American firms, communities, and workers. An estimated 150,000 American workers suffer from job displacement and significant earning losses due to trade liberalization.[29] U.S. policymakers are now faced with a domestic backlash against trade liberalization and globalization. Consequently, both the legislative and the executive branches found it imperative to formulate a firm political base for a sustainable and constructive foreign economic policy based on trade liberalization. Unfortunately, nothing was done to overcome the domestic stalemate over trade liberalization that plagued the U.S. throughout the end of the 20th century and caused the general stagnation of American trade policy in the latter part of the Clinton Administration.

When President Bush took office in January 2001, he immediately made it clear that his administration is bent on a strong pro-liberalization agenda and is determined to get a firm grip on U.S. trade policy. To show that he meant business, he ordered the abolition of the National Economic Council (NEC), and declared that his administration will rely more on his own Council of Economic Advisers as well as the National Security Council on trade matters. Thus, he implied a more direct linkage of trade to American foreign policy and security concerns.[30] He also made sure that his trade policy would have a strong popular base to overcome the domestic backlash against trade liberalization and globalization. This is aimed at creating a firm political foundation for a sustained and constructive foreign economic policy based on trade liberalization.

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[29] Bergstein, *op. cit*. p. 89.

[30] Peterson, *op .cit*. p. 41.

President Bush's trade liberalization policy consists of two major components. The first component involves the adoption of protectionist "safeguards" the U.S. government often used in the past: antidumping measures and countervailing duties. These measures taken primarily to protect certain domestic interests in the American economy—steel, textile, and the agricultural sector. President Bush wanted to develop a powerful link between the Administration's trade policy and its domestic political constituents and designed to generate political support from steel workers and farmers ahead of the 2002 mid-term election and 2004 presidential election. The plan also involved the provision of largesse to the major constituencies of the Bush Republican Party needed to take control Congress and ensure his reelection at the expense of European exporters.[31] By doing these, President Bush intended to placate domestic interest groups sufficiently to neutralize their opposition to his proposed international trade negotiations. With those interests assuaged Congress could provide him the necessary trade promotion authority.

The Bush Administration then initiated an investigation of steel imports imposed tariffs of up to 30% on a sizeable portion of foreign steel shipments to the U.S. exerted efforts to organize global steel production, agreed to roll back some apparel imports from Caribbean and Central America, and pushed a new farm bill that perpetuates substantial subsidies for U.S. agriculture, even though Washington has called for its removal in other countries.[32] Consequently, these moves created the perception that the Bush

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[31] *Ibid.* p. 41.

[32] Fred Bergsten, "A Renaissance for U.S. Trade Policy," *Foreign Affairs* 83, 6 (November/December 2002). p. 86.

Administration is pursuing a unilateralist rather than a globally cooperative foreign policy even when it comes to global trade matters.

The other component involves competitive liberalization by forming bilateral and regional FTAs with a selected number of trading partners. This is primarily aimed at generating substantial pressure on other countries or regional economic blocs to open up their markets. As a case point, a bilateral trade accord with Central America will increase the incentives for Mercosur (South America's major trade bloc) to agree on an FTA; which in turn, will pressure the EU to agree to reduce barriers globally. From the Bush Administration's perspective, bilateral and regional FTA will trigger the forward momentum for trade liberalization as it will induce the world's major trading actors, like the EU and Japan to complete the broader, multilateral agenda of the World Trade Organization (WTO). [33]

From the Bush Administration's view, FTAs provide the building bloc to multilateral trade liberalization since they generate momentum for GATT/WTO members to move ahead with new trade rounds in face of bilateral or regional trade liberalization. FTAs are also seen as more efficient vehicles for addressing difficult trade barriers than the WTO, where the large membership requires compromise to the least common denominator to achieve consensus.[34] Thus, although the current Administration has reaffirmed the strategy of pursuing U.S. trade policy goals through the multilateral trade system, it has, nevertheless, emphasized that it will give more weight to building bilateral

[33] Bernard K. Gordon, "A High Risk Trade Policy," *Foreign Affair*s 82, 4 (July/August 2003). p. 105.

[34] Cooper, *op. cit*. p. 11.

and regional trade deals through FTAs.[35] The U.S. President Trade Policy Agenda declares: "By pursuing multiple free trade initiatives, the United States is creating a competition for liberalization that provides leverage for openness in all negotiations, establishes models of success that can be used on many fronts, and develops a fresh political dynamic that puts free trade on the offensive."[36] President Bush declared that there is no incompatibility between moving ahead on global, regional, and bilateral trade fronts. Thus, while initiating the multilateral trade negotiation in Doha, Qatar in November 2001, President Bush also stated his Administration's intention to move forward on the negotiations to establish a FTA of the America's, which essentially would transform the entire western hemisphere into a free trade zone by 2005.

The War on Terror

The terrorist attacks in the U.S. on September 11, 2001 posed two major challenges to international trade and trade liberalization.[37] First, the impact of the terrorist threat, along with the downturn in the global economy, hindered the further expansion of international trade. The events of 9/11 triggered a reversal in the trend towards greater trade liberalization as security measures, aimed at addressing the threat of international terrorism, created more obstacles to foreign trade, foreign direct investments, and international migration. Border controls and the adoption of heightened surveillance of

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[35] *Ibid*. p. 11.

[36] Robert B. Zoellick, The President's Trade Policy Agenda (Washington, DC: United States Trade Representative, 1 March 2004).p. 1.

[37] Hocking and McGuire, *op. cit*. pp. 9-10.

container shipping and air transport created the prospect of higher transaction cost that definitely had adverse consequences on global trade. American firms would be discouraged from relying on foreign assembly operation given the tighter border controls around the continental U.S.[38] American companies like McDonald's and Starbucks, whose main opportunities for market growth are outside the U.S., must now factor in the extra cost of providing security when they open franchise in other countries. Indeed, the terrorist attacks on September 11 generated a new domestic pressure in the U.S. to "close the borders."

The second challenge is the fact that 9/11 demonstrated the dangers of globalization to American society and the international community. The terrorist attack on the World Trade Center reinforced the notion that while globalization might bring economic prosperity and affluence, it is also fanning the flames of social fragmentation, as well as racial, ethnic, and religious hatred and conflicts. These developments put U.S. trade policy, and hence, the global trading system under severe stress that could reverse the process of trade liberalization. This trend could the bring world back to the era of the Great Depression, which was characterized by retrogressive globalization, and the collapse of a liberal international economic order. A significant rollback or a halt of globalization would represent a major defeat for the U.S., whose foreign policy since the 1940s has been directed in management of a global economic regime based on economic liberalism.

