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Veröffentlichungsversion / Published Version

Zeitschriftenartikel / journal article

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Empfohlene Zitierung / Suggested Citation:

Hoadley, S. (2007). U.S. Free Trade Agreements in East Asia: Politics, Economics, and Security Policy in the Bush Administration. *Südostasien aktuell : journal of current Southeast Asian affairs*, 26(1), 51-75. <https://nbn-resolving.org/urn:nbn:de:0168-ssoar-336729>

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Studie

U.S. Free Trade Agreements in East Asia: Politics, Economics, and Security Policy in the Bush Administration

Stephen Hoadley

Abstract

The Bush Administration has initiated nearly two dozen bilateral and bi-multilateral free trade agreements (FTAs) in the past six years. These FTAs are valued as not only advancing U.S. economic interests but also serving foreign policy and security interests. Their perceived utility as new foreign policy instruments emerged in the wake of the stagnation of multilateral trade liberalization deliberations in the WTO forum and was amplified by the exigencies of the U.S. war on terrorism launched in 2001. The FTA phenomenon is a manifestation of a pragmatic realist neo-mercantilist approach. U.S. FTA initiatives in Asia are driven primarily by economic interests, but this article points out that security interests are also significant. An FTA with Singapore, in which security elements were implicit alongside the explicit economic aims, was an early success. But opposition to U.S. proposals by national actors and interest groups in Thailand, Malaysia, South Korea and other potential FTA partners is substantial and progress is slow. The resulting agreements are likely to fall short of WTO-plus comprehensiveness, and may be marred by carve-outs and prolonged phase-ins. U.S. employment of FTAs in Asia is best seen as an extension of familiar policy efforts to protect or advance U.S. economic interests in a fluid political-economic arena. But these FTAs are not likely to alter the pattern of hegemony in Asia. (Manuscript received October 10, 2006; accepted for publication December 17, 2006)¹

Keywords: Free Trade Agreements, WTO, USA, economic policy, East Asia

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¹ The author would like to thank two reviewers for conscientious reading and apposite suggestions on the earlier draft. The rewriting they stimulated has significantly improved the present version.

Studie

US-Freihandelsabkommen in Ostasien: Politik, Wirtschaft und Sicherheitspolitik der Bush-Regierung

Stephen Hoadley

Abstract

In den letzten sechs Jahren hat die Bush-Regierung die Unterzeichnung von annähernd zwei Dutzend bi- und multilateraler Freihandelsabkommen eingeleitet. Der Nutzen dieser Freihandelsabkommen wird in der Befriedigung US-amerikanischer Wirtschaftsinteressen und außen- und sicherheitspolitischer Interessen gesehen. Als neues außenpolitisches Instrument wurde ihr Nutzen insbesondere nach der Stagnation der multilateralen Verhandlungen unter dem Dach der WTO sowie im Rahmen des im Jahr 2001 eingeleiteten Krieges gegen den Terror erkannt. Das Phänomen der Freihandelsabkommen ist dabei Ausdruck eines pragmatischen, realistischen neo-merkantilistischen Ansatzes. In erster Linie sind Freihandelsabkommen Ausdruck wirtschaftlicher Interessen. Dieser Artikel unterstreicht jedoch auch die Relevanz sicherheitspolitischer Argumente. Die US-Freihandelspolitik ist damit eine Fortführung bekannter Politikinstrumente, US-amerikanische Wirtschaftsinteressen in Zeiten wirtschaftlicher und politischer Unsicherheit zu schützen oder voranzubringen. Das Machtgleichgewicht in Asien werden die Freihandelszonen jedoch nicht verändern. (Manuskript eingereicht am 10.10.2006; zur Veröffentlichung angenommen am 17.12.2006)

Keywords: Multilaterale Freihandelsabkommen, WTO, USA, Wirtschaftspolitik, Ostasien

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1 Introduction

This article is stimulated by the observation that the United States has initiated four free trade agreements (FTAs) in East Asia¹ since the beginning of this decade, with more projected, whereas previously there was none (see table 1). Furthermore the U.S. has recently forged additional trade liberalization links in the form of Trade and Investment Facilitation Agreements with Cambodia and ASEAN and a textile agreement with Vietnam. The Enterprise for ASEAN (EAI) Initiative envisages a series of FTAs with all members of the ASEAN grouping except Myanmar, and at the summit of the Asia Pacific Economic Cooperation (APEC) in Hanoi in November 2006 U.S. representatives expressed their support for an Asia-Pacific free trade zone. These initiatives deserve attention by analysts and this article is a preliminary step in that direction.

