

**FROM HEGEMONY TO MULTIPLE HIERARCHY:
BUSH, FREE TRADE AGREEMENTS, AND THE DECLINE OF THE
MULTILATERAL TRADE ORDER**

by

Vittorio Nicholas Galasso

A dissertation submitted to the Faculty of the University of Delaware in partial fulfillment of the requirements for the degree of Doctor of Philosophy in Political Science & International Relations

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ABSTRACT

This dissertation examines the following question: How do declining hegemons reorient their foreign policy strategies? This question is significant, as the current era of unipolarity is now witnessing declining American hegemony. To get at the problem, I examine the relationship between U.S. hegemonic decline and the post World War II multilateral trade regime. Liberal International Relations theory proposes the U.S. will relinquish control over the regime's decision making as its hegemony continues to wane. However, my findings suggest otherwise. Hegemonic decline led the U.S. to abandon multilateralism in the early 2000s. In its place, the U.S. embarked on a policy of negotiating numerous bilateral trade agreements with significantly weaker economies. Liberal institutionalism also argues declining hegemony matters little for regimes to survive. Yet, my data on the failed Doha round of multilateral trade negotiations indicates the regime is discordant. The study employs both an historical analysis of the trade regime, as well as three case studies of recent U.S. bilateral Free Trade Agreements (FTAs). The cases explicate how FTAs became a new venue for the Bush administration to promote its security and economic agenda, in the face of declining American hegemony. The conclusion that I draw is declining hegemons relocate to negotiating environments that still favor their power.

Chapter 1

INTRODUCTION

The Nature of the Problem

The United States (U.S.) emerged from the Second World War a global hegemon. Its hegemony entailed a combination of military and financial superiority that permitted the U.S. to shape the behavior and policies of subordinate allies. Economically, the U.S.'s manufacturing and trade volume accounted for more than half of the world's production in the years immediately after the war. While Europe's armies were largely devastated, the U.S. established a military presence across the globe, extending a security umbrella to allies and becoming known euphemistically as the *world's policeman*. Its hegemonic position allowed it to reconstitute international order around global institutions based on liberalism and democratic principles. As the leader of this system, the U.S. successfully advanced policies beneficial to American economic and security interests, especially in relation to its competition with the Soviet Union's own bid for hegemony. The U.S. secured legitimacy for its hegemonic position among allies by embedding itself within the power constraints contained in the rule making systems of postwar institutions, generating a strong degree of soft power in addition to its economic and military superiority.

However, since the end of the 1960s, the economic dominance undergirding American hegemony has been in decline. Western Europe and Japan rebuilt their devastated economies and emerged as economic challengers, capturing greater shares of world wealth and trade volume. The economies of developed countries were collectively wracked during the 1970s by high inflation, caused in part from the breakdown of the Bretton Woods system in 1971,¹ the oil embargo in 1973, and the stock market crash of 1973-1974. By the early 1980s, the U.S. unemployment rate topped ten percent, and exports were at a historic low due to a strong dollar. Japan emerged as the world's second largest economy, generating anxiety among Americans, along with calls for Congress to enact tough measures to curtail perceived unfair Japanese trading practices. Developing countries also steadily expanded their economies and captured greater shares of world wealth and trade volume, further eroding America's postwar economic dominance.

The 1980s were not completely negative for the U.S., however. The decade also witnessed a resurgence in U.S. economic strength, as traditional industries (such as manufacturing) were replaced with higher profit generators, including new financial investment instruments and a burgeoning services sector. The end of the 1980s also witnessed the collapse of the Soviet Union, ending the Cold War and reorienting the international system from bipolar to unipolar. The shift to unipolarity signaled the victory of U.S. led liberalism and free market capitalism over communism. It also entailed the elimination of any significant military competitors.

¹ I am referring to President Richard Nixon's unilateral cancelling of the direct convertibility of dollars to gold in 1971.

Yet, despite achieving unipolarity, the 1990s made evident the erosion of American hegemony. Whereas the U.S. dominated international institutions in the decades after the Second World War, shifts in the distribution of power across the international system presented new challenges to its status. For instance, economic growth among developing countries augmented their ability to contest American policies and demand greater authority in international decision making. The 1990s also witnessed deeper integration of the European Community (EC), fortifying its member states into an even more coherent and powerful international actor.² Even the U.S.'s accession to the preeminent position of *unipole* undermined its hegemony. Critics claimed unipolarity had led the U.S. to increasingly pursue unilateral military action, often at odds with the consensus of allies. In response, many charged the U.S. behaved more like an imperial power than the liberal hegemon that coordinated global cooperation in the decades after World War II. These challenges questioned the legitimacy of the U.S.'s superordinate position in the international system, and sparked serious discussions among world leaders concerning how to rein in unchecked U.S. power. Alas, while its material capabilities were largely unmatched, the foundations of American hegemony began to erode.

Further pointing to its hegemonic decline, the U.S. could no longer achieve desired outcomes in multilateral trade negotiations by the late 1990s. This is significant, as it represents an important moment in the history of the postwar international order. Until then, the multilateral trade regime was a vehicle through which the U.S., followed

² For instance, the EC became the much more centralized European Union (EU) in 1993.

by a small cadre of the most developed countries,³ directed the trajectory of international trade laws and norms. Because of their relatively weak position, the rest of the membership (largely representing developing countries) acquiesced to U.S. leadership, and accepted the final outcome of multilateral negotiating rounds without much contestation.⁴ Throughout trade rounds, developing countries lobbied hard for the U.S. and other developed countries to offer concessions around products they deemed sensitive for their economic growth.⁵ Yet, at the end of negotiating rounds, developing countries were compelled to accept whatever arrangements U.S. and developed country negotiators offered. In the years between the end of the Uruguay round in 1994 and the launch of the Doha round in 2001, this domination over developing countries waned. Developing countries began to successfully circumvent the U.S.'s traditional hegemonic tactics of using coercion and cooptation to advance their policies within the regime.

This dissertation analyzes how the U.S. reoriented its strategy in response to declining hegemony over the postwar multilateral trading regime. As such, it attempts to

³ Namely, the countries representing the EC, Japan, the United Kingdom (U.K.), and Canada.