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[38] Barry Eichengreen, "U.S. Foreign Economic Policy after September 11th," Social Science Research Council/ After September 11" (10/4/2004).p.1.
http://www.ssrc.org/sept11/essays/eichengreen_text_only.htm .p

The Bush Administration, instead of retreating and creating a fortress America, recognized the urgency of the situation. President Bush decided to come up with a foreign economic policy based on the further opening of world markets to seize the initiative from terrorist organizations and other anti-globalization forces. Free trade is considered the best way to strengthen the U.S. economy and foster prosperity to other countries that will make them stable and peace-loving.[39] In its campaign against international terrorism, the Bush Administration needs allies against terrorist groups. Thus, it saw the necessity of ensuring the economic stability of those allies. As one State Department official averred: "It is in our interest to make sure that those nations [U.S. allies] engaged in the front-line of the war against terrorism are not threatened by economic and financial instability."[40] In its counter-terrorist campaigns in Afghanistan and Iraq, the U.S. always makes it a point to encourage these two countries to adopt trade reforms designed to transform their war-torn economies to market-based ones. Hopefully, this initiative will stimulate private business activity, and generate jobs and prosperity essential for their economic recovery after decades of economic mismanagement, war, and sanctions. [41]

The September 2002 National Security Strategy of the United States of America clearly expressed this need to use economic engagement with its allies so that they help ensure the security of the U.S.. Economic engagement is expected to enable these countries to generate higher productivity and sustained economic growth that can only be

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[39] See E. Anthony Wayne, "U.S. Foreign Policy: The Growing Role of Economics," *The DISAMJ Journal* (Spring 2002) pp. 2-23

[40] _____, "United States International Economic Policy," *The DISAM Journal* (Winter 2003-2004).p. 45.

[41] *Ibid*. p. 47.

possible if they adopt policies such as free trade. Free trade will hopefully provide "new avenues for growth and fosters the diffusion of technologies and ideas that increase productivity and opportunity."[42] The document also stated explicitly that the United States will utilize bilateral free trade agreements with developed and developing countries in the world to enhance American national security.[43] For the Bush Administration, fostering FTAs is not simple a matter of advancing U.S. economic interests. It is bent to inject political, strategic and diplomatic agenda, often totally unrelated to trade and commerce, into its FTA proposals. The Bush Administration made it clear that its sponsorship of several FTAs in the Middle East was aimed at bolstering U.S. allies in the region and generating increased economic growth, which hopefully would help solve a number of security-related problems and make peace more achievable in that region.[44] Emphasizing the role of FTAs as an effective instrument to advance U.S. geo-strategic agenda, an American analyst points out:

> Ideally, FTAs might achieve important objectives, such as peace in the Middle East… Other foreign policy goals are more debatable. But regardless of the merits of these foreign policy issues, it is worthy of note that FTAs have gone from being a little-used economic device to being a principal tool of U.S. foreign policy, and that is a development worthy of greater attention—far more that it has received to date.[45]

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[42] President George W. Bush, "Ignite a New Era of Global Economic Growth through Free Markets and Free Trade," The National Security Strategy of the United States of America (Washington, D.C.: The White House, September 2002).p. 17.

[43] *Ibid*. pp. 18-19.

[44] Mastel, *op.cit*. pp. 46-47.

[45] *Ibid.* p. 48.

Leverage for another Round of Multilateral Talks?

Based on the role of NAFTA's formation and the successful conclusion of the Uruguay Rounds of Negotiations in the mid-1990s, the promotion of FTAs is seen by the U.S. government as building blocks of a global free trade area. This idea is premised on two assumptions.[46] Firstly, free trade deals that foster economies of scale between countries are likely to enhance trade competitiveness paving the way for the progressive opening up of their markets to foreign goods from third countries. The resulting increase in competition will also enhance the ability of firms in a free trade area to secure access to markets of third countries. Secondly, free trade areas encourage other potential trading parties to liberalize their own trading regimes in order to gain access to a free trade area. In the real world, however, free trade deals are "high-risk trade policy." According to Bernard K. Gordon, despite its liberal rhetoric, the Bush Administration is driven by a belief that the U.S. has not been a successful player in world trade and its policy of competitive liberalization is rooted in a "long-standing mercantile tradition, which teaches that exports are better than imports." [47] Like most Americans, the Bush Administration thinks that the U.S. is "soft touch" on trade and that it has not done too well as an exporter."[48] This view is supported by another economist who observes:

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[46] A.S. Bhalla and P. B.Bhalla, Regional *Blocs: Building Blocks or Stumbling Blocks* (New York, NY: St. Martin's Press Ltd, 1997).
pp. 199-200.

[47] Bernard K. Gordon, "A High-Risk Trade Policy," *Foreign Affairs* 82, 4 (July/August 2003). p. 115.

[48] *Ibid*. p. 115.

> Countries large and small now find themselves free to practice self-aggrandizing trade agreements—the current form of mercantilism. I have yet to see official statements touting the conclusion of an FTA that do not emphasize the increased exports this will bring, or critical comments by anti-competitive national industries, sectors, and labor unions that do not stress the unfair competition they will face from imports. Adam Smith is surely muttering under his breath in his grave.[49]

Free-trade agreements deviate from the multilateral principle of nondiscrimination. They tend to divert trade away from the more competitive exporters as what will happen if trade agreements between the U.S. and several Latin America will divert trade away from competitive exporters like the Newly Industrialized Economies (NIEs) in East Asia. This will create the phenomenon of trade diversion as a regional FTA enables inefficient exporters in South America to achieve preferential treatment over their non-member countries in East Asia that might have the comparative advantage on certain products. FTAs also provide an institutional competition to multilateral trade talks. By using its huge market as leverage, the U.S. forms a "coalition of the willing" in pursuit of greater trade liberalization. FTA will also cement America's economic ties with trading partners and will leave these countries with no choice but to rally behind the trail blazer of trade liberalization. Third countries will have no other option, but to join the FTA bandwagon. Using FTAs deals as a means of pressuring other countries to liberalize trade became very apparent after the breakdown of the Cancun negotiation in September, 2001 when U.S. Trade Representative Robert Zoeliick threatened to shift

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[49] Sidney Weintraub, "Some Implications of U.S. Trade Agreements with Chile and Singapore," Paper Presented at the LAEBA/U.S. Chamber of Commerce Conference (April 28, 2003). p. 16.