Table 1 U.S. Trade Initiatives in Asia 2002-2006

Initiatives	Dates
Singapore FTA	Completed October 2002 and now in effect
Enterprise for ASEAN Initiative	Signed October 2002
Thailand FTA	Initiated October 2003, still under negotiation
South Korea FTA	Initiated February 2006, still under negotiation
Malaysia FTA	Initiated May 2006, still under negotiation
Vietnam textile and WTO accession agreement	Signed May 2006
Cambodia Trade and Investment Facilitation Agreement	Signed July 2006
ASEAN Trade and Investment Facilitation Agreement	Signed August 2006

Source: Office of U.S. Trade Representative. Online <http://www.ustr.gov> (accessed 17 November 2006).

The purpose of this article is to survey the origins and issues of U.S. FTAs in Asia and to search for clues to their motivation. To achieve this end, U.S. FTA policies in Asia must first be set into the context of U.S. trade policies generally,

¹ For the purpose of this article East Asia or Asia for short denotes China, Hong Kong, Taiwan, Japan, and South Korea and the ten Southeast Asian states. Mongolia, North Korea and eastern Russia might be included by other analysts, but not the present author.

then examined to see if they are unique in some way. The article argues that U.S. trade policy has evolved from an initial emphasis of multilateral trade agreements to now encompass regional, unilateral, and bilateral arrangements for trade liberalization. It will show furthermore that U.S. motives, while primarily economic, are in fact mixed, with foreign policy, security, and domestic-political aims visible in varying degrees. In troubled parts of the world economic pragmatism has given away to a more focused employment of FTAs by the Bush Administration as a new policy tool in the war on terrorism and other foreign and security objectives (Mastel 2004).

But to the question of whether the United States has singled out the Asian region for special attention in its FTA initiatives, to pursue its war on terrorism, for example, this article answers in the negative. FTAs with Asia have been undertaken selectively, and remain modest in number, relative to the global pattern. Nevertheless Washington's FTA initiatives in Asia are significant in both economic and foreign policy terms. Besides stimulating liberalization of trade and investment and administrative reform, they signal Washington's continued commitment to multi-faceted engagement with the Asian region. While the FTAs may appear to critics to insinuate U.S. interests into the economic fabric of Asia, with political implications that reinforce U.S. hegemony in the region, this essay argues that they are in fact extensions of familiar U.S. diplomatic mechanisms for enhancing U.S. interests in particular countries and regions. Rather than offensive, some FTAs are in fact defensive, designed to avoid exclusion of U.S. traders and investors from nascent preferential trade arrangements undertaken by a variety of governments in fluid negotiating arenas beyond U.S. control.

In sum, the article pursues the following objectives: first, to familiarize the reader with the recent energizing of U.S. FTA policy with particular reference to East Asia; second, to survey the economic, foreign policy and security motives that drive this new instrument in international economic relations around the world and in East Asia, and issues that impede them; third to indicate how U.S. FTA policies in East Asia compare with and differ from those in other parts of the world; and fourth to reflect briefly on the impact of U.S. FTAs on the balance of hegemony in the East Asian region.²

² The impact of FTAs on regionalism, trade diversion, and domestic politics are worthy topics but not examined directly in this survey article. The reader is referred to the contribution by Christopher Dent in this collection regarding whether bilateral FTAs will dilute efforts to construct

Theoretical Premises

This article approaches the topic of FTAs as a neo-mercantilist sub-set of realist theory. That is, it assumes that independent states pursue security competitively by means of economic diplomacy (among other means) designed to maximize advantages and minimize risks and costs to the state. This pursuit entails not only protecting politically and economically sensitive domestic enterprises but also opening more competitive sectors to foreign trade and investment in order to gain reciprocal opening by selected partners. This practice of pragmatic reciprocity may produce concerted market-opening outcomes that may become institutionalized in either international regimes or regional organizations, but those institutional outcomes are secondary to the gaining of net advantage by the participants. Therefore state leaders are indifferent as to the absolute merits of international trade regimes, regional organizations, bilateral deals, or unilateral initiatives, but rather choose pragmatically among them to maximize relative economic and security gains. Of course the distinction between the ends and means of states is rarely tidy, for security has several facets, and economic security goals become entwined with military and physical security aims as well as diplomatic status and hegemony goals. It is in this theoretical context, and with these caveats, that U.S. FTAs in general, and U.S. FTAs in Asia in particular, are analyzed in the passages that follow.