⁴ The postwar multilateral trade regime worked to lower trade barriers and solve problems associated with international trade through a series of long, often multiyear, negotiating rounds. With the exception of the Kennedy and Dillon rounds, they were named after the place in which they were launched. Eight rounds have been held since the GATTs inception in 1947, they include: Ancey Round (1949), Torquay (1951), Geneva (1955-1956), Dillon (1960-1962), Kennedy (1964-1967), Tokyo (1973-1979), Uruguay (1986-1994), and Doha (2001-unfinished).

⁵ Typically, the concessions developing countries sought were grater market access for their most important exports. For instance, during the late 1950s and 1960s developing countries fought hard for the U.S. and the EC to lower barriers to tropical agricultural products and minerals coming from developing countries.

contribute to the body of knowledge written on hegemony. The particular contribution this research makes is on the behavior of declining hegemons, an area that (surprisingly) many scholars have not given substantial attention in recent years. To that end, this project attempts to answer two general questions: First, how did the U.S. operate its hegemony over the multilateral trade regime from its inception in the late 1940s until its erosion in the late 1990s? Second, and more important, how has the U.S. responded to hegemonic decline over the regime? That is, what kind of post-hegemonic strategies has the U.S. pursued resulting from its lost position?

Competing Explanations

The literature most directly associated with hegemony is the work falling under the scope of Hegemonic Stability Theory (HST). However, this line of research (initiated in the 1970s) largely petered out by the 1990s, around the time the U.S. reached unipolarity. The bulk of what was written in the 1980s on the question of hegemonic decline occurred in what is known as neoliberal institutionalism, or regime theory. This scholarship largely advanced the idea that hegemony was not a necessary condition for regimes to survive, as it is in the rational interest of non-hegemonic states to perpetuate regimes, even though costs may be required to sustain them. The former hegemon, this perspective suggests, will accept the reality of its new position and relinquish authority over regimes, deferring to the new collective leadership scheme.

More recently, scholars within the tradition of liberal International Relations (IR) theory have begun to assess declining American hegemony, as American economic

decline has become more pronounced in the past decade. Similar to the claims of neoliberal institutionalism, these arguments suggest the U.S. will voluntarily relinquish authority over the postwar institutions it once wielded significant influence over, recognizing the changing landscape of the international distribution of power. Accordingly, developing countries will assume (if not demand) greater responsibilities and authority over postwar institutions such as the United Nations Security Council, the International Monetary Fund (IMF), and the World Trade Organization (WTO). The U.S. will reinterpret its role in these organizations as one state among many, and accept a diminished ability to shape outcomes.

Further echoing the neoliberal institutionalist argument of the 1980s, this interpretation suggests declining American hegemony matters little for the survival of the postwar liberal order, as the system (made possible by American hegemony) is firmly entrenched, and faces no significant ideological challengers. Instead, the decline of American hegemony is really a crisis of leadership, not one of existence, for contemporary liberal international institutions (Ikenberry, 2011). Put differently, postwar regimes will survive the eclipse of American hegemony. However, in a post-hegemonic era, the leadership of these institutions will reflect the burgeoning multipolar distribution of power.

The Argument

The argument advanced in this dissertation challenges the characterization of declining American hegemony offered by neoliberal institutionalism, and more recent

liberal IR scholarship introduced above. The evidence presented in the empirical chapters suggest that instead of relinquishing authority over the regime as American hegemony waned, the administration of George W. Bush abandoned global multilateralism in 2001 to pursue bilateral and regional trade agreements outside the WTO. Further, whereas regime theory predicts declining American hegemony will spur the WTO's non-hegemonic members towards collective leadership to advance deeper trade liberalization, the perpetual negotiating failures of the now decade long Doha round indicate otherwise. The inability of non-hegemonic members to engage in the necessary compromises required to advance the Doha round also raises questions about the claim that hegemony matters little for regime survival. While my argument does not suggest the postwar liberal international order will collapse in the absence of American hegemony, the multilateral trade regime has experienced significant challenges since its erosion by the late 1990s.

These findings support the claims of scholars representing more realist oriented accounts of hegemonic decline. Particularly, Robert Gilpin's (1975, 1981) claim that hegemons attempt to reassert power in the face of decline. Gilpin (1981) suggests declining hegemons shift to negotiating venues that retain their asymmetry of power over subordinates. Aligning with this claim, the U.S. reoriented its efforts away from pursuing its interests at the level of global multilateralism once its traditional hegemonic tactics were no longer effective. Instead, the Bush administration focused on pursuing a similar economic and geostrategic agenda through bilateral Free Trade Agreements (FTAs).⁶

⁶ Throughout the dissertation, I make reference to the variety of non-global multilateral trade arrangements. Preferential Trade Agreement (PTA) is a catch all term to refer to any agreement outside the GATT/WTO fold (including FTAs and Customs Unions). A Free

The explanation offered for how the U.S. exercised hegemony over the regime builds upon Richard Steinberg's (2002) argument. Steinberg (2002) claims the U.S. exploited the consensus decision making rule system governing multilateral trade rounds. Reflecting the liberal character of the postwar order, decisions concerning multilateral trade liberalization (undertaken during multiyear trade negotiating rounds) rested upon the consensus of regime members. The magnitude of U.S. hegemony resided in maneuvering developing countries not to block consensus on American backed proposals, even if they worked against the interests of developing country members. Reaching consensus at the end of rounds served to reinforce the legitimacy of the trade regime as a *truly* multilateral body, and affirmed the U.S. as a restrained hegemon that respected the rules of international institutions. The U.S. was able to both retain the legitimacy over the decision making process, and secure its interests were advanced, by using what Steinberg (2002) calls *invisible weighting* tactics. These include the use of threats and inducements made to developing countries outside the official negotiating forum, or as Steinberg (2002) describes, in the *shadow of law*. Derived from Steinberg's (2002) argument, I argue that the multilateral trade regime began to fragment in the late 1990s, once the U.S. lost the ability to prevent developing countries from blocking consensus. That is, once its traditional hegemonic tactics were no longer available. By the late 1990s, developing countries threatened to block consensus on U.S. proposals for the

Trade Agreement (FTA) can be a bilateral, or plurilateral agreement among states that offer reciprocal trade preferences to members of the FTA, but retain separate tariff arrangements with non participants. A Customs Union (CU) refers to a bloc of countries that agree to offer identical tariff levels to non-members. For instance, the European Union is a CU.