Washington's focus from multilateral pacts to bilateral agreements with "will-do" nations instead—a threat that made him sound like the Donald Rumsfeld of trade policy.[50]

Bilateral FTAs also exclude and discriminate against non-signatories inherent in these arrangements. Such discrimination political tension among states and activate countervailing economic blocs. For example, the formation of the FTAA can also provide support and justification to East Asian countries to push for their long contemplated regional trade bloc. This is because the FTAA will give South American preferential treatment in the enormous U.S. market at East Asia's expense.[51] This might also trigger rivalry among trading groups in the world that will lead to trade conflicts rather than the easing of global trade negotiations."[52] In the words of an economic analyst: "…the very use of bilateral FTAs can be faulted for the trade discrimination against non-signatories inherent in these agreements. This discrimination also creates political tensions among nations."[53] Thus, a number of skeptics view the FTAs as contributing towards the fragmentation of trade, which is inimical to the formation of a global trading regime. Commenting on the current U.S. policy of pushing for FTAs, the economic analyst continues:

> We don't really know whether the plethora of bilateral and plurilateral FTAS that exist and are planned will "be building blocks" or "stepping stones" to successful global trade negotiations in the WTO. The stepping-stone argument comes primarily from the countries that follow the practice of concluding FTAs and they are biased parties. The stumbling stone argument comes mainly from critics who are not convinced that constructing a world of

[50] Jagdish Bhagwati, "Don't Cry for Cancun," *Foreign Affairs* 83, 1 (January/February 2004).p. 53.
[51] Gordon, *op.cit*. p. 113.

[52] Bhalla and Bhalla, op. *cit*. p. 200.

[53] Weintraub, op.cit. p. 2.

> pervasive cross discrimination will lead in any foreseeable period to transforming this structure into one that treats all countries equally—the MFN world contemplated by the framers of the GATT and the WTO.[54]

Whether the Bush Administration's policy of pushing for FTAs will lead to a fragmentation or formation of an international liberal trading regime is contingent on the U.S.'s ability to form a "coalition of the willing" in the pursuit of trade liberalization. And how the EU, Japan, and China will respond to this coalition. However, one thing is certain. With the reelection of President Bush, we can expect his administration to continue this policy of maintaining a domestic base in support of free-trade and a competitive liberalization to revive the global trade opening at all cost. This will be pursued by the Bush Administration in the face of a unified and enlarged E.U., a rising China, and a possible East Asian economic bloc that might undermine the final vestiges of U.S. economic dominance and leadership.

The Regional Imperative

Prior to the mid-1990s, East Asian countries have traditionally avoided discriminatory trade agreements. With their economies generally directed toward the international market and as potential victims of discriminatory trading agreements in other regions of the world, these countries have supported the global multilateral trading regime. East Asian states preferred form of trade liberalization has been unilateral action on a non-discriminatory basis, an approach adopted by the area's only and most

[54] Weintraub, *op. cit*. p. 16.

comprehensive regional grouping, the Asia-Pacific Economic Community or APEC. APEC adopts an "open" or new approach to regional cooperation in contrast to the E.U.'s old or closed regionalism. In contrast to the EU's model of a custom's union created by formal agreements and managed by supranational institutions, APEC relies on market-driven economic integration devoid of any legal and institutional frameworks. APEC is also committed to nondiscriminatory trade and investment policies in accordance with the WTO's Most-Favored-Nation principle. The absence of any regional economic bloc in East Asia stems from a number of facts. These are: 1) the economic players in the region are unequal; 2) countries in the region have disparate economic interests that led to a lack of coherence and coordination in various economic cooperation ventures;3) U.S. heavy involvement in the regional economy; and 4) the U.S. opposes an East Asian regionalism that would exclude North America and Oceania.[55]

At present, all the East Asian countries are signatories to one or more proposals for a preferential trading arrangement (PTAs). Since 1999, more than 20 schemes for PTAs in East Asia and the Western Pacific have been tabled and by 2003, more than 60 have been proposed, being considered, under negotiation, or signed. [56] Indeed, the possibility of forming regional trading groups or blocs in East Asia is in the minds of many policymakers in region. East Asian states may be compelled to undertake regional or bilateral initiatives to counter possible market access discrimination or trade diversionary measures with the formation of NAFTA and the deepening of the EU.[57]

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[55] Remy Davison, "Globalization and Regionalism in the Asia-Pacific," Michael K. Connors, Remy Davison, and John Dosch, (Eds) *The New Global Politics of the Asia-Pacific* (New York, NY: Routledge, 2004). p. 148.

[56] John Ravenhill., "Trade Politics in East Asia," Hocking and MCGuire, *op. cit*., p 56-57.

[57] Davison, *op. cit*. p. 153.

What explains this new found enthusiasm for preferential trading arrangements in East Asia?

The first factor was the shock of the Asian financial crisis in 1997. The crisis unleashed the full destructive force of unregulated finance as it shattered a number of economic dragons in East Asia. The massive outflow of financial capital from the region drained national reserves and left several East Asian's financial institutions in tatters. Traumatized by a massive capital flight out of the region and humiliated by the intervention of the International Monetary Fund (IMF), East Asian states became apprehensive of the possibility that the global economy was out of control.[58] This prompted several proposals for new regional arrangements that would enable countries in East Asia to prevent, if not better manage any future financial crisis.[59] Each country in the region has recognized that it has stakes in the economic health and political well-being of its neighbors. Thus, "help thy neighbor, help thyself" became the mantra in intra-Asian economic relations.[60]

The economic contagion also goaded the region's domestic business groups to explore the possibility of PTAs with neighboring countries. These groups also observed that their countries are in a disadvantage in markets where their competitors enjoy

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[58] Nicola Bullard, " The East Asian Financial Crisis: Midwife to a Movement?" Mark Besson (eds.) *Reconfiguring East Asia: Regional Institutions and Organization After the Crisis* (Great Britain: Biddles Ltd, Guildford and King's Lynn, 2002).p. 52.

[59] See Jeffrey J. Schott, "Economic Integration in Northeast Asia," paper presented at the 20001 Kiep/Kei/CKS Conference on the Challenges of Reconciliation and Reform in Korea, Los Angeles, California, 24-26 October 2001.p. 10.

[60] *Ibid*. p. 11.

preferential access like in Latin America and Western Europe.[61] Japanese and South Korean business groups have become extremely vocal about their difficulties in penetrating the South American auto markets because of NAFTA and have asked their governments to negotiate for PTAs. No wonder, Japan and South Korea are primary proponents of FTAs with a number of countries both in and out of the region. Japan has discussed potential FTAs with Korea and Mexico and formally launched FTA negotiations with Singapore that led to an agreement in 2001. South Korea, meanwhile, has discussed FTAs with Japan, Singapore and New Zealand. Analysts and government officials in East Asia are actively discussing an FTA that will transform the sub-region to a "huge trading bloc" creating a dividing line in the Pacific. This might lead to fragmentation of the global economy into three major trade blocs—the NAFTA, the EU, and an East Asian bloc dominated either by Japan or China.[62] The emergence of an East Asian bloc would result in the creation of a tripartite world, a scenario which could potentially trigger destructive trade wars if each bloc would aggressively seek to enhance its own market at the expense of the others or if any two blocs would form an alliance against the third party.

