

FOREIGN AFFAIRS

NOVEMBER/DECEMBER 1995



Is America Abandoning Multilateral Trade?
Commitment to a New World Trade Order

Jeffrey E. Garten

Volume 74 • Number 6

The contents of *Foreign Affairs* are copyrighted.
© 1995 Council on Foreign Relations, Inc. All rights reserved.

Is America Abandoning Multilateral Trade?

Jeffrey E. Garten

COMMITMENT TO A NEW WORLD TRADE ORDER

IN TWO years of travel for the Clinton administration in Asia, Europe, and Latin America, I have found foreign leaders' most recurrent concern to be that America is moving away from its historically strong support for the multilateral trading system. Rather than embrace the new World Trade Organization (WTO) and bring all its trade disputes before that body, the United States, they charge, is trying to solve its problems through bilateral agreements at best or unilateral fiat at worst. This substitution of the law of the jungle for established international rules, the critics say, encourages unbridled mercantilism, protectionism, and heightened political tension between countries, weakening global trade.

Set aside for a moment the hypocrisy of Europeans who deal bilaterally all the time, and the behavior of Japan, which continues to practice highly managed trade that runs directly counter to the spirit of the WTO. The fact is that ministers from Canada, Brazil, Korea, India, and Singapore, European Union commissioners, and business leaders from Toronto to Hong Kong are saying that the United States is turning its back on the multilateral trading system. The accusation is particularly significant in light of the past half century of American support for the General Agreement on Tariffs and Trade (GATT), the predecessor of the WTO. During this time the United States led every major round of global

JEFFREY E. GARTEN served as U.S. Under Secretary of Commerce for International Trade until mid-October. In November he becomes Dean of Yale University's School of Management.

Is America Abandoning Multilateral Trade?

liberalization, providing the ideas and political muscle to bring negotiations to a conclusion and, most important, keeping American markets open in good economic times and bad so other economies could stay afloat. No other country came close to exercising this role.

Serious as the indictment is, it is also wrong. The issue is not whether the Clinton administration fully supports multilateralism, because it certainly does. The more relevant question is, what kind of multilateralism?

NO LONGER A LUXURY GOOD

MANY REMEMBER the days when America was so wealthy that it could subordinate economic and commercial policies to the goal of strengthening its political alliances. They recall that before the 1990s GATT negotiations were as much designed to keep the West united and prosperous in the face of the Soviet threat as to expand trade for its own sake. They yearn for an America that accorded the process of developing multilateral trade rules the same importance as the results those rules yielded. That era, however, is over.

Today the United States supports multilateralism because it is in its commercial interest. The administration does not spend a lot of time worrying about holding the free world together, as the momentum everywhere is toward democracy and capitalism. But this does not mean the stakes in building an open trading system based on laws and regulations are any lower, or the urgency any less. American commercial interests are vast—north, south, east, and west—and the United States needs the tangible benefits of multilateralism in the marketplace.

After all, the most ubiquitous multinational companies are American, and most of them are globalizing their production in ways that require trade liberalization across many countries simultaneously. The United States also has the world's most open market, which means it gains enormously from multilateral commitments made by others en masse: it is a lot easier for us if everyone liberalizes agricultural quotas or government procurement procedures at once than if we have to slug it out country by country.

Moreover, expanded trade is now more critical to America's future than at any other time in this century. Exports and imports together

have more than doubled since 1970, from 11 percent of GDP to 23 percent. In the last two years exports have increased by more than \$100 billion—more than the total exports of Australia, Sweden, or South Korea. If this trend continues, as Commerce Department economists believe likely, U.S. exports will climb from \$650 billion in 1994 to \$1.2 trillion by the year 2000.

Exports are woven into the job base as never before. A decade ago exports supported 7 million American jobs. By the year 2000 Commerce Department projections show more than 16 million jobs tied to

sales abroad. And this is not ordinary work; it pays 15 percent more than the average manufacturing wage, carries benefits at least 30 percent higher than the average job, and is far less likely to be affected by slumps or corporate restructuring. Exports are vital to our economic future. With monetary policy constrained and no real alternatives to finance expanded federal spending, exports will loom larger than ever when the next downturn comes.