Doha round unless their issues were adequately addressed, particularly regarding agricultural liberalization in developed countries.

The transformation from a hegemonic to non-hegemonic regime coincided with members relinquishing their commitments to negotiate trade agreements exclusively at the level of global multilateralism, ensconced within the system established by the General Agreement on Tariffs and Trade (GATT) of 1947 (later incorporated into the WTO in 1995). Instead, regime members began to pursue unilateral trade strategies organized around preferential agreements *en masse* by the early 2000s. Political economists suggest this is because developing countries and second tier powers feared Doha's failure to conclude would leave them without better access to the lucrative markets of the most developed countries (Baldwin, 1997). Therefore, instead of waiting for progress to emerge at the multilateral level, members chose to abandon the regime and seek preferential trade agreements. Since the decline of U.S. hegemony over the regime, preferentialism (in the form of bilateral and plurilateral agreements) has reshaped the contour of global trade in little more than a decade. Within that time, the world has shifted away from multilateralism and towards the proliferation of crisscrossing (and often conflicting) trade agreements among most of the world's trading nations.⁷

Political economists warn of the negative ramifications the move away from global multilateralism entails. By its nature, multilateralism eliminates discriminatory practices, as states are committed to lowering barriers in tandem, and offering every

⁷ The claim that regime members were committed to exclusive multilateralism deserves some qualification. The EC, for instance, had established preferential trade arrangements with many of its members former colonial holdings.

regime member the same preferences. In fact, classical economic theory provides support for exclusive multilateralism. As indicated by David Ricardo (2010) and Adam Smith (2011), a system of trade that benefits countries best is free of distortions, including protectionist barriers and preferential trade schemes. In line with these principles, economists in the 1940s gave intellectual weight to a trading system in which members treated each others' exports equally. The creation of a global free trade system required states to cooperate under the guise of multilateralism, whereby regime members decide collectively on which goods to lower tariffs, and by how much.

The support for multilateralism also centered on matters of international security, in addition to economic prosperity. Prior to the ascent of U.S. hegemony after the Second World War, trade was largely a mercantilist tool of powerful European empires. Zones of exclusive trade were established between imperial powers and their respective colonial holdings. These zones provided cheap raw materials for high end production while simultaneously discriminating against other European empires, and also the U.S. This discriminatory system bred hostility and jealousies among European powers, fueling the tensions leading to the world wars in the first half of the twentieth century. After World War II, the U.S. determined trade would no longer sow the seeds of military conflict.

Therefore, the norm of multilateralism was legitimized on security and economic grounds. After pressing to eliminate the last vestiges of European imperialism after World War II, the U.S. restructured the global system of trade on the Most Favored Nation (MFN) principle of non-discrimination. Newly independent former colonies were

persuaded to participate in the regime with the promise of barrier free access to lucrative American, and eventually European, markets.

The bulk of the empirical research presented in this dissertation concerns the U.S.'s response to its loss of hegemony over the regime by the late 1990s. I argue that the loss of hegemony rendered the U.S. no longer able to realize economic and geostrategic goals through the multilateral regime. In response, the U.S. shifted to a preferential strategy in the early 2000s. Realizing its bargaining leverage to control regime outcomes was effectively eroded, the U.S. stepped outside the multilateral arena and began negotiating bilateral FTAs with countries wielding significantly less influence. In these bilateral negotiating environments, the U.S. retained its hierarchical position, and successfully promoted the economic and security agendas no longer obtainable multilaterally.

The case study chapters focus on U.S. trade behavior during the administration of George W. Bush (2001-2009). I argue the Bush administration utilized FTAs because these venues made it possible to spread trade policies it attempted to globalize through the WTO's multilateral process, but failed due to its eroded hegemony. For instance, high on the U.S.'s trade policy agenda during the late 1990s and early 2000s included WTO members adopting much more stringent intellectual property and copyright protections. As American firms generate more patents than any other country, the U.S. has a vested interest to globalize the most stringent rules to protect its firms' profits. While the U.S. failed to gain support for these policies multilaterally, bilateral partners readily accepted them as conditions of securing preferential market access to American markets. Also, the

administration quickly realized that its hegemonic status in bilateral settings allowed it to use trade agreements to promote other, crucial, foreign policy goals. The entire landscape of American foreign policy became reoriented after the September 11th attacks towards orchestrating a global War on Terror. As the empirical sections detail, FTAs were an important tool used by the administration to reward and entice strategic countries to support American geopolitical goals.

Plan of the Dissertation

The next chapter presents a review of the pertinent theoretical literature on hegemony, hierarchy, liberal IR theory, and unipolarity. Synthesizing these literatures produces a theoretical framework to help conceptualize the demise of American hegemony over the regime, and the U.S.'s subsequent behavior in response. The following empirical chapters assess the weight of this framework.

Chapter three is a selective historical narrative of the trade regime. The purpose is to demonstrate how U.S. hegemony operated to produce consensus around policies favoring its interests from the regime's inception until the late 1990s. Importantly, this chapter provides empirical support to the argument that American hegemony eroded once the U.S. could no longer prevent developing countries from denying consensus. The fracturing of the regime is detailed through an assessment of the Doha round negotiations beginning in the late 1990s through 2008. As argued, the discord among regime members throughout this period challenges the expectation of regime theory. Regime theorists posited in the 1980s that under certain conditions non-hegemonic members rescue

regimes from the vacuum of power left by hegemonic decline. The significant growth of Preferential Trade Agreements (PTAs), coinciding with demise of U.S. hegemony, is also discussed.

The rise of PTAs and the loss of American hegemony presented in chapter three provides a context for the case study chapters contained in chapters four and five. The cases detail how the U.S. reoriented its trade strategy to cope with the loss of hegemony. As argued, the cases represent three instances through which the U.S. exercised hierarchy with significantly weaker states to advance its economic and geopolitical agendas. Chapter four provides empirical evidence that the U.S. forged a coercive hierarchical relationship with Australia in order to exact economic concessions to aggrandize American firms. This case also details how the U.S. easily advanced new trade policies in bilateral FTAs it no longer was capable of promoting multilaterally.