The second factor precipitating the emergence of PTAs in East Asia is China's emergence as an economic power. As a result of its extensive economic reforms and consequent rapid economic growth, China has taken extensive steps to liberalize its trade barriers and reforms it regulatory policies. This has made the country a significant trading partner of most Northeast Asian states and a rival as well as a partner to most Southeast

[61] Ravenhill, *op. cit*. p. 60.

[62] Davison, *op. cit*. p. 152-153.

Asian economies. China has joined the WTO and has committed itself to further open its market to a far greater extent than several major developing countries that are already members of these international organizations. More significantly, China has embarked on a mission to form a free trade area with Southeast Asian states and has initiated efforts to form another in Northeast Asia. In November 2000, Beijing proposed an FTA to the ASEAN countries during the Singapore Summit Meeting of the "ASEAN plus Three." The following year, Beijing offered to open some sectors of its economy to the ASEAN countries before they would be scheduled to reciprocate. To ante up the pot, Beijing offered additional concessions to ASEAN's less-developed members. In 2002, Chinese officials agreed to reduce tariff starting January 2004 on agricultural imports from ASEAN as an "early harvest" phase of trade liberalization. This concession reflects Beijing's determination to forge a China-ASEAN FTA.[63] China aims to complete an ASEAN-Chinese FTA within the next ten years and will definitely make the country the leader in the formation of FTAs in East Asia at the expense of Japan and the United States.

These developments suggest that the East Asian economies are intensifying their regional interactions, and in the future, they may become less reliant on the U.S. market for exports and imports. Whether it will be a Japan-FTA or a China-FTA or both matters not. Truly, these are powerful centrifugal and regionalizing forces in the East Asian economies that are fundamentally incompatible with America's interest of continued access to the regional market. Ironically, these regional FTAs are being formed in

[63] Thomas G. Moore, "China's International Relations: The Economic Dimension," Samuel S. Kim (Ed) *The International Relations of Northeast Asia* (Lanham, Maryland: Rowman and Littlefield Publishers, 2004). p.122.

response to American initiatives form FTAs in the Western Hemisphere.[64] The U.S. cannot just observe these developments passively. A key U.S. foreign policy interest in East Asia is to facilitate the region's prosperity by encouraging open markets, free trade, and continuous access the regional market. Its ingress to the region's dynamic economies and greater free trade throughout East Asia could reinforce the U.S. legitimacy as a key regional politico-strategic actor.[65] No less than U.S. Trade Representative Robert B. Zoellick emphasizes this when he states:

> …good economic ties create a stronger foundation for America's ongoing security engagement in the Pacific. I'll illustrate the point by referencing a comment made…by a former Australian Defense Minister. He said that the policy planning staffs throughout East Asia are examining two questions…: one is whether they should develop weapons of mass destruction. The other is whether they should shift their conventional forces from internal security to force projection….the primary variable in those analyses is whether the United States maintains a forward presence in Asia… I also believe, however, that it will be very difficult for any administration to maintain that presence well into the future unless I can demonstrate to the American people that we have strong economic and political ties to the region.[66]

The Southeast Asian FTA Gambit

In the attempts of any regional economic bloc to exclude the U.S., Washington has traditionally tapped the support of friendly members of the bloc to check any internal trend might go against American economic and political interests. As a case in point, in

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[64] Gordon, *op. cit* .pp. 106-107.

[65] See William T. Tow, Asia-*Pacific Strategic Relations: Seeking Convergent Security* (Singapore: Green Giant Press, 2001).p. 173.

[66] Robert B. Zoellick, "How the U.S. Can Promote Greater Free Trade in Asia," *Heritage Lecture 438*. (November 9, 1994). P. 2 http://www.heritae.org/Research?TradeandForeignAid/HL480.cfm

the EU, the U.S. has counted on Germany and Great Britain as counter-weights to France. In Mercosur, the United States encourages Argentina to check Brazil's protectionist tendencies. Within East Asia, U.S.'s FTA deals with several countries can prevent China and Japan from dominating a possible East Asian Free Trade Area.[67] Strengthening economic linkages with some ASEAN countries would give the U.S. more leverage in shaping an East Asian regional bloc. In the face of China's efforts to forge a FTA with Southeast Asia, it is in the interest of the U.S. that this development would be consistent with the WTO and would involve American and other foreign investors who will provide the capital, technology and talent to fuel this regional cooperation venture.[68]

In October 2002, President Bush announced the Enterprise for ASEAN Initiative (EAI). The EAI offers the prospects of an FTA to ASEAN countries committed to economic reforms and openness. In May 2003, Singapore became the first ASEAN country to sign an FTA with the U.S. Under the agreement, Singapore will eliminate its tariffs on U.S. goods immediately, while the U.S. will eliminate tariffs on Singaporean exports over tine, with starting the least sensitive products entering the U.S and, upon the agreement's entry into force, the most sensitive products entering duty-free after a ten-year period. The U.S.-Singaporean FTA agreement also includes certain provisions that go beyond WTO and NAFTA regimes as it provides for the liberalization of trade in a variety of services, stronger protection for intellectual property rights, substantial ability to compete for government contracts in the partner country, regulations, and dispute

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[67] See Eng Chuan Ong, "Anchor East Asian Free Trade in ASEAN," *The Washington Quarterly* 26, 2 (Spring 2003).p. 67.

[68] U.S.-SEAN Business Council, Inc., *The ASEAN Region and its Growing Importance to the United States* (Washington, D.C.: U.S.-ASEAN Business Council, Inc., February 2003).p. 3.

settlement procedures. More significantly, the agreement appears favorable to the interests of the country with the larger economy. As one analyst observes:

> The reciprocity of these two agreements takes the form of the two smaller countries accepting much of the U.S. trade agenda (on services, government procurement, investment, e-commerce, labor, environment, and other issues), and the United States providing legal assurance (although not complete assurance, viz., with respect to AD and CVD actions) of access to its market. Singapore and Chile had to change some laws in the process whereas the United States, generally, did not.[69]

Nevertheless, the two countries are seen as natural partners in a free trade arrangement that is expected to stimulate a "bandwagon effect."[70] This means that other Southeast Asian countries will eventually negotiate their own FTAs with the U.S. Singapore's pioneering FTA could be seen as an incentive for other Southeast Asian states to follow suit.[71] The U.S.-Singapore FTA also demonstrated the possibility that the U.S. might further open its huge market, on which Asian economies are heavily dependent since the 1980s.[72] However, many economists still find the deal controversial, since they worry that individual deals could undermine the kind of broader trade deals the U.S. also seeks.[73]

In October 2003, Thailand and the U.S. began negotiating for their own bilateral FTA. From Bangkok's view, a Singapore-style free trade pact will enable the country to

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[69] Weintraub, *op .cit.* p. 17.