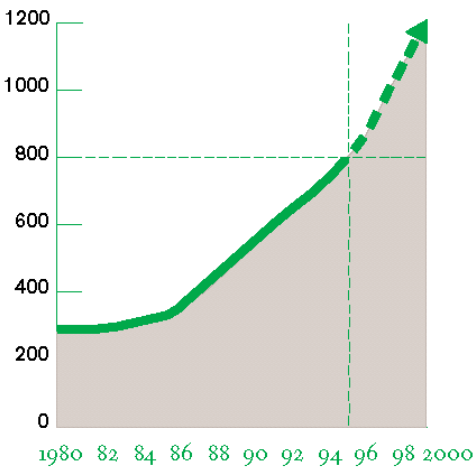
As bright as the export picture may be, the United States must achieve more. Most important, millions more high-wage jobs must be generated, not just in the interests of a vibrant economy but also for social cohesion.

In addition, serious trade deficits will have to be offset. In 1995 the current account deficit could reach \$170 billion, representing a continuous deterioration over the past several years. While as a percentage of GDP this is considerably less than in the late 1980s, it is still too large, requiring billions of dollars in borrowing each month, adding billions to America's indebtedness, and frequently raising concerns in currency markets. Increased foreign competition, particularly from Asia, is likely to keep up the pressure.

Add to this mix the fact that all our trade competitors—from Canada to Korea, Japan to Brazil, Germany to China—have

U.S. Exports Are Up

(billions of dollars)



Figures for 1995 - 2000 are projections

SOURCE: INTERNATIONAL TRADE ADMINISTRATION,
U.S. DEPARTMENT OF COMMERCE

Is America Abandoning Multilateral Trade?

accorded the highest national priority to increasing their exports, and it becomes clear that the stakes for the United States in having the right kind of multilateral trading system have reached new heights. We must, therefore, apply rigorous criteria in judging the system, supporting it, and attempting to shape it.

WHAT AMERICA WANTS

WHAT IS the right kind of multilateralism? The administration is not hooked on theory, ideology, or leftover Cold War sentiments. Quite simply, it is looking for workable procedures and rules within a reasonable time frame.

First, it wants greater openness on the part of other nations, such that their markets provide opportunities to the United States broadly equal to those the U.S. market provides them. The traditional trade barriers of tariffs and quotas must be lowered, but the administration is also attacking nontraditional barriers like the webs of government regulations that strangle competition and interfere with investment flows, lax antitrust enforcement, tolerance of collusive corporate behavior, blocked access to product distribution systems, and inadequate enforcement of intellectual property rights. Washington is concerned, too, about labor practices and environmental protection.

The administration wants to see more fair play in the ways that governments assist domestic firms in international competition for major projects. The United States is focusing on governments that provide below-market financing for their exports, condone bribery to win deals, and offer a host of other incentives to distort decisions of countries like India, Brazil, China, and Indonesia that are awarding big contracts for power plants, airports, and telecommunications systems.

The administration favors a multilateral approach to both market access and anticompetitive practices, and in fact the vast majority of its activity in trade is on a multilateral basis. Such efforts don't make headlines because they are slow, technical, and hardly as dramatic as a mano a mano fight. But since the end of the Uruguay Round global trade talks in December 1993, the United States has been foremost among those pressing GATT and then the WTO to further reduce tariffs

and liberalize government procurement and to continue negotiations in telecommunications and shipping. The administration has proposed multilateral consideration of the environmental aspects of trade. It has gone to the WTO as a broker in trade disputes with Korea on agricultural products and Japan on whiskey taxes. In the Organization for Economic Cooperation and Development (OECD), it has strongly advocated multilateral rules for investment, an initiative against bribery, and international guidelines for trade finance.

On a regional level, no other nation has pushed harder than the United States to develop rules and procedures for freer trade in Latin America or among the Asia Pacific Economic Cooperation (APEC) countries. The United States also proposed the Transatlantic Business Dialogue with the European Union (EU) to focus attention on lowering barriers to trade and investment across the Atlantic, especially unreasonable standards on regulations, products, and quality and safety testing. The dialogue will begin in November with a conference hosted by the Spanish government and chaired by cabinet ministers and CEOs from the United States and Europe.

THE CRITICS' CHARGES

IF AMERICA'S recent record of support for multilateralism is excellent, why is the country taking so much flak? The long list of foreign grievances includes Section 301 of U.S. trade law, which allows retaliation in the face of closed markets when negotiations fail; antidumping laws, which mandate higher tariffs on foreign products dumped in America at below-cost prices; and the "extraterritorial" reach of U.S. law, as in attempts to penalize foreign companies for violating U.S. trade sanctions on other countries. But these are long-standing complaints. In at least two of the areas—Section 301 and antidumping—the United States is now subject to WTO review as a result of the Uruguay Round. Extraterritoriality is a problem, often driven by Congress, and successive administrations have tried to contain it.