Conversely, chapter five details the FTAs the Bush administration negotiated with Morocco and Singapore. Whereas the FTA with Australia is a form of economic coercion, these FTAs are instances of economic benevolence. Here, the U.S. offered economic concessions to these countries in order to reward and entice compliance with promoting geostrategic goals advancing U.S. War on Terror objectives.

At the end of the dissertation, I recapitulate the overall conclusions argued throughout. As previewed here, the transformation from exclusive multilateralism to the significant inclusion of preferentialism was spurred by U.S. hegemonic decline. In response to its loss of hegemony, the U.S. reoriented its strategy and adopted bilateral FTAs, as these smaller negotiating environments preserved its asymmetry of power and

fostered the promotion of economic and security goals no longer obtainable multilaterally. As the cases demonstrate, the U.S. established hierarchies with FTA partners predicated on the relative power of American market size. Whether the hierarchies codified through FTAs were coercive or benevolent depended upon the agenda U.S. negotiators sought to advance.

Chapter 2

LITERATURE REVIEW

Hierarchy and Hegemony

David Lake's work on hierarchy offers a theoretical framework to conceptualize how the U.S. operationalized its hegemony over the international trade regime (1996, 2003, 2006, 2007, 2009). Lake is one of many to recently challenge the strict dichotomy assumed in International Relations (IR) scholarship that hierarchy orders the domestic realm and anarchy the international.⁸ Instead, as will be explicated below, Lake demonstrates that this duality is misleading, and that hierarchy orders many relations in international politics too. He conceptualizes inter-state relations on a continuum with anarchical relations at one end and hierarchical relations at the other. According to Lake, this produces a richer image of world politics that more accurately captures interstate relations than the two dimensional model.

Traditional IR theories instruct that the domestic sphere is the only realm in which hierarchical authority can exist. This is because the formal-legal understanding that underpins modern IR scholarship articulates a vision of the world in which all states are

⁸ Other scholars challenging this dichotomy include Barkawi & Laffey, 2002; Cooley, 2005; Cox, 2004; Donnelly, 2006; Hobson & Sharman, 2005; Nexon & Wright, 2007.

equally sovereign and possess full authority over the affairs within their defined territories.⁹ Since no such sovereign legal offices exist above nation-states, the international sphere is assumed to be anarchical, and therefore devoid of any authority relationships. States may utilize their power to force others to do certain things they do not want to do; however, this is strict coercion and not based on obligations, as in relations of authority.¹⁰

Authority, however, is abundant in the international system according to Lake. By borrowing from social contract theory, he posits a competing conception of the international system, whereby hierarchical authoritative relations exist in anarchy. Generally, social contract theories claim that prior to the creation of the state, actors face each other in a state of nature. In the state of nature, obligations to follow a ruler do not flow from a legal office; but rather from a bargain struck between the strong and the weak. The ruler agrees to provide some semblance of social order (i.e. protection, security, contract guarantees) to the ruled in exchange for an agreed upon measure of compliance (Lake, 2007).

Lake extrapolates the model of a social contract from the state of nature to the international system. This produces a new understanding of the international system that rivals the dichotomous view articulated by formal-legal theories, and embraced by IR scholars for many decades. Instead of seeing authority as restricted from the international

⁹ On sovereign equality, see Donnelly (2006).

¹⁰ See Lake (2009) and Barnett & Duvall (2005) for an explanation between the difference between power based on coercion and power based on authority. In the latter, subordinates follow commands because they are legitimate. In the former, they follow commands because they fear retribution.

sphere, Lake argues that plenty of authority emerges *contractually* across states. This produces a new image of the international system that displays some relationships as anarchical (without an authority relation) as well as others that are authoritative, and therefore hierarchical.

Anarchical relations exist among states that are of relatively equal power and that demonstrate a significant degree of independence from one another.¹¹ Hierarchical relationships are those in which one state is able to exercise a degree of political control over the internal and/or external decisions of another state. Instead of characterizing all relationships in the international system as anarchical, Lake's view suggests that each relationship is unique, by virtue of the degree of anarchy or hierarchy extant. As such, the new image of the international system is one of various dyadic relationships that are measurable in terms of degree of control by one state over another. He says,

I conceive of hierarchy as a dyadic relationship between two polities that varies across pairs within any system from complete anarchy to full dominance. *A single state may possess varying degrees of hierarchy across many dyads, as does the United States today*, but this is not a necessary condition for hierarchy to exist. A single state could exercise authority over only one other state and that relationship would still constitute a hierarchy (2009, p. 124).¹²

Therefore, when states enter into a hierarchical relationship, the subordinate is effectively leaving the realm of anarchy for hierarchy. More precisely, subordinate states agree to give up a certain amount of sovereign control to another state in exchange for some semblance of social order that removes them from the state of nature. Instead of having to

¹¹ For example, the relations among the U.S., China and Russia.

¹² Emphasis added.

tough it out in the anarchic international system, some states exchange their full sovereignty for the security and assurances promised by a dominant state.

The logic of Lake's argument captures the operationalization of U.S. hegemony over the trade regime from the late 1940s until the 1990s. Based on his understanding of how hierarchy operates, we can conceptualize the U.S. advancing its policies in the regime through exchanges with non-hegemonic GATT members. These exchanges entailed subordinates submitting to U.S. policies in exchange for a range of security and economic goods brokered by the U.S. This process of exchange for compliance represents the mechanism by which the U.S. obtained the consensus necessary to conclude the series of multiyear negotiating rounds that advanced trade liberalization for nearly forty years. In fact, it is the U.S.'s inability to continue furnishing these exchanges that signaled the erosion of its hegemony over the regime in the late 1990s. A detailed treatment of U.S. hierarchical exchanges in the trade regime is given in chapter three.