[70] *Ibid.*p. 9.

[71] See Teofilio C. Daquila and Le Huu Huy, "Singapore and ASEAN in the Global Economy," *Asian Survey* (November/December 2003) XLIII, 6. p. 918.

[72] *Ibid*. p. 918.

[73] Rebecca Buckman, "Next U.S. Deal? Try Thailand," *Far Eastern Economic Review* 166, 34 (August 28, 2003).p. 18.

export to footwear, sweaters, baby's, clothes, sugar, and canned tuna to the U.S.[74] It will also give the country the edge over competitors like Mexico in products like brassieres.[75] For the U.S., a FTA deal with Thailand will mean greater access to American exports particularly agricultural products like oil seed, cotton, cereals, soybean oil, cake, dairy products, distilled spirits, and pork. It will also result to greater U.S. access to service industries like banking, insurance, and law. More significantly, an FTA with Thailand will make the country "a regional leader in the pursuit of trade liberalization" with the deal serving "as a barometer for other countries in the region that are interested in forging an FTA with the U.S."[76] From, Washington's perspective, the FTAs with Singapore and Thailand will provide a stable anchor for U.S. economic penetration of the region and will probably foster closer economic and political ties with the ASEAN. Other Southeast Asian the will be confronted a pressing need to consider a region-wide trade liberalization since bilateral FTAs foster trade discrimination against non-signatories to these economic arrangements. These agreements will also promote the broader U.S. trade agenda by serving as a model, breaking new negotiating ground, and setting high standards for future FTAs in Southeast Asia against other PTAs with third countries (Japan and China).

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[74] *Ibid*. p. 18.

[75] *Ibid*. p. 19.

[76] Myron Brilliant, Views on the Impact of a Free Trade Agreement Testimony of the United States Chamber of Commerce Before the International Trade Commission (May 4, 2004).p. 2.

The Next on the List: The Philippines?

Affected by the bandwagon effect of bilateral FTAs with the U.S. in Southeast Asia and apprehensive of being left out in the cold, the Philippine government is looking into the possibility of also signing a free trade pact with its largest trading partner. The U.S. is a significant market for Philippine exports specifically electronics and semiconductor goods that account for almost 70% of the country's exports. The U.S. is also a major market for Philippine garments and textile exports, which enjoy discounted duties under the U.S. import quota allocation system. No wonder, the Philippines' biggest garment firms are pushing for the fast-tracking of an FTA between the two countries in the light of the lifting of the garments quota in 2005.

However, U.S. trade officials are lukewarm to an FTA with the Philippines, arguing the latter does not meet a major criterion—the ability to fulfill its international commitments.[77] They also deplored the country's inadequate efforts or failure to enforce its intellectual property rights compliance, shipping and ports safety compliance, corruption, hassle-free import and export procedures and compliance with U.S. regulations for exporters, and overall capability to push an FTA with the world's largest economy. A noted American economist, Marcus Noland, commented that the Philippines simply is not capable of negotiating an FTA with the U.S. because of a number of structural issues, and that the former has a history of forging agreements that "do not amount too much."[78] However, Dr. Noland admitted that the U.S. might be motivated by

[77] "RP-U.S. garments deal proposed," *Business World (*August 3, 2004).p. 1.

[78] Iris Cecilia C. Gonzales, "U.S. Likely to Refuse Free Trade Pact with RP," *Business World* (October 1, 2003). p. 1.

a strategic consideration if it will negotiate an FTA with the Philippines. He added that the only reason "the U.S. may be interested in entering into an FTA with the Philippines is if it involved military and security concerns."[79]

This statement betrays the actual U.S. motive in its gambit to lure its former colony to a free trade agreement. Washington is bent on reinvigorating its economic interests in Southeast Asia after three years of stagnation caused by terrorism, a struggling domestic economy, and China's economic intrusion into the region.[80] It is also is concerned with China's growing economic interest in Southeast Asia and thus, finds it in its interest to increase trade with the region. And in considering the current war on international terrorism, there is a broad consensus in the U.S. government that it is in "America's long-term interest to promote a community of prosperous Southeast Asian nations that is growing economically, open to free trade investments, politically stable as well as accountable to the peace of the people and hopefully in a circumstance of peace."[81] An important component to the U.S. overall approach countering terrorist groups in the region is economic reconstruction that critical to the political stability of these states. Washington is determined to help the Southeast Asian countries reinvigorate their economies by "encouraging freer trade and investment and economic reform."[82]

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[79] Marianne V. Go, "RP Not Yet Ready to Enter into FTA with U.S.-Economist," *Manila Star* (October 1, 2003). p. 1 http:www.newsflash.org/2003/05/be/be002577.htm

[80] Karl Malakunas, "U.S. to Reinvigorate Trade with Southeast Asia," *The Jakarta Post* (October 20, 2003).p. 1. http://www.aseansec.org/15531.htm

[81] Congressman James A. Leach, " Prepared Statement Before the Subcommittee on East Asia and the Pacific of the Committee on International Relations, House of Representatives, One-Hundred Seventh Congress, December 12, 2001 (Washington, DC: U.S. Government Printing Office, 2002).p. 1.

[82] Angel Rabasa, "Statement before the Subcommittee…" p. 25.

From Washington's point of view, military action alone is not sufficient to address terrorism in the Philippines in particular, and in Southeast Asia in general. Although the U.S. views military force as a necessary component of its anti-terror campaign in the Philippines, it, nevertheless, considers economic development as necessary since poverty is seen as an effective incubator for violence and terrorism.[83]

The case of the U.S.'s subtle efforts to forge an FTA with the Philippines is a classic case of how the possibility of "unfettered trade can foster cooperative political relations between two allies, promote political security, and enhance both states' political-military capacity." [84] It is also part of an overall effort of the U.S. to work with a Southeast Asian state to balance any influence that China might wield in its FTA within ASEAN. By forging a free trade arrangement with the Philippines (and hopefully with other ASEAN states), the U.S. will strengthen its economic ties with regional economies and enable it to have a powerful leverage in shaping any regional free trade arrangement with Southeast Asian states.[85] This was clearly enunciated by the U.S.-ASEAN Business Council in 2003 when it called on the U.S. government to monitor the China-ASEAN FTA so that it can ensure that this effort is WTO consistent, and open to U.S. and other foreign investors who will provide the capital, technology, and talent to fuel this future economic venture.[86] An FTA with the Philippines will also show that the U.S. can offer a more substantial and significant trading arrangement than China that could serve as a

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[83] Steven Rogers, "Beyond the Abu Sayyaf," *Foreign Affairs* 83, 1 (January/February 2004). p. 19.