Foreign anxiety in fact centers on three high-profile examples of recent U.S. policy. They are the administration's dealings with Japan, especially on the automotive industry; the strong U.S. response this summer to an inadequate liberalization package in

Is America Abandoning Multilateral Trade?

the multilateral negotiations on financial services; and the administration's aggressive help for American firms vying for big deals abroad. An examination of each case helps clarify the rationale for the administration's approach and shows that a potent multilateral trading system—one capable of coping with the problems and opportunities of this and coming decades—is always the ultimate objective.

REMOVING JAPANESE ROADBLOCKS

IN THE case of Japan, the administration has several reasons for its emphasis on bilateral negotiations not only on autos but in areas ranging from government procurement of telecommunications equipment to insurance regulations.

When President Clinton and Prime Minister Kiichi Miyazawa agreed to establish the U.S.-Japan Framework for Economic Cooperation in July 1993, both wanted to handle a series of issues bilaterally; this was not an instance of American arm-twisting. In addition, the administration believes that many of the barriers in Japan—lack of antitrust protection, interlocking relations among companies that block entry by foreign firms, collusion between suppliers and manufacturers, and suffocating regulations—are not yet within the competence of the World Trade Organization, nor is there a consensus on creating and enforcing rules to deal with them. Along with intellectual property rights, such practices constitute the most important category of trade problems for the United States—far more substantial than traditional tariffs and quotas. Although Japan may be the most significant example, similar barriers exist from South Korea to Germany.

It will take the WTO many years to develop adequate laws on such barriers. Not only does the new organization have its hands full with traditional trade problems, but the above barriers are deeply rooted in the history, culture, and institutions of their societies. And the wide variations from country to country make multilateral liberalization much more difficult to achieve than with tariffs and quotas, where common numerical targets could be set. The United States cannot afford to wait that long. The trade pressures are too great, as are the temptations for other nations to emulate Japan.

This is where the auto negotiations came in. They were a full-court press by the United States to break through entrenched Japanese trade barriers beyond the current ambit of the world trade body. The administration took aim at the highly regulated market for replacement parts, the cartel-like behavior of Japanese car companies and their dealers, and the collusion between parts suppliers and automakers. After two years of strenuous negotiations, including a threat from the United States to impose a 100 percent tariff on Japanese luxury cars, the two sides in June reached a series of agreements that should lead to an opening of the Japanese automotive market. The WTO could not have adjudicated these matters in a remotely comparable time frame—certainly not in this decade.

The administration justifies such bilateral deals in other ways as well. Identifying and dealing with nontraditional trade barriers establishes a precedent on which multilateral law can build, just as the environmental and labor talks with Mexico can be guideposts for the WTO, which is now taking up those issues. Moreover, as Japan opens its market, every other country is eligible to compete for the benefits. In other words, the United States and Japan negotiated a bilateral agreement but the results were multilateralized. That is exactly what happened with the agreement between the United States and China on intellectual property rights earlier this year. As soon as the ink was dry, the agreement's provisions were available to the EU, Japan, and all other comers.

FINANCIAL SERVICES: A HALF-EMPTY GLASS

THE ABSTENTION of the United States from the financial services agreement that was concluded in July under the auspices of the WTO in Geneva illuminates another set of considerations. The administration wanted a multilateral pact to liberalize trade in banking, insurance, securities trading, and fund management. The United States, after all, has the world's most competitive and sophisticated financial services industry and its market in the field is already the most open, so its firms stand to benefit most when other governments lower their barriers. Indeed, closed markets are costing us dearly in terms of jobs, projects for our companies, and the international competitiveness that comes with

Is America Abandoning Multilateral Trade?

having our banks in all foreign markets. Even with closed markets in many countries, the United States exported more than \$8 billion in financial services in 1994, but this is a pittance compared with its potential. For two years, therefore, the administration negotiated hard, but in the end did not feel that other countries' offers on liberalizing their markets satisfied its goals. The EU said, "Take half a loaf, it's better than nothing." The administration disagreed. It did not want to grace the insufficient offers of other countries with the imprimatur of a multilateral agreement that would have required U.S. commitments to automatically allow all foreign firms into the American market even if their home governments kept our companies out. We may choose to let them enter, but we need not make an irrevocable legal commitment to do so.

The United States should not be expected to sign any multilateral agreement placed in front of it. Our standards of openness are higher than others' because our market is more open. We want foreign countries to come up to our level, not to settle for the lowest common denominator. In any event, this is not the end of the issue. Where the administration feels foreign financial markets are too closed it will press bilaterally, and it will reserve the right to keep out of the American market new entrants from these countries until we have a fair deal. At some point the overall environment will be more open and thus conducive to a meaningful multilateral arrangement—which remains Washington's objective.