Unipolarity & Hegemonic Decline

The decline of American hegemony by the late 1990s raises a peculiar observation for students of IR. How did the end of the Cold War, a demonstrable victory for the U.S., both elevate its position to unipolar; yet also accompany hegemonic decline?¹³ This section looks to the unipolarity literature to help make sense of this

¹³ On unipolarity see, Ikenberry, Mastanduno & Wohlforth (2009); Finnemore (2009); Jervis (2009); Mastanduno (2009); Walt (2009); Wohlforth (1999); Ikenberry (2002); Kapstein & Mastanduno (1999); Malone & Khong (2003); Paul, Wirtz & Fortmann (2004).

puzzle. Unipolarity describes an international system featuring one extremely capable state. To qualify as unipolar, a dominant state must possess an overwhelming share of material capabilities. These include population, geographic territory, natural and human resources, economic capacity, military dominance, and institutional aptitude (Ikenberry, Mastunduno & Wohlforth, 2009). Scholars use polarity to gauge ranges of state behavior, as choices and probable actions are thought to be influenced by the distribution of material power (Waltz, 1979).

Most agree that at least four post-Westphalian states qualified as poles prior to 1945 (Ikenberry, Mastunduno & Wohlforth, 2009). Only two were present after 1950, and by 1990 only one remained. The U.S. emerged unipolar as a consequence of the collapse of the Soviet Union and its informal empire. Its material position was further bolstered by slow economic growth in Japan and Western Europe during the 1990s. By the middle of the decade, U.S. superiority in the areas of military force, economics, and technology became completely unrivaled. Reinforcing its dominance, the U.S.'s geographic position places its nearest competitors, literally, oceans away.

Unipolarity implies unrivaled U.S. dominance in all the requisite areas mentioned above (Wohlforth, 1999; Brooks & Wohlforth, 2008). Indeed, few would disagree that the U.S. is in a category all by itself, and by a large margin.¹⁴ Unipolarity is typically

¹⁴ See Kapstein (1999); Hansen (2000); Wohlforth (1999, 2002); Brooks & Wohlforth (2008); Odem & Dujarric (2004); Virmani (2005). The most prominent view arguing against U.S. unrivaled dominance is Michael Mann (2003). Mann claims the U.S. economy is much weaker than it seems and that the U.S. fails to achieve its goals militarily.

measured by overwhelming superiority in GDP and military expenditure (Ikenberry, Mastunduno & Wohlforth, 2009). As of 2006, the U.S. accounted for roughly one quarter of global GDP, generating nearly half the output among the current great powers (China, Japan, Russia, Germany, France and Britain).¹⁵ Due to the enormity of its economy and the extent of its wealth, the U.S.'s massive military spending only reflects about four percent of its GDP. Though representing a small portion, the U.S. spends more on its military than all other countries in the world combined.¹⁶ This preeminence in military capabilities is unique in the experience of the modern states system. While states can contest U.S. military operations in and around their territories, no other is capable of projecting force on such a global scale. As Barry Posen (2003) characterizes, the U.S. possesses, "command of the commons," meaning it has no challengers to its military supremacy in the air, space, or on the seas. The result entails an international system where only the U.S. is able to deploy military operations anywhere in the world.¹⁷ No other state, or group of states, is capable of organizing force outside their own region (unless assisted by the U.S.) (Ikenberry, Mastunduno & Wohlforth, 2009).

¹⁵ Ikenberry, Mastunduno & Wohlforth (2009) derive these figures from the *International Monetary Fund, World Economic Outlook Database, April 2007*; *World Bank, 2005 International Comparison Program, Preliminary Results*; the *CIA World Fact Book, 2007*.

¹⁶ These figures are derived from the Stockholm International Peace Research Initiative, "The 15 Major Spending Countries in 2006," November 2007.

¹⁷ See Wilkinson (1999); Hansen (2000); Kaufman, Little & Wohlforth, Eds. (2007); Posen (2003).

However, even scholars that see utility in analyzing polarity contend that it does not reveal the full picture.¹⁸ This is because polarity refers only to the distribution of material capabilities. As an analytical construct, it reveals little about the nature of political relationships between materially strong and weak states. Therefore, unipolarity does not automatically entail the dominant state will be hegemonic or imperial. Further, a unipolar distribution is an aberration to the Westphalian states system (Walt, 2009). Therefore, scholarship is relatively new and largely focused on assessing the current experience. The result is few theoretical propositions on the relationship between system structure and state behavior under unipolarity. This raises interesting questions for IR theory. For instance, Ikenberry, Mastanduno and Wohlforth (2009) ask: What does domination entail in a unipolar distribution? Does unipolarity erode consent in favor of unchecked force? What role do rules and institutions play in a unipolar world? Do they constrain the power of the unipole, or does the system operate instead on the commands of the dominant state? How do unipoles transform their positions into political outcomes?

What about balancing responses to unipolarity? According to neorealist theory, the ascendancy of the U.S. after the Soviet Union's demise should have triggered other states to balance America's unrivaled dominance (Waltz, 1993; Layne, 1993). Yet, no direct balancing coalitions have formed to overtly check U.S. power. Some suggest that states engage in subtle, peripheral forms of soft balancing.¹⁹ Others claim states are

¹⁸ A comprehensive critical review of polarity is offered in Buzan (2004).

¹⁹ See Ikenberry, 2002; Paul, Wirtz and Fortmann, 2004; Waltz, 2000; Layne, 1993; Pape, 2005; Lieber and Alexander, 2005.

seeking to bandwagon instead, suggesting balancing is futile.²⁰ In addition to questions about balancing, how does regime type influence unipolar orders? For instance, a unipolar Nazi Germany, U.S.S.R., or other autocratic regime would look much different (Jervis, 2009; Finnemore, 2009). Indeed, U.S. unipolarity would operate differently if achieved at other historical periods than after the Cold War (Jervis, 2009).

Unipolarity as a Cause of Hegemonic Decline

Most important for this project, how has unipolarity affected America's hegemonic position as leader of the postwar liberal order? Given its unrivaled material superiority, it seems intuitive that unipolarity would consolidate America's hegemony over subordinate states, particularly in the arena of multilateral trade. The end of the Cold War augmented the U.S.'s security and economic dominance, while eradicating its nearest peer competitor. Yet, as stated earlier, polarity alone cannot account for the nature of political relationships operating in international systems. Hegemonic Stability Theory (HST) does not weight the effect of polarity on hegemony, as it assumes hegemons are satisfied actors interested in maintaining the status quo. However, Jervis (2009) questions this assumption, and asks instead whether unipolarity encourages the dominant state to become revisionist.