2 The Advent of U.S. FTAs

Motives for FTAs

The initial U.S. motive for initiating bilateral FTAs was frustration with the slow pace of multilateral trade liberalization negotiations. After World War II the United States encouraged the establishment of multilateral financial and trade institutions (Kaplan 1996). While protectionism in Congress obliged U.S. negotiators to abandon the project of setting up of an International Trade

Asian regional economic regimes. The assessment of trade facilitation and trade diversion on FTA partners and third countries is best conducted by economists, for example in the Schott and Okamoto collections and the publications of the International Institute for Economics, Washington D.C. See Schott 2004; Okamoto 2003; <http://www.iiia.com>. More detail on the politics behind the initiation, negotiation, and implementation of FTAs by the U.S. and specific Asian governments may be found in the works of I. M. Destler, Vinod Aggarwal, and Christopher Dent. See Destler 2005; Aggarwal and Urata 2006; Dent 2006

Organization (ITO) in 1947, the U.S. did back the interim measure that became known as the General Agreement of Tariffs and Trade (GATT), participated actively in nine successive GATT rounds, and implemented their provisions. The U.S. also supported the establishment of the World Trade Organization (WTO) and has complied with its rulings, albeit with vigorous appeals of those judgments adverse to the United States. The U.S. has negotiated a number of sector-specific bilateral trade agreements to facilitate trade with selected partners or in specific commodities, but for five decades devoted substantial resources to negotiating comprehensive (save agriculture) trade liberalization in international arenas, notably the GATT/WTO, and more recently in regional arenas, notably the Asia-Pacific Economic Cooperation (APEC) forum.

However, following an acrimonious GATT ministerial meeting in 1982, U.S. Trade Representative William Brock broached the idea of free trade negotiations with specific partners to reduce trade and investment obstacles (Schott 1983; Schott 2004:361). Thus bilateral FTAs were conceived as a supplement, and simultaneously as a stimulant, to the GATT process. A strategic motive also became visible: the notion that favored partners could be rewarded for undertaking policies that advanced the economic, political, security or ideological interests of the U.S. Examples of economic FTAs included deals with Canada in 1989 and Mexico leading to the North American Free Trade Agreement (NAFTA) in 1993 (Hart 2004). Examples of FTAs with mixed economic and strategic motives included those with Israel (1985) (Rosen 2004) and Jordan (2000) (Rosen 2004; Bolle 2001).

Nevertheless during the two decades of the 1980s and 1990s the number of FTAs relative to the number of America's trading partners remained miniscule. The reasons for this included

- U.S. optimism after the inauguration of the Uruguay Round in 1986 that multilateral negotiations would bear fruit;
- The Clinton Administration's hopes that APEC would produce Asia-Pacific regional liberalization;
- The depletion of President Clinton's "political capital" by opposition from unions, environmentalists, anti-globalists, and liberal Democrats and Clinton's inability to secure "fast track" trade negotiating authority;³ and

- Republican Party legislators' opposition to Clinton's "liberal internationalism" generally.

3 The Bush Administration and FTAs

FTAs Rejuvenated

Even before the terrorist attacks of 2001 the Bush Administration was rejuvenating the idea of bilateral FTAs. These instruments were conceived as supplements to regional schemes such as the Free Trade Area of the Americas (FTAA) and minilateral arrangements with Central America, the Andean states, and the Southern African States (Yamada 2003). Fresh in the minds of political leaders and the new U.S. Trade Representative Robert Zoellick and his staff were the anti-globalization demonstrations in Seattle in 1999, the miscarriage of the Millennium Round, and the delayed start to what became the Doha Development Round in 2001. Their doubts about multilateralism were strengthened by the failure of the Cancun WTO ministerial of September 2003 to move the Doha Round negotiations forward.

The Bush Administration was well aware of benefits to be gained from the FTA alternative. As stated by U.S. Trade Representative (U.S. TR) Zoellick (Zoellick 2002), the economic utility of FTAs included the following:

- U.S. FTAs could neutralize the trade diversion effects of the growing number of preferential trade agreements negotiated by the European Union and states in other parts of the world, notably Asia and Latin America;
- FTAs could be used to stimulate "competitive liberalization," that is, the U.S. could lead by example to induce other governments and the WTO negotiators to undertake further reforms (Bergsten 1996; Schott 2004:362);
- FTAs would give U.S. goods exporters better market access and help alleviate the negative balance in the current account;
- Specific sector-opening provisions of FTAs would help U.S. leaders in information technology, intellectual property, and financial services to exploit new markets;

³ "Fast track" or Trade Promotion Authority is an agreement by the U.S. Congress to allow the President to negotiate trade agreements and then submit them for legislative approval without amendment, that is, Congress can either approve or disapprove the text of the agreement but cannot amend its details.

- FTAs would secure host country legal protection for U.S. investors; and
- FTAs that increased agricultural exports could be cited as justification for reducing U.S. farm and export subsidies, an administration goal.

Political motives, too, were at work. President Bush explicitly rejected Clinton's "liberal internationalism" and stressed unilateral and bilateral approaches to serving U.S. interests more directly, not least in trade negotiations. It may also be argued that the more thoughtful of U.S. policy-makers perceived the declining utility of U.S. "hard power", that is, military power and nuclear arms, after the dissolution of the Soviet Union, and recommended shifting the emphasis of U.S. policy to "soft power" (Nye 2002). This included using the attractiveness of the U.S. market and U.S. capital, rather than allegedly redundant military alliances, to induce favorable bilateral bargains with chosen partners. It is conceivable also that Washington took note of the diplomatic successes of the European Union in attracting diverse partners and applied the lessons learned.