[84] For a more comprehensive discussion on the role of free trade and national security see Jean-marc F. Blanchard, Edward D. Mansfield, and Norrin M. Ripsman (eds*) Power and the Purse: Economic Statecraft, Interdependence and National Security* (Great Britain: Anthony Rowe Ld., Chippenham, Wilts, 2000).

[85] Eng, *op. cit.* p. 69.

[86] U.S.-ASEAN Business Council, Inc., *op. cit*. p. 3.

blueprint for future bilateral arrangement with other Southeast Asian countries, aside from the fact that will also bring potential economic gains for American business.[87]

Possible Political Implications for the Philippines

Regardless of the U.S.'s motives in considering the Philippines as a partner in an FTA, the prospect of such a deal raises certain fundamental political issues o the dynamics of opening the Philippine market to the exports of the largest economy in the world. It is, therefore, imperative to examine the possible political consequences of free trade to the Philippines. Though seemingly apolitical and highly market-oriented, entering into or implementing an FTA is a highly political act. It is very political for four reasons. First, any bold policy, like economic liberalization, needs a political sponsor. Signing, ratifying, and implementing an FTA are functions of a political coalition of individuals, corporations, government agencies, and politicians who have varied but converging interests in such economic arrangement. Such policy requires the formation and mobilization of this coalition tasked to negotiate the agreement, implement it, and sustain its operation. Groups and politicians attempt to mobilize a coalition of support for particular economic policies to promote their wider-ranging political goals of obtaining and maintaining control of the government. Second, trade liberalization causes human displacement that can trigger economic and political shocks. This will provide opportunities for other politicians and groups to construct a countervailing coalition against the free-trade alliance. Third, general trade liberalization can only become feasible if the FTA coalition generates sufficient power and political resources to sustain

[87] Malakunas, *op. cit*. pp. 1-2.

it over a length of time. The narrower a policy coalition of support is, the more precarious that policy will be in the medium or long term. Summing up, a Philippine FTA with the largest economy in the world will raise the fundamental issue on the dynamics of political change, undermine political stability of the political regime, and cause the realignments of socio-political alliances and forces in Philippine society.

There are caveats in analyzing the political implications of an FTA for the Philippines. One, there is no Philippine FTA with any country to date. Therefore, for the purpose of discussion, the signing and the ratification of the agreement are assumed. Two, since many of the FTA's implications will emerge from specific details, and the unknowns of the agreement, one must be wary about speculating on the political effects. Three, an FTA will have very limited political consequences for the U.S. In the Philippines, on the other hand, the political consequences of an FTA will have far-reaching consequences. It behooves the Philippines to examine Mexico's experience with an FTA, this portion focuses mainly on the Mexican experience in signing and implementing the NAFTA in the early 1990s. Deduced from the Mexican case, these probable political implications of an FTA for the Philippines.

A) **Intense political pressure on the state**—Signing and implementing an FTA subject a state to two powerful but countervailing pressures: on the one hand, the state will have to surrender its prerogative as rector of the economy as gradually as possible; while on the other hand, it will have to keep central political structures sufficiently intact and operational to manage changes to the economy from the top.[88] The government will have to implement policies based on a market-oriented program of structural economic reforms that will lessen its control of the economy. This program will be made up of four fundamental economic reforms: 1) fiscal discipline and financial austerity; 2)

[88] Guy Poitras and Raymond Robinson, "The Politics of NAFTA in Mexico," Journal *of Interamerican Studies and World Affairs* 36, 1 (Spring 1994). pp. 3-4.

aggressive deregulation of many sectors of society; 3) privatization of state-owned enterprises; and substantial reduction or removal of tariff and non-tariff barriers.[89] These reforms are primarily aimed at removing the statist control of the economy through privatization and internal liberalization. On the other hand, the state will have to play a central role in the mobilization of a coalition of political-economic groups that will push for the successful signing and implementation of trade liberalization. The state or the government will have to enlarge and strengthen domestic political support for liberalization, particularly among those who control a large number of investment assets the country needs.[90] The state will also have to conduct meetings with representatives from government, business, and labor to negotiate a wide-ranging economic stabilization and structural reform package. The establishment of the free trade coalition between the state and the private sector was one of the most crucial factors behind Mexico's decision and success in the pursuit of a free trade agreement with the U.S.[91] In order to navigate between these two countervailing forces, the state must do a delicate balancing act of weakening its hold on the economy while simultaneously altering the political system enough to generate support for economic liberalization without provoking more far-reaching, full-scale changes to the system in the process.

B) **The widening of political cleavages and the exacerbation of conflicts in Philippine society**—Adoption of a drastic trade liberalization strategy is a high-stake gamble. Sudden trade liberalization could incite protest from the masses and repression by the government. Applied to the Philippine setting, the trade liberalization strategy might exacerbate rather than reduce incoming inequality because of expected business closures (especially in agriculture and services) and unemployment. A U.S.-Philippine FTA could intensify the perception of "relative deprivation" and social injustice among the masses—and possibly ignite sparks of turmoil and /or insurrection in a society already plagued by protracted insurgencies. Negotiating and implementing an FTA could also lead to the exclusion of several important sectors in society. In the Mexican experience, most small and medium businesses were effectively excluded or kept at a great distance from the FTA negotiating process[92] Smaller and medium size firms normally do not have the corporate culture and structures, familiarity with the issues associated with free trade, and necessary experience in international trade that spawn an active role in trade policy for

[89] Robert Salinas-Leon, "A Mexican View of North American Free Trade," *CATO Foreign Policy Brief 9* (May 21, 1991). p. 3.

[90] Strom C. Thacker, "NAFTA Coalitions and the Political Viability of Neoliberalism in Mexico," *Journal of Interamerican Studies and World Affairs*, 41, 2, (Summer 1999). p 61.

[91] *Ibid.* p 63.

[92] *Ibid.* p. 70.

many bigger firms.[93] Big firms are commonly prepared for an FTA while small and medium-sized business firms are generally vulnerable to face economic shocks trade liberalization usually stimulate. In the Mexican experience, the FTA negotiations consolidated and formalized a powerful policymaking coalition between a small number of outward-oriented big business elite and Mexican government technocrats against micro, small and medium-sized business firms that lack the means to participate and compete in an FTA. The government can use side payments, moral suasion, and coercion to manage any political strife and turmoil an FTA can trigger. However, the long-term and more effective means of mitigating the initial shocks of trade liberalization is for government to make this policy generate and sustain sufficient economic growth to forestall socio-political unrest. More specifically, the government has to see to it that enhanced trade will create enough jobs to offset interim dislocation of labor and lead, ultimately, to a higher level of employment.