The U.S. exercised its enormous relative power after World War II to institute a liberal hegemony. This mode of global governance operated according to institutional decision making rules and multilateralism, constraining even American power

²⁰ See Krauthammer, 2002-2003; Walt, 2005; Wohlforth, 1999.

(Ikenberry, 2001; 2011). The rationale for constructing a rules-based postwar order included legitimizing itself as leader of the Western security alliance against the Soviet Union, which required compliance by subordinate states. As Lake (2009) suggests, U.S. hegemony operated according to a bargain with subordinates. In exchange for serving as security guarantor and financial stabilizer, subordinates supported U.S. foreign and economic policy initiatives executed through postwar international regimes. The U.S. further legitimated its hegemonic position by adhering to the rules-based nature of these institutions; demonstrating respect for sovereign equality and the supremacy of international laws, and assuring its non-imperial aspirations.

Jervis (2009) suggests unipolarity offers incentives for the U.S. to revise its postwar hegemonic bargain, as the absence of a countervailing power relaxes its need for legitimation. The end of the Cold War diminished the U.S.'s dependence on subordinate allies to maintain its global security agenda. In particular, European support became significantly less compelling. As Timothy Garton Ash (2005) says,

Europe was simply less important to them [the Clinton and Bush administrations] than it had been to Americans for at least sixty years, since the United States entered the Second World War in 1941. From the lofty vantage point of Washington's new global preeminence, politicians who had no special ties to Europe could view the old continent as just one among many (p. 102).

Thus, unipolarity allowed the U.S. to seek a more unilateral and autonomous arrangement in global affairs. Ikenberry (2011) argues this explains the Bush administration's shift towards an "imperial" foreign policy after 9/11.²¹ It also reflects the Clinton

²¹ Ikenberry (2011) characterizes the Bush administration's post 9/11 foreign policy as seeking imperialism. Many post Cold War analyses of American foreign policy argue the

administration's domination over European allies during the Bosnian campaign, and the overall rise in American unilateralism across issue areas since the Cold War's end.

Yet, by the end of the 1990s, America's allies began questioning the manner in which it exercised its unique position. The French Foreign Minister, Hubert Verdrine, famously warned that the U.S. was becoming a "hyperpower" ("To Paris," 1999).²² His remark aimed to highlight that the U.S. had grown from sharing a superiority in military capabilities, along with the Soviet Union, to a much wider and encompassing breadth. Not only was U.S. power unmatched in military, economic, and technological capabilities; but it extended to the, "domination of attitudes, concepts, language and modes of life" ("To Paris," 1999). Verdrine warned that in previous periods great powers were counterbalanced by other great powers. He laments that by the late 1990s this was not possible. To Verdrine and other world leaders, this imbalance facilitated the growth of U.S. unilateralism. France's Verdrine, President Chirac, and Prime Minister Jospin proclaimed that counteracting this shift (by attracting states to French led multilateral efforts) was the most important challenge facing international relations (Ash, 2005).

The world became even more alarmed with the "assertive" unilateralism of George W. Bush's administration (Ash, 2005, p. 105). Demonstrating its unease with any multilateral cooperation considered at odds with American interests, the administration withheld support from an array of global environmental, humanitarian, and legal

U.S. is an empire, see Maier (2006); Ferguson (2002 & 2004); Johnson (2004), Motyl (2001); Robinson (1996); Mann (2003); Colas (2007); Lefever (1999); Petras & Veltmeyer (2005); Doyle (1986).

²² On European perceptions of U.S. hyperpower in the lead up to the Iraq war, see Gordon (2003) and Farley & McManus (2002); Herring (2008) also labels the U.S. a hyperpower.

agreements. For instance, the administration withdrew from the Kyoto Protocol, sought to terminate the Anti-Ballistic Missile treaty with Russia, and denied support for the creation of the International Criminal Court (ICC). The administration also refused to sign worldwide treaties controlling small arms, eliminating landmines, and the Biological and Toxic Weapons Convention. The administration also declined the assistance of NATO in responding to the September 11th attacks, citing the U.S. had no need for European military aid (Woodward, 2002). As the U.S. led War on Terror progressed, Europeans became especially critical of the denial of civil rights and the practices of torture against prisoners held at Guantanamo Bay. Bush's labeling of Iran, Iraq, and North Korea as an Axis of Evil in his 2002 State of the Union address also raised significant alarms, as Europeans were uncomfortable with the religious tone of the word "evil," and the misuse of the "axis" label – the German, Italian, and Japanese axis of fascist states were aligned; whereas no such alliance existed among Iran, Iraq, and North Korea (Ash, 2005; "State of the Union," 2002). Europeans were further alarmed by Bush's aspiration to ensure American military power was "beyond challenge," and the endorsement for "preemptive" action, both articulated in the 2002 National Security Strategy of the United States ("National Security Strategy," 2002). In 2002, Bush also affirmed America's turn to unilateralism by slapping tariffs on European steel imports, violating the Most Favored Nation (MFN) principle central to the postwar trade regime.

For Jervis (2009), the unintended consequence of rising unilateralism was the erosion of America's legitimacy as leader of the postwar order.²³ The loss of legitimacy undermined America's postwar hegemonic position, as subordinates refused to accord with U.S. policies not reached through established rules-based procedures. In effect, subordinates rejected American efforts to renegotiate the terms of its hegemonic bargain. Alas, instead of augmenting its hegemony, it has eroded under unipolarity.

Evolving sovereignty norms during the 1990s also fuelled apprehension surrounding U.S. hyperpower, further challenging its legitimacy and diminishing American hegemony (Ikenberry, 2011). The human rights revolution normalized humanitarian intervention, and licensed capable states to suspend the sovereignty of others in its pursuit.²⁴ This magnified the U.S.'s unipolar status, as it represented the only state capable of independently wielding military intervention (Ash, 2005). Secretary of State Madeleine Albright crystallized why the administration believed it was authorized to use its asymmetry of power to intervene (and why others did not enjoy such a right), by famously saying: "if we have to use force, it is because we are America, we are the indispensable nation. We stand tall and we see further than other countries into the future" (1998). The subsequent years saw the world largely reject (and resent) this posturing,

²³ On legitimacy see, Franck (1990); Hurd (1999, 2007); Reuss-Smit (1999). On how leaders use shared values and interests to gain legitimacy for their foreign policies see, Hurd (2005); Jentleson & Whytock (2005); Voeten (2005); & Finnemore (2005).