Diplomatic and Security Motives

The attacks of September 11, 2001 galvanized U.S. policy in a number of ways, one of which was a search for allies in counter-terrorism actions abroad (Lindsay 2003). FTAs were used to strengthen and reward friendly Muslim states such as Morocco, Bahrain, Oman, and United Arab Emirates. Willing allies such as Singapore and Australia gained enhanced access to U.S. markets and security cooperation by means of FTAs. Deserving partners not quite qualifying for FTAs were rewarded with intermediate agreements called Trade and Investment Framework Agreements (TIFAs), of which nine were negotiated after September 2001, holding out the prospect of FTAs in the future (U.S. Trade Representative 2006c).

Besides directly enhancing the war on terrorism, FTAs advanced other U.S. foreign policy aims by sending political messages, both positive and negative (Mastel 2004):

- FTAs requiring monitoring and enforcement of administrative standards, transparency, and accountability advanced U.S. good government and democracy aims;
- U.S. provision of technical assistance, training and collaboration to ensure compliance deepened U.S. contacts, intelligence, engagement, and influence in FTA partner governments;

- The U.S. accelerated talks with Australia and Central American governments after they backed the attack on Iraq;
- The U.S. sent a message of disapprobation to Chile by postponing FTA talks after that government demurred on attacking Iraq;
- The U.S. isolated Cuba while pursuing FTA talks with neighboring Central and South American states;
- Washington avoided talks with New Zealand because of a nuclear-ship-visit disagreement and the prime minister's criticisms of U.S. Iraq policy; and
- The U.S. avoided talks with Taiwan to avoid affronting Beijing, which was cooperating in the war on terrorism and pressuring North Korea and displaying moderation in its economic policies.

The link of FTAs to U.S. foreign policy is made explicit by official statements and assessments. For example, U.S. Trade Representative Robert Zoellick said in 2002 that "America's trade policies are connected to our broader economic, political and security aims" (Zoellick 2002:27). The U.S. General Accounting Office, a research arm of Congress, stated in a 2004 study of the policies and actions of the U.S. Trade Representative that "cooperation in security and foreign policy" was a significant criterion for choosing FTA partners (GAO 2004:8).

4 U.S. FTAs in Asia

The Asia-Pacific FTA Arena

The Bush Administration's world-wide FTA initiatives extended also to the Asian arena (Feinberg 2006). President Bill Clinton and Singapore Prime Minister Goh Chok Tong discussed a possible FTA during a meeting in late 2000 but it fell to incoming President Bush's Trade Representative Zoellick to carry the idea forward. After brisk negotiations Washington had completed its first FTA with an Asian state at the end of 2002 (Sen 2004:43). Talks with Thailand began the following year. After lengthy preliminaries, talks were formally initiated with South Korea and Malaysia in 2006. Talks with the regional grouping Association of Southeast Asian Nations (ASEAN) or individual Southeast Asian states were foreshadowed within the Enterprise for ASEAN Initiative (EAI) framework announced in October 2002. The U.S. has already negotiated TIFAs with Indonesia, Philippines, Thailand, Brunei Darussalam and Malaysia and the Philippines (U.S. Trade Representative 2006c; Fergusson and Sek 2005). The following passages review the motives and modalities of U.S. FTAs with Singapore, Thailand, South

Korea, and Malaysia and reflect on other FTAs with Asian partners that could follow in future.

Singapore

U.S. motives in agreeing to FTA talks with Singapore were primarily economic but not without a significant strategic element as well. In 2000 Singapore was Washington's eleventh most valuable trade partner and regarded as an entry-point into the markets of the Southeast Asian region. U.S. investment in Singapore exceeded USD 30 billion and over 1,500 U.S. firms operated in the city-state. Singapore was the second most vigorous investor in the U.S., after Japan (Koh 2004:8). Furthermore, Singapore's economy was the most liberal of all Asian countries, and its government was the cleanest and most efficient as evidenced by Singapore's excellent ranking in the Transparency International Corruption Index. And Singapore had just completed FTA negotiations with New Zealand and her trade diplomats were thus experienced and ready to negotiate (Hoadley 2002; Lee 2006).

Because Singapore had no agricultural exports to threaten the U.S. farm lobby, negotiations based on the U.S.-Jordan FTA model proceeded quickly. The subsequent agreement was regarded by both sides as a new precedent of high quality despite the omission of the normally thorny issue of agricultural access. Besides eliminating tariffs on goods and services the agreement was lauded by the U.S. as advancing intellectual property protection, enhancing transparency and customs cooperation, and providing new ways to handle environment and labor disputes. The agreement was hailed also as a practical step towards realization of the APEC and EAI visions, and a precedent for further bilateral talks in Asia (Nanto 2003:10-11).