C) **Radical political change**—Free trade and economic liberalization can loosen certain social moorings of a political system and thus, create objective conditions for fast-moving and far-reaching political changes. A free trade regime can impose significant constraints and challenges to the state. An FTA with the U.S. may force the government to consolidate and institutionalize far-reaching economic reforms like general trade liberalization, and prudent fiscal and monetary policies. This is inevitable because global/international forces will make it more difficult for the government to utilize all the traditional instruments of economic policy, such as trade, investment, exchange rates, wage levels, and so forth.[94] Government-business relations will also be transformed. A new business group (generally exporters and agribusiness groups) will emerge as a result of trade liberalization and this will pose another restraint on state action. This entrepreneurial faction can exercise limits on the relative autonomy of the state and as a consequence, the state may find itself influenced by a new business class. Another offshoot of trade liberalization is a new ruling coalition. If economic liberalization succeeds, a new political coalition composed of the new economic elite, the government, and the remnants of the old traditional business class will have to assume a central position in state affairs at the expense of the old economic alliance that favored and was nurtured by the import-substitution economic strategy of the 1950s. This new coalition will champion the cause of neo-liberal economic policy premised on the free market system domestically, and free trade internationally. One sector that will experience rapid politico-economic changes will be agriculture. With an FTA with the U.S., the government will be forced to push the agricultural sector to either compete or perish in the global economy with little government assistance, protection, and intervention. The government will have to move away from its current policy

[93] Thacker, *op. cit*. p. 71.

[94] Poitras and Robinson, *op. cit*. p. 16.

of protecting farmers from competition while providing farm subsidies. The government, through the use of credit and other forms of financial support, will have to develop farmers into market-oriented entrepreneurs who are able to produce efficiently in a global market while allowing those who cannot compete to move out of the agricultural sector.[95] As in the case of Mexico, an FTA with the U.S. will eventually transform Philippine agriculture into a U.S. agribusiness model.[96] The government will be end up facilitating and supporting the formation of larger, more competitive and efficient agricultural organizations. Meanwhile, the displaced farmers with their concomitant dislocation will cause disruptive changes in a society bedeviled by social and political unrest.

D) **FTA with the U.S. may set tacit but effective limits on Philippine foreign policy—**Contemporary researches on the effect of PTA on political/military relations point to the fact that trade flows between states tend to inhibit conflict and disputes among participating states.[97] Prospects of future commercial gains ease political tensions and the preferential trade arrangements provide an institutional means to promote expectations of economic benefits. An FTA is generally vulnerable to political disputes, thus participating states will generally try to contain contentious issues that might affect the overall bilateral relations. Furthermore, FTAs facilitate bargaining and negotiations between participants, reducing the specter of inter-state disputes and contributing to the resolution of political tension and conflict.[98] An FTA will also make the two countries' approaches to economic development more congruent, a factor conducive to a more cooperative bilateral relationship.[99] An FTA will also bring to power new political and economic elites who will want and need, closer economic and political cooperation with the other country in the bilateral trading arrangement.[100] As the country with the largest economy and global strategic interests, the U.S. has used FTA to cement its alliances and punish recalcitrant friends. It is

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[95] For a very incisive discussion of the economic impact of FTAs on agriculture see James H. Mcdonal, "Privatizing the Private Family Farmer: NAFT and the Transformation of the Mexican Dairy Sector," in *Human Organization* 56, 3 (Fall 1997). pp. 321-332.

[96] *Ibid*. p. 331.

[97] Jean-Marc F. Blanchard, Edward D. Mansfiled, and Norrin M. Ripsman, "The Political Economy of National Security: Economic Statecraft, Interdependence, and International Conflict," in *Power and the Purse: Economic Statecraft, Interdependence and National Security* .p. 11.

[98] *Ibid*. p. 11.

[99] Suan Kaufman Purcell, "The Changing Nature of U.S.-Mexican Relations," *Journal of Interamerican Studies and World Affairs*, 38, 1 (spring 1997). p. 140

[100] *Ibid*. p. 140

negotiating an FTA with Taiwan to deter China from taking any military actions against the island-state. It is assumed that closer U.S.-Taiwan economic ties will make Beijing think twice before responding militarily against an important economic partner of the U.S.[101] Washington also impressed upon Canberra the importance of American strategic and economic relationship with Australia when the Bush Administration heeded the Australian initiative to negotiate "a free trade by any means" with Prime Minister John Howard.[102] From the two countries' perspective, "open trade between allies not only strengthens their economies, but also fortifies their defense and security ties."[103] In his statements during the launching a U.S.-Australian FTA, President Bush made it clear that the FTA talks were aimed, in part, at rewarding a valued ally in conflicts in both Afghanistan and Iraq.[104] Similarly, the FTA with Jordan seemed to have been largely motivated by geopolitics—supporting an Arab ally in the Middle East. Also, the first U.S. FTA with Israel cannot be described without any reference to political/strategic and diplomatic motives as the driving forces behind such move. In the case of the U.S.-Chile trade negotiations, Washington delayed the signing of the FTA legal instruments to show its displeasure over the Chilean government's position against the U.S. on the proposed second UN Security Council resolution authorizing the use of force against Iraq. The action sent a message that the price of an FTA with the U.S. is toeing the American line evenly on remotely related politico-diplomatic issues in international affairs. With an FTA with the U.S., Manila might find it difficult to express disagreement with Washington on major international issues. Closer economic relations with the U.S. mean that Washington will have inordinate economic and political leverage over the other country's foreign policy. A successful FTA with U.S. may also cause a change in perspective in the partner country's definition of national interests, with more emphasis on tangible economic goals rather than on abstract political principles deemed irrelevant in a changing global political economy.

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[101] John J. Tkacik, Jr. "Why the Time is Right for a Free Trade Agreement with Taiwan," *The Heritage Foundation: Backgrounder* 1557 (June 3, 2002).. p. 3.

[102] Dana R. Drillon, Denise H. Froning, and Gerald P.O'Driscoll, "Time To Strengthen U.S.-Australian Relations in Trade and Defense," *The Heritage Foundation Backgrounder* 1450, (June 18, 2001). p. 7.

[103] *Ibid*. 2.

[104] Mastel, *op. cit*. p. 46.

What is to be done?