²⁴ Walker (2008) discusses the differences within liberal theory on the question of humanitarian intervention. The Kantian position favors intervention, while the liberalism of Thomas Paine does not.

heightening anti-Americanism and raising significant questions regarding American legitimacy.²⁵

Constructivists have said little on the reorientation of the international system to unipolarity, leaving these questions to materially oriented realists and liberals. However, Martha Finnemore (2009) concurs that U.S. hegemonic decline largely results from diminished legitimacy. She notes that the U.S.'s frustration to realize its policies, despite unipolarity, demands scholars take seriously the social nature of power.²⁶ The structure of world politics, as constructivists argue, is as much social as it is material.²⁷ Power, Finnemore (2009) reminds us, is only a means to other social ends - including deterring attacks, amassing wealth, imposing preferred political arrangements and, generally, influencing the behavior of others. Unipoles are therefore faced with having to determine how best to exercise their power to achieve outcomes. She says, "Creating desired social outcomes, even with great material power, is not simple, as the U.S. is discovering" (pp. 59-60). Understanding how unipolarity led to hegemonic decline requires an appreciation of the social nature of power, and the social structures through which it operates.

Looking at the social mechanisms undergirding U.S. hegemony, Finnemore (2009) also focuses on America's legitimacy problem. However, she pushes the

²⁵ The liberal historian Timothy Garton Ash (2005) argues a distinct European identity coalesced on the eve of the Iraq invasion. This identity solidified a distinction between Europeans, who believed in the sanctity of a multilateral, rules based approach to security issues and global governance, and an American identity that believed the U.S. was exempt from these. See chapter 2, *Europe as Not America*.

²⁶ For an in depth treatment on the nature of power, see Barnett & Duvall (2005).

²⁷ Constructivist arguments on the social nature of international politics includes Checkel (2004); Finnemore (1996); Hopf (2002) & Wendt (1992 & 1999).

importance of legitimacy further than Ikenberry (2011). Her analysis articulates that the effective exercise of hegemony demands legitimating power by diffusing it to others. If unipoles only sought to exercise destruction and violence, than legitimacy would matter little. But, since leaders pursue an array of outcomes derived from their material position, the legitimation of power is crucial, making unipoles dependent on others to recognize them as such. She suggests America's drift towards unilateralism curtailed the power of traditional allies to shape outcomes in international politics, generating resentment and fear.

In addition to legitimacy, Walt (2009) offers another reason for why unipolarity undermined U.S. hegemony in the years after the Cold War's end. Looking to balance of power theory, he claims the end of the Cold War removed a major motivation for countries to accept U.S. hegemony. Mastunduno (2009) agrees, arguing the U.S. can no longer leverage security dependency over the middle ranked powers to achieve outcomes with traditional economic partners. Increasing globalization since the early 1990s has made this problem more acute. Economic liberalization generated more relevant players in the world economy, offering alternatives for developing countries to U.S. economic reliance. Ikenberry (2011) also argues that unipolarity undermined the U.S.'s traditional security bargain with its allies. Alliance partners and weak states alike no longer face the threat of a rival global power. Subordinates are less inclined to submit to the U.S.'s geopolitical agenda, as its security guarantee lacks the currency it held during the Cold War.

Therefore, the decline of American hegemony was not spurred by a dramatic loss of military or economic resources. Rather, it occurred due to questions regarding American legitimacy in an era of unipolarity,²⁸ and the elimination of the Soviet Union as a threat upon which the U.S. could leverage security bargains with subordinates. The deterioration of the multilateral trade regime reflects this structural shift. By the launch of the WTO's first ministerial round in the late 1990s, the U.S. could no longer achieve consensus from traditionally subordinate regime members. The bargains the U.S. struck while hegemonic are less compelling to subordinates than during Cold War bipolarity.

Now that we have a foundation for U.S. hegemonic decline after the Cold War, we can ask the more substantive question – Which IR theory best explains the consequences of hegemonic decline and the behavior of the declining hegemon? As discussed next, liberalism offers a reasonable explanation of the character of the U.S.'s liberal hegemony from the end of World War II through the end of the Cold War. However, its predictions for a post hegemonic world order fails to align with the experience of the multilateral trade regime since the late 1990s. To borrow from Grieco (1990), the image liberal IR scholars portray for the post-hegemonic order is “roseate” (p. 2). Hegemonic Stability Theory (HST), examined last, suggests regimes collapse when the hegemon is no longer capable (or willing) to support them. While liberal institutionalism correctly argues that this is not always the case, the recent experience of the multilateral trade supports HST's assertion. More importantly, Gilpin's (1981)

²⁸ For more on the U.S.'s recent legitimacy problems, see Rapkin & Braanten (2009).

suggestion that declining hegemons reorient their strategies to cope with the loss of power offers a more powerful explanation of recent U.S. trade behavior than liberalism.

Liberalism and the Consequences of Hegemonic Decline

The erosion of U.S. hegemony raises questions about the vitality of the postwar liberal order.²⁹ Yet, despite these challenges, liberal internationalists contend the postwar system of loosely rules-based institutions remains strong and will continue to flourish (Doyle, 1983; Fukuyama, 1992; Deudney & Ikenberry, 1993/1994; Ikenberry, 2011).³⁰ Ikenberry (2011) claims the crisis spurred by U.S. hegemonic decline is not one of existence for the postwar system; but rather of its governance. International liberalism, he argues, is firmly entrenched as the logic that will continue ordering the international system into the foreseeable future. The real crisis concerns the slippage of U.S. authority as leader of the system. Accordingly, we are in the midst of a governance realignment, as U.S. leadership becomes less tenable. However, the postwar liberal order will remain intact, despite this crisis.

The literature on liberal internationalism is nestled within a two hundred plus year narrative of the rise of liberal states to the zenith of global power.^{31 32} This narrative

²⁹ Gat (2007) argues the liberal order is also challenged by the ascent of nondemocratic Great Powers, namely Russia and China.