Regarding security motives, it should be noted that Singapore made available port and air base facilities to U.S. naval and air forces and in other ways cooperated with the U.S. military. Certainly security was an element in the Singapore chief negotiator's mind. As Ambassador Tommy Koh later stated,

Singapore's interest in the U.S., however, transcends business and economics. Singapore wishes to entrench the presence of the U.S. in the region because it underpins the security of the whole Asia-Pacific region. Singapore regards the U.S.-Singapore FTA as a symbol of continued U.S. commitment to the region [. . .] the USSFTA [. . .] is about enhancing the prospects of peace and stability in the region (Koh 2004:8).

Thailand

While not a major trading partner for the U.S., ranking only twentieth in value, Washington had substantial interests in initiating FTA talks with Thailand in 2003 (USTR 2005; Ahearn and Morrison 2005). In the economic sphere Washington's aims were to

- Reduce Thailand's tariff on agriculture goods from its current level of approximately 35 percent;
- Improve access for exporters of industrial goods and telecommunications, financial, and legal services;
- Reduce non-transparent and non-tariff barriers for example in sanitary and phytosanitary measures;
- Liberalize investment, both FDI and portfolio, and set up arbitration mechanisms to allow investors to seek redress directly;
- Strengthen intellectual property and patent enforcement and reduce IT piracy;
- Raise labor and environmental standards; and
- Facilitate trade through technical assistance and joint working groups.

As well, corollary diplomatic and strategic benefits may accrue in a U.S.-Thai FTA. The U.S. has a long-standing security relationship with Thailand. Since 1954 they have been partners in the Southeast Asian Treaty Organization (SEATO) and the bilateral Rusk-Thanat accord (1962). Thailand's air bases were hosts to the U.S. Air Force during the Vietnam War. Although these links had attenuated by the mid-1970s, military cooperation continued, and at present Cobra Gold remains the U.S. military's largest annual exercise in Asia. President Bush was forthright in his backing of Prime Minister Thaksin for his robust defense and counter-terrorism policies as well as for his economic liberalization aims. The U.S. TR webpage on the U.S.-Thai talks states that "an FTA also would strengthen longstanding economic and security ties between our countries" (USTR 2006d). A Congressional Research Service report states that the FTA with Thailand, as part of the US EAI, "is also seen [by the Administration, S.H.] as a way of countering growing Chinese influence in the region" (Fergusson and Sek 2005:12).

However, the U.S. is impeded in its negotiations by elements of dualism and underdevelopment that persist in the Thai economy (Parnwell 1996; Muscat 1994). Finance, services, and some manufacturing and commodity production are only partially liberalized and significant sectors are distorted by overt or indirect

government control and manipulation by Bangkok magnates (Laothamatas 1992; MacIntyre 1990). Uneasiness remains among U.S. investors over a possible return to investment and currency instability as experience during the Asian financial crisis, and possible Thai retreat from liberalization in the post-Thaksin period (Phongpaichit and Baker 1998; World Trade Organization 2003; Warr 2005).

But the willingness Thailand's leaders to engage in FTA talks is not generally at issue (Kiyota 2006). Since the 1990s Bangkok has pursued an enthusiastic course of trade talks, rivaling Singapore as Asia's FTA leader, and now has a total of fourteen bilateral and three minilateral FTA partners signed up or in prospect (Nagai 2002, 2003, 2004; Chirathivat and Mallikamas 2004). Criticism has been leveled at the Thai government not for lack of internationalism but rather for failing at home to rationalize and consolidate existing FTAs and carry out obligated financial and administrative reforms before embarking on new FTAs (Sally 2005).

But with regard to specific issues embedded in the FTA, objections have been raised by the Thai government negotiators and the local non-governmental organizations (NGOs) (Choudry 2004). Thai spokespeople allege that

- The prospective FTA will require legal changes and will lead to extensive foreign ownership of land, thus infringe Thai sovereignty (Maneerungsee 2005);
- Foreign capital may take over the newly privatized Thai corporations, eliminating government subsidies, raising prices, and cutting jobs;
- U.S.-subsidized and GE foods will flood the Thai market and drive out small farmers;
- Intellectual property rules will allegedly stop Thai government distribution of cheap anti-HIV/AIDS drugs, prevent local labeling of Thai silk and jasmine rice, and speed up what the critics call "bio-piracy" by foreign corporations;
- The U.S. Congress will oblige the U.S. Trade Representative to negotiate agricultural carve-outs and long phase-ins, as happened in the U.S.-Australia FTA, which will reduce the benefits of the deal to Thailand (Buckman 2003; Chrispin and Hiebert 2004); and
- Deeper U.S. ties with Bangkok will worsen tensions in the Muslim south and isolate Thailand from its Asian neighbors, especially pro-Muslim Malaysia.