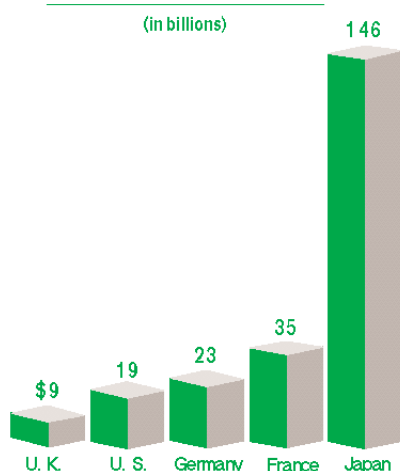
PLAYING HARDBALL TO HELP OUR FIRMS

THE ADMINISTRATION'S stepped-up support for U.S.-based companies seeking contracts overseas has elicited concerns abroad. Europeans in particular are critical. While not denying that they engage in such practices—how could they, since they've been at it, as have the Japanese, openly and not so openly, for a century—they seem to believe either that the United States is acting too aggressively or that we, as the world's major economic power, have a special responsibility "to abstain in the interest of the global economic system," as they often put it. A world in which companies can compete directly with one another is our strong preference, but it will not happen soon, especially if the United States walks off the field and wrings its hands on the sidelines.

Japan, Germany, Britain, and countries in a host of emerging

markets from Taiwan to Brazil are expanding government support for their firms. The companies will be competing for, among other things, a piece of the more than one trillion dollars in infrastructure projects planned in Asia, Latin America, and the Middle East. The Clinton administration has concluded that it does no good to call for a truce in government support for firms; that has been tried for years and no one will listen. While it pleaded in vain, the United States lost an enormous amount of business and jobs. The only choice now is a reluctant one to play the game as hard as the others

Government Financial Assistance to Exporters, 1993



SOURCE: INTERNATIONAL TRADE ADMINISTRATION,
U.S. DEPARTMENT OF COMMERCE

so far as most kinds of support go, including financing, high-level trade missions, and political intervention by ambassadors, cabinet members, and even the president. (Bribery, of course, is not an option for the United States, for ethical and legal reasons. In Germany, to take one counterexample, bribes are even tax deductible.)

The Clinton administration and its successors will inevitably continue to play hardball in helping American firms lock up contracts abroad. Foreign governments will learn that the United States will not roll over when confronted with their aggressive tactics, and at the same time the cost of intervention will

rise for them. The objective is to get all governments to behave more reasonably and recognize the folly of competing with one another to deplete their treasuries. It is too early to say whether this course is succeeding, although there is some positive evidence. Foreign leaders are protesting, which shows they are at least more bothered by the costs of their usual approach. In addition, in many instances in which the U.S. government has offered, as a defensive measure, to match through its Export-Import Bank below-market financing of foreign export credit agencies, those agencies have withdrawn their subsidized offers. Maybe this is a start on a real truce.

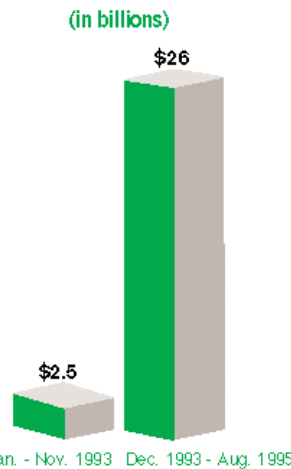
Is America Abandoning Multilateral Trade?

MULTILATERALISM FOR THE 21ST CENTURY

IN THIS brutally competitive environment, moving toward as advanced a multilateral system as possible should remain our objective. The United States should continue to push regional free trade areas in Latin America and Asia. These arrangements can be the building blocks for a stronger and broader multilateral trading system. A regional approach, such as the North American Free Trade Agreement, allows the United States to go further in some areas, including tackling the most intractable nontariff barriers, than the WTO with its 100-plus members can go at this time. It is essential, however, that all regional pacts conform to the basic principles of the world trade body so that they do not undercut negotiations that have already taken place at the global level.

Japan and China, because of their size, power, closed markets, and export prowess, pose the greatest dilemmas for the evolution of the multilateral system. In dealing with them, America must balance bilateral pressure with more harmonization with other countries' efforts. It will be essential for the United States to make more effectively multilateral the pressure on Japan in the Group of Seven, the WTO, APEC, and the OECD. As for China, which is not a member of the world trade body, the United States should work closely with the EU and Japan, make China more of a G-7 focus than it has been, and use the Asia-Pacific group to apply peer pressure on Beijing to further open the Chinese market and to abide by international rules. Bringing China into the WTO on commercially viable terms will give the multilateral system a boost and subject Beijing to a wide range of globally accepted laws. The United States strongly supports China's entry, but Beijing must still undertake substantial reforms and policy

Clinton's Aggressive Advocacy Strategy, American Exports for Megaprojects



SOURCE: INTERNATIONAL TRADE ADMINISTRATION,
U.S. DEPARTMENT OF COMMERCE

commitments before becoming eligible to join.