Despite the political ramifications, an FTA between the Philippines and U.S. is necessary. The Philippines cannot simply be left out in the cold from the bilateral FTA deals Washington has been negotiating with other Southeast Asian states. Bilateral arrangements can generate trade discrimination against non-participating countries like the Philippines. Being a neighbor to states that have signed or about to sign FTAs with the U.S., Manila will find itself competitively disadvantaged in the American market if it cannot secure an FTA with Washington. The pressing issue now is not whether the country should sign an FTA with the U.S or not. The question is how the government can negotiate and sign an FTA with the U.S. and have it ratified by the Senate despite the possible politico-economic cost. Like in any international negotiation, the politics of an FTA can be usefully analyzed and conceived as a two-level game.[105] The basic assumption of this theory is that a government typically does two things at the same time: it manipulates domestic policies and influences international politics simultaneously.[106] The key theoretical point is that the outcome of a successful international negotiation depends on the strategy a government chooses to shape and harness its own domestic policies. Concomitantly, the theory recognizes that domestic policies and dynamics can be used to affect the outcomes of international bargaining, and that international moves

[105] See Robert D. Putnam, "Diplomacy and domestic politics: the Logic of two-level games," *International Organization* 42, 3 (Summer 1988).pp. 427-460.

[106] Andrew Moravcsik, "Introduction: Integrating International and Domestic Theories of International Bargaining," in Peter B. Evans, and Harold K. Jacobson, and Robert D. Putman (Eds*), Double-Edged Diplomacy: International Bargaining and Domestic Politics* (Berkley, Los Angeles, and London: University of California Press, 1993).p. 15.

can target the achievement of domestic goals.[107] In effect, it posits an image of the government or executive as "Janus–faced"—forced to balance international and domestic concerns in a process of "double" edge diplomacy.[108]

Successful international negotiations are a result of the interaction between two sets of players:

I. At the international level—national governments seek to maximize their own ability to satisfy domestic demands, while minimizing the adverse consequences of international developments. At this level, national leaders or their representatives negotiate with their counterparts to sign an international agreement.

II. At the domestic level—the ability of the national government to seek the ratification of the international agreement by addressing the concerns of domestic agencies, representatives of key interest groups, party and legislative figures, labor unions, and the general public.

The key to a successful ratification of an agreement is the "win-sets" situation. This situation occurs when:

1. Negotiation and bargaining between the two sets of negotiators results in a tentative agreement—a treaty.

[107] *Ibid.*, p. 17.

[108] *Ibid*. p. 15.

2. There is a separate discuss with each group of domestic constituents on whether or not to ratify the agreement. This usually represents bureaucratic agencies, interest groups, and social classes, and involves as well, public opinion and legislative acceptance of the treaty.

A successful "win-set" situation is contingent on the following:

1) Level I-- negotiators' strategies and ability to forge an agreement.

2) Level II—governmental institutions, domestic preferences, and political coalition supporting the agreement

In most successful trade negotiations, the importance of side-payments is well-known and accepted. The two-level game emphasizes that the value of an international side-payment should be calculated in terms of its marginal contribution to the likelihood of ratification. [109] High-level and high-profile negotiators are likely to dispose of more side payments and more "good will" at home, and hence, states prefer to negotiate with a head of government than with a low-ranking official.[110] Side payment, along with good-will, is crucial in ensuring a "win-set" situation that will encourage the ratification and implementation of the treaty. The use of side-payments to attract marginal supporters, is of course, quite common in practical and day-to-day politics. In Mexico, the NAFTA was signed and ratified, despite strong domestic political opposition, because of a state-led coalition committed to neo-liberal economic reforms. The coalition generated a solid

[109] Putnam, *op.ci*t. p. 451.

[110] *Ibid*. p. 452.

domestic support for the treaty by using various political mobilization tactics and coalescing into an eclectic force that was committed to transform the state-led, interventionist, and populist Mexican economy into one that pursues economic liberalization.[111] This free trade coalition had two very important functions during the negotiation and ratification of the legal instruments of NAFTA:[112] One, the coalition acted as the political sponsor of the policy change. Coalition members saw to it that free-trade/neo-liberal policy ideas were included and represented politically in the national agenda. Two, it mobilized support in order for the agreement to be ratified, implemented and sustained. Based on the Mexican experience, the FTA coalition is characterized as follows:

1) It was a coalition made-up mainly composed of the state and the private sector. The coalition established control over a wide range of economic policies associated with neo-liberal economic development. The coalition did not only advocate a new policy for the state, it also represented itself as a new alliance against the old alliance of import-substitution and state-dependent firms.

2) The coalition was created and led by the presidency. The Mexican presidents regularly forged multiple bargains with powerful groups—interest groups and legislators. In mobilizing and sustaining the coalition, the presidential leadership utilized the traditional mechanism for coalition survival—the state's financial resources were dispensed to the populace and their

[111] Poitras and Robinsopn, *op.cit*. p. 6.

[112] Thacker, *op.cit*. p.

communities through a populist program to cultivate political support. The presidency exercised an inordinate degree of political skill and dexterity to manipulate domestic political actors and structures to the point of accommodating the FTA agenda.

3) A powerful alliance of assorted interests within the business community set the tone of public support for NAFTA. The devoted core of private- sector support for free trade was composed of large manufacturing firms, medium-sized manufacturers, some agricultural producers, capital-intensive foreign businesses, the international financial community, and domestic suppliers of foreign business in Mexico.

4) As the Mexican government was actively campaigning for NAFTA ratification, the base of political support for the FTA coalition's political support base was broadened. The coalition brought together representatives from government, business, and labor to negotiate a wide-ranging economic stabilization and structural reform package associated with any FTA agreement and implementation.

The starting point of any effort to undertake radical economic reforms as part of an implementation is to have a sponsor in the form of a broad-based political coalition. The establishment of this coalition does not guarantee the ratification of an FTA agreement. Still the government will have to take into account the legislature. The

Mexican legislature was as a spectator throughout most of the negotiating process, and a submissive supporter of the free trade during the ratification. The Philippine case might be different given the autonomy and activism of the Philippine Congress. Any local FTA coalition must realize early on that its interests will clearly offend the ideological sensibilities of the Left. The Philippine Left will consider an FTA with the U.S. as a Faustian pact fraught with extreme dangers to the country—an FTA would be a pact in which the promise of development and prosperity means greater U.S. domination of Philippine society and the infringement of country's sovereignty. In the final analysis, the signing and ratification of a R.P.-U.S. FTA will be the easier part of the deal. The really crucial phase is making the promised cornucopia of economic benefits of an FTA a reality to the majority of the people. Failure to deliver these economic dividends will not only incite massive protest from the masses and consequent repression by the government. It will also trigger a massive political economic upheaval that will generate a more radical change in Philippine society.

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