As a consequence of this dissent, and also because of the political stalemate in Bangkok following the last election, negotiations have proved difficult, and

completion of the FTA is not expected until 2007 at the earliest.⁴

South Korea

The U.S. has very substantial economic links with South Korea, which is its seventh most valuable trade partner (Choi and Schott 2004:175). For the U.S., a FTA would improve market access, facilitate investment, promote economic restructuring, potentially enhance growth and stability on the Korean Peninsula, and set a liberalizing precedent for Japan and other Asian governments. It would also counter trade diversion engendered by the Korea-ASEAN FTA. For Korea it would provide access to one of its biggest markets and offset trade diversion caused by NAFTA (Choi and Schott 2001; Min 2006; Schott, Bradford, and Moll 2006) The FTA would also reinforce security ties. U.S. security interests in that country have their roots in the Korean War period and 35,000 U.S. troops continue to be deployed to deter North Korea from renewed attacks. Nevertheless the South Korean economy is developed and complex and politics are pluralistic and increasingly nationalistic. Consequently FTA talks are proving difficult for Washington. From the U.S. perspective (USTR 2006b), issues impeding negotiations include:

- Agricultural protectionism, especially in rice and beef;
- Industrial protection, especially in the auto industry (Odessey 2006);
- Barriers imposed by, or privileges reserved for, the state-directed monopolies (*chaebol*);
- State pharmaceutical pricing subsidies;
- The “buy Korea” policies that impede “national treatment” in government procurement and foster a general bias against U.S. imports;
- The prospect of Korean inexpensive steel exports triggering U.S. anti-dumping or safeguard policy mechanisms; and
- Dilemmas surrounding the eligibility of products of the Kaesong Industrial Complex, financed and managed by South Korean firms but located in North Korea.

Furthermore, the rising climate of nationalism and growing anti-Americanism in the public, especially students, makes the South Korean government reluctant

⁴ See “Thailand suspends U.S. free trade talks due to poll”, http://www.bilaterals.org/article.php?id_article=3973 (accessed on 17 March 2006). The September 19, 2006 coup by the Army will doubtless cause further delays.

to expose itself to criticism by making concessions to U.S. negotiators. And the government in Seoul is increasingly interested in negotiating an FTA with ASEAN and otherwise working with the deepening Asian economic network. While negotiations will continue and small advances will be achieved, prospects for completion of an FTA with the U.S. in the near term are dim.

Malaysia

U.S. interests in a FTA with Malaysia are primarily economic but also include a nascent strategic element. Malaysia is the tenth most valuable trade partner for the U.S. and the host of much U.S. capital, particularly in the electronics and IT industries. A primary U.S. aim is to avoid Malaysian tariffs, which are four times higher than U.S. tariffs, thereby doubling U.S. manufacturing and agricultural exports, according to an official estimate (USTR 2006a).

The U.S. hopes to reduce Malaysian protection of its automobile industry and alter the government procurement preference for *bumiputra* (native Malay) enterprises. Facilitation of investment would enable U.S. high-tech, telecommunications, and financial services firms to gain a stronger foothold. U.S. firms importing Malaysian materials and sub-components could reduce costs and the same advantages would accrue to Malaysian firms importing U.S. components. Wider U.S. goals include using Malaysia as a gateway to the nascent ASEAN free trade area markets, setting a faster pace for economic partnerships in the region, advancing President Bush's Enterprise in ASEAN Initiative, and stimulating economic restructuring, reform, and rule-based competition (LaFleur 2006). Furthermore, U.S. officials, noting strategic convergence, joint military training and Malaysian purchase of American weapons and defense equipment, stress that an FTA would "support our partnership on security [and] in the war on terror" (USTR 2006a).

Talks with Malaysia are at an early phase and are likely to be protracted and arduous from the U.S. point of view. While Malaysia is a moderate Muslim state with a moderately well-developed economy, a potentially useful partner to neighboring Singapore and Thailand, and a leading proponent of ASEAN, it is also a state whose leaders have displayed scepticism of the west in general and the United States in particular. The new Prime Minister Badawi is more cosmopolitan than his predecessor Mohamad Mahathir but he has reappointed Rafidah Aziz as Trade Minister. She and her staff are expected to retain their biases in favor of ASEAN regional free trade cooperation in preference to bilateral FTAs (Suzuki

2003; Okamoto 2005). In fact, Malaysia has long resisted the bilateral FTAs and at an early stage severely criticized Singapore for surging ahead with bilateral FTAs. Nevertheless, in 2005 Rafidah Aziz announced that Malaysia would be undertaking FTA talks with the U.S., Japan, Australia, New Zealand, India, and Pakistan (Rafida Aziz 2005). This change of course appeared motivated more by anxiety about being left out of preferential trade areas than by innate enthusiasm for the FTA concept.