³⁰ Gardner (2008) argues international standards of democratic governance have evolved to apply to sub-states actors as well as states. Her evidence suggests groups' self determination claims receive greater support from states after demonstrating human rights and democratic norms.

traces the ascendancy of liberalism from its inception in small, insecure city-state republics to continent wide expansion throughout the nineteenth century, and eventually global dominance at the Cold War's end (Deudney, 2007). While British hegemony represented a mix of both liberal and illiberal rule, the U.S. created the most ambitious liberal order ever seen (Russett & Oneal, 2001). The system the U.S. imposed after World War II was a *liberal hegemony*, as it was both hierarchical; yet founded upon rules-based principles (Deudney & Ikenberry, 1991; Deudney & Ikenberry, 1992; Ikenberry, 2011). U.S. hegemony entailed a certain milieu of agreed upon decision making procedures and institutions that states were expected to operate within. The U.S.'s legitimacy rested in part by including itself within these constraints. As the liberal international narrative contends, the U.S. emerged the leader of a global system devoid of ideological contenders by the 1990s (Russett & Oneal, 2001). Remarking on liberalism's victory, the journalist Thomas Friedman (2000) said, "ideologically speaking, there is no more mint chocolate chip, there is no more strawberry swirl and there is no more lemon-

³¹ The literature on liberal internationalism is vast. As drawn from Ikenberry (2009), liberal international theories address *democratic peace* (Doyle, 1983); *security communities* (Adler and Barnett, 1998; Deutsch, Burrell, and Kann, 1957); *the interrelationship of domestic and international politics* (Rosenau 1969); *functional integration theory* (Haas 1964); *international institutionalism* (Axelrod, 1984; Axelrod & Keohane, 1985; Keohane 1984; Krasner 1981; Lipson, 1984); *the fragmented and complex nature of power and interdependence* (Keohane and Nye 1977); *domestic preferences and foreign policy* (Moravcsik 1997); *transgovernmentalism and networks* (Slaughter 2004); *the modernization theory underpinnings of the liberal tradition* (Morse 1976 and Rosenau 1991).

³² On liberal ascendancy see, Bass (2008); Brawley (1993); Deudney (2007); Ekbladh (2010); Herring (2008); Ikenberry (2009, 2011); Mandelbaum (2002); Mead (2007); McNeil (1967); and Smith (1994).

lime. Today there is only free-market vanilla and North Korea” (p. 104). Fukuyama’s (1992) *End of History* thesis shares the conclusion that free market capitalism and political liberalism exist without legitimate ideological competitors.³³

While there is no legitimate alternative to free market liberalism, declining American hegemony will certainly impact the nature of the order. Ikenberry (2011) offers three possibilities for how the international system may respond. The first portends that the U.S. will voluntarily yield significant amounts of its authority over the system to universal institutions, namely Intergovernmental Organizations (IGOs) with wide memberships. This may entail a reorientation of the Security Council to include non-Western rising powers, such as Brazil, India, Japan, and South Africa. U.S. and EU voting proportions may also contract in the International Monetary Fund (IMF), as voting power is reallocated to the same cadre of states. This outcome suggests a non-hegemonic system of liberal global governance will result from American decline. Its institutional leadership will be decentralized, reflecting the increasing power of developing countries (Ikenberry, 2011).

Ikenberry (2011) claims the second possible outcome is already occurring. He argues that hegemonic decline has compelled the U.S. to renegotiate its hegemonic bargains. Here, the U.S. aims to remain hierarchical; but the exchanges undergirding its superordinate position are becoming much more mutually driven and acceptable to subordinates. As the Obama administration has promoted, the U.S. will continue offering functional services for the international system. In return, states are expected to

³³ China’s statist capitalism offers an exception, however.

submit to agreed upon hierarchical rules. For example, the U.S. may begin yielding authority in the economic and political realms by sharing greater leadership over the Bretton Woods institutions. Yet, it will expect to remain hierarchical in security affairs. In this sense, the U.S. will become a *first among equals*. Unlike the first possible outcome, this one entails retaining American hierarchy over subordinates. However, recognizing its diminished position, its bargains will be more agreeable.

The third possibility suggests U.S. hegemonic decline will lead to a complete breakdown of the postwar liberal international order. This is the outcome liberal internationalism rejects as most unlikely. Liberals claim that while the U.S. will certainly have to reconjure its role as hegemony slips away (possibilities one and two), the liberal order itself remains firmly in place. As Ikenberry (2011) says, “American power may rise or fall, and its foreign policy ideology may wax and wane between multilateral and imperial impulses, but the wider and deeper liberal global order is now a reality to which America must itself accommodate” (p. 332). Indications that the system is under threat would include the order becoming much less open and less rules-based.

The Triumph of Liberalism?

Rejecting the third as most unlikely, Ikenberry (2011) suggests the world will begin to resemble the configurations described in the first two possibilities. However, instead of outright dismissal, scholars should pay greater attention to the third outcome. The shifts in the global trading order problematized in this dissertation raise important questions about the openness and liberal characteristics of the contemporary system.

While a breakdown of the liberal order does not appear imminent, the trajectory of the regime since the onset of American hegemonic decline is worrisome. Helpful for this debate, Ikenberry (2011) references the trade system to buttress the unlikelihood of the third outcome. If breakdown and closure were occurring, he says, “the system of open, multilateral trade could collapse, ushering in a 1930s-style world of mercantilism, regional blocs, and bilateral pacts” (p. 310). What he does not account for, however, is that while the multilateral trade system has not collapsed, the vehicle through which its rules are created (multilateral trade rounds) has been incapacitated for more than a decade (since U.S. hegemonic decline began to emerge). Further, though the world has not reverted to a 1930s style system of mercantilism, the trajectory of trade is certainly moving at increasing speed towards overlapping and conflicting regional blocs and bilateral trade arrangements. He goes on to describe the breakdown of the liberal order with these words: “The hegemonic order could simply yield to an international system where several leading states or centers of power – for example, China, the United States, and the European Union – establish their own economic and security sphere” (p. 310). While this is not occurring in the security realm, as the U.S. retains *command* of the commons (Posen, 2003), the global proliferation of Preferential Trade Agreements (PTAs) is beginning to resemble a hub-and-spoke system, as the leading states Ikenberry mentions have negotiated more than fifty PTAs with much weaker, and often subordinate, countries.³⁴

³⁴ A hub-and-spoke trade strategy is typically identified