With China and other big emerging markets, the world needs a better multilateral framework for bidding for their megaprojects. Competition among firms acting on their own is desirable, but when governments intervene, their involvement must be circumscribed and opened to scrutiny. The United States, the EU, and Japan should at least attempt to bring under a single framework rules for export credits, bribery, use of foreign aid for commercial gain, and other nonmarket ways to win contracts (such as granting landing rights in return for purchases of aircraft, as some European countries have done). The United States will not unilaterally disarm, but it should be willing to do so multilaterally and reciprocally. The Commerce Department has made such proposals to the Europeans, but so far has gotten little reaction.

The U.S. Congress needs extensive education on the trading system, how it has evolved, and where this and successor administrations would like to take it. This is urgent because the Constitution entrusts Congress with the overall responsibility for trade policy, whereas in all other nations the executive branch directs trade. Congress historically has been highly skeptical of multilateral arrangements that limit U.S. flexibility. It alone vetoed the creation of the International Trade Organization, which would have created a comprehensive set of trade rules nearly a half century ago, and more recently it had a very hard time approving many provisions of the Uruguay Round that would have subjected the United States to multilateral rules, particularly for dispute resolution. The youth and domestic concerns of many WTO member nations have created a world trade body even more conducive to unilateralism than has been seen in some time. This endangers U.S. backing for the organization because Congress has the power to undercut a policy of multilateralism, no matter how firm the support of this or any other administration.

Congressional skepticism is mirrored by growing economic nationalism in Europe, where high unemployment now mixes with lagging technological capabilities and a preoccupation with the internal workings of the EU. It may be time for a vigorous new campaign to prod the development of the multilateral trading system.

The United States cannot, as it once did, play the heavy alone in this; it does not have the clout, and its agenda has become more complicated. Neither a self-absorbed European Union nor the financially

strapped and psychologically unequipped Japan can play the role either. As for the new World Trade Organization, it is merely a reflection of its most powerful members.

Would it not make sense to create a small, international group of “wise men” that would present recommendations to the Group of Seven and the WTO on the next steps to strengthen the multilateral trading system? The group would be composed of distinguished members drawn from public and private life but all representing personal views. Such an effort would be particularly valuable if launched at the highest levels of several key governments, and if it rose above tactical trade issues to offer a vision of what the trading system should look like a decade or two hence and what would be needed to realize it.

Many questions cry out for answers and multilateral approaches. Where should the big emerging markets fit in? What issues do mind-boggling new technologies raise? What would a regime for open and fair global competition for megaprojects look like? How can antitrust issues be handled on a global basis? At a minimum, a report by such a group would go well beyond what governments, hobbled by their short-term perspectives, are prepared to contemplate, and set an important target. It would also contribute to public understanding of the challenges involved.

Finally, this administration and ones to come must improve their multilateral commercial diplomacy. The United States must learn how better to pursue bilateral policies with multilateral support and to achieve multilateral goals with bilateral reinforcement. A good analogy is arms control during the Cold War, when disarmament became a matter of high foreign policy. America’s top technical experts and senior negotiators were not divided by different professional languages and cultures. Moreover, Washington reinforced its bilateral negotiations with extensive consultations with many governments not directly involved, and backed up its multilateral efforts with highly focused approaches to individual governments. We knew how to work the system, and we did it with sophistication and energy. Trade policy today demands a quantum increase in the number of diplomats who understand the intricacies of trade law as well as the methods of diplomacy.

The sooner others embrace open markets, the sooner a new order will be created.

Jeffrey E. Garten

An effective multilateral trading system becomes more important for the United States every day. During the Cold War America could throw its weight around, but its relative strength is declining. By the end of the decade both an enlarged European Union and an integrated Asian market will surpass the United States in GDP. As our ability to call the shots dwindles, rules that everyone agrees on become more and more vital.

Washington should do all it can to lead the way in this new era of trade policy, but a new trade order will not be created easily or quickly. If other governments are disturbed by U.S. policies, they would do well to reexamine their own. The sooner they embrace truly open markets, the sooner real, sustainable multilateralism will be achieved. 🌐