This reluctance aside, long-standing Malaysian economic structure and policy peculiarities present several formidable obstacles to an FTA with the United States. These include:

- Substantial Malaysian state ownership or regulation of banks and major enterprises;
- Barriers to national treatment in government procurement;
- Open and hidden subsidies;
- Overt industrial protectionism in the auto industry; and
- *Bumiputra* (Malay preference) investment, ownership, and employment policies (Odessey 2006).

High-level corruption and the phenomenon known as “crony capitalism” also characterize the commanding heights of the Malaysian economy (Gomez 1999). During the Asian financial crisis, Malaysia was unique in Asia in restricting currency convertibility (Nesadurai 2000). These features, which will not be readily surrendered, do not bode well for U.S. negotiators.

Taiwan and other Asian FTAs

No other FTA in Asia is on the current agenda, and in light of the heavy work-load borne by the U.S. TR and her staff, none is likely to be undertaken until current talks with Korea, Thailand and Malaysia and other countries around the world are nearer to completion. President Bush’s “fast track” Trade Promotion Authority will expire in June 2007 and soon thereafter the 2008 presidential election campaign will begin, during which U.S. policy initiatives tend to pause. The Republic of China on Taiwan has been pressing the Washington to enter into FTA talks, and many benefits would accrue to both economies from a comprehensive liberalization agreement. Taiwan is the U.S.’s eighth most valuable trade partner and the source, and host, of much trans-Pacific capital investment, tourism, and educational exchange (Lardy and Rosen 2004:199). But U.S. TR capacity and cross-strait political sensitivities aside, policy differences

would make negotiations difficult. The U.S.-Taiwan Business Council has detailed eight issues that the ROC government must address prior to beginning FTA talks, including insufficient financial institution reform, intellectual property protection, and anticorruption efforts, rice import quotas, unfair labeling requirements, and protectionism in telecommunications, health care, and pharmaceuticals (Lardy and Rosen 2004:200).

To conclude this section one might note obstacles to future FTA talks with six other Asia states. These include the following:

- China's large state sector, corruption, currency manipulation, and massive potential for US industry-threatening low-cost exports;
- Japan's non-tariff barriers to investment and imports, e.g. hyper-standards, subtle administrative subsidies and protection of manufacturing, financial and service industries, and rice quotas;
- Indonesia's corruption, dual economy, and traditional protectionist and *pribumi* (pro-native Indonesian) policies; and
- Vietnam's large state sector, regulatory opacity, poor intellectual property protection, weak infrastructure, and corruption.
- India and Pakistan exhibit all the above difficulties and in addition may be too big, too complex and too threatening for U.S. negotiators to persuade Congress and the economic interests of America to accept. Further, it would be politically awkward to begin FTA talks with one without including the other, given their rivalry, and both simultaneously would be indigestible.

However, as a preliminary to FTAs, or as a politically mollifying interim substitute, the U.S. could negotiate Trade and Investment Framework Agreements, Bilateral Investment Treaties, and other more limited instruments to address specific bilateral issues and facilitate economic relations. Such agreements were concluded with Cambodia, Vietnam, and the ASEAN grouping in 2006 (see table 1). Along with membership in the WTO, these agreements are seen by Washington as prerequisites to comprehensive FTA negotiations.

5 Aims and implications of FTAs summarized

The foregoing survey of recent U.S. FTA policies during the Bush Administration supports four general observations on the aims of U.S. FTAs in Asia.

First, U.S. FTAs in Asia are conceived primarily as trade liberalization instruments, providing easier access for U.S. products, services, and capital. The caveat below aside, this characterization differentiates U.S. FTAs in Asia from

those in the Middle East, where strategic motives appear to predominate, and in Latin America where historical sphere of influence practices continue to cast their shadows.

Second, U.S. FTAs are also seen as change agents, comprehensive devices to spur liberalization of a wide range of economic relations including services, investment, intellectual property, standards setting and recognition, and customs facilitation. They also serve to stimulate behind-the-border changes in economic structures and practices in the partner countries.

Third, U.S. FTAs are designed to stimulate further FTAs and multilateral, regional, and multilateral liberalization as well, in short to constitute building blocks in a wider process of economic liberalization world-wide. Whether that process is institutionalized by the WTO, APEC, or small regional bodies is yet to become clear, and Washington is keeping all options open.

Fourth, FTAs are seen by U.S. leaders to have foreign policy and security implications, reinforcing common endeavors previously arising out of the Cold War, now arising out of the war on terrorism, efforts to counter insurgency, piracy, or crime, and policies to underpin regional stability. With regard to the latter, American realist analysts perceive recent Chinese FTA initiatives in Southeast Asia as foreshadowing the growth of hegemony (benign so far) by China (Hoadley and Yang forthcoming). U.S. FTAs are therefore useful supplements to policies that would moderate Chinese hegemony by strengthening ties with allies and friends of the U.S. in the region. FTAs are a non-confrontational form of influence-balancing. Furthermore, President Bush's call at the Hanoi APEC summit in November 2006 to work towards an APEC free trade agreement may be seen in this strategic light, as assuring Asian governments that they have an alternative to an ASEAN Plus Three that is likely to be dominated by China, and that the U.S. will continue to exercise its stabilizing role in the region.⁵

⁵ Evidence that Asian leaders may concur is found in the 2005 East Asia Summit's invitation to India, Australia, and New Zealand to participate and in recent FTAs with those extra-regional states. An Indonesian strategic analyst recently confirmed to this author that "balancing" and "diluting" the growing influence of China by welcoming outside participants, and also strengthening the ASEAN Secretariat, were elements in Southeast Asians' approach to accommodating China in the region without Chinese domination.

Obstacles and compromises

However, U.S. proposals for FTAs are meeting resistance by nationalist leaders and NGOs in Thailand, South Korea and Malaysia. U.S. aspirations for progressive FTAs, albeit shaped to accommodate U.S. neo-mercantilist politics, are clashing with local politics and anti-globalization values. The resulting agreements are likely to be less tidy than the U.S.-Singapore model FTA and fall short of the WTO-plus aspiration. Either they will be compromised by exclusion or deferral of sensitive issues and enervated by long phase-in periods, or negotiations will stall. It is doubtful that U.S. negotiators, weakened by President Bush's loss of fast track authority and lame duck status, can impose their template on their Asian partners, and will have to choose between flawed FTAs or no agreements at all. The same will be true of the Asian negotiators in the face of resistance by the U.S. Congress, dominated by the Democratic Party with its free-trade skeptics, to concessions detrimental to the interests of U.S. enterprises.

Impact on hegemony

Outside the immediate focus of this article but related to it by this article's acknowledgement of the realist neo-mercantilist aims of FTAs is the question of whether these new FTAs will alter the balance of hegemony in Asia in favor of the United States. Critics perceive U.S. FTAs as intrusive, disruptive, and threatening not only to the economically vulnerable sectors of society but also to the sovereign prerogatives of the partner governments. Critics also point out that bilateral hub-and-spokes deals give Washington unequal influence inasmuch as the U.S. can "cherry-pick" (select and shape) FTA elements with qualifications, exceptions, phase-ins and deferrals to its own advantage. The U.S. will always benefit more than its partners, or refuse to play. And U.S. FTAs will dilute Asian regional cooperation initiatives, so U.S. power and hegemony in Asia will grow, to the disadvantage of all other countries, critics allege.

On the other hand, it is also true that the prospective partners can also refuse to play. In Asia they have alternatives in the recent bilateral and minilateral deals offered by China, Korea, Japan, and ASEAN and by outside players including the European Union, Australia, New Zealand, and India. FTAs may become building blocks to regional cooperation, allowing Asian states as a group to face North America and Europe with greater equality. Furthermore, FTAs give partners new access, resources, and access to U.S. decision-makers and a platform for

negotiating improvements over time. FTAs bind the United States, too, and most FTAs make explicit reference to WTO standards, so underpin the rules-based regime that small states favor. To this extent FTAs contribute to the entrenchment of rules that can curb the arbitrary exercise of power and facilitate international trade policy cooperation. If this cooperation is not exactly equal or fair, at least it is less asymmetric and less unfair than colonialism or unrestrained economic warfare, and offers the prospect of orderly improvement over time.

6 Conclusion

This author is sceptical of assertions that the recent proliferation of U.S. FTAs will enhance U.S. hegemony in Asia. Many other forces – diplomatic, military, technical, and environmental – are in play that will determine the future of U.S. hegemony. The rise of China and India, the recovery of Japan, the collective leadership of the Southeast Asian states, and the impact of international institutions, enterprises, and NGOs on the Asian political economy will all play a role alongside U.S. influence in the region. FTAs should be acknowledged as a new foreign economic policy tool available to all players as an extension of their traditional economic diplomacy. They can be advantageous to governments and enterprises that devise and employ them skillfully, in Asia as elsewhere (CBO 2003). They will be perceived as threatening by ideological critics of economic liberalization and groups vulnerable to economic change. But change in trading patterns is inevitable as a consequence of globalization whether or not states negotiate FTAs. And FTAs offer the prospect of making more explicit the rules by which partner governments, including those of the U.S. and Asia, will play, the concessions they have to make, and the benefits that they can expect to gain. To the extent that FTAs enhance transparency and encourage economic cooperation, they can modulate the effects of realist neo-mercantilism.

Finally, as suggested above, Washington's FTAs initiatives are designed not to increase U.S. influence but rather to maintain U.S. economic access in the face of the proliferation of Asian FTAs and diplomatic and strategic influence in response to China's emerging bid for regional leadership. If successful, this policy could stabilize Asian regional relations to the benefit of all actors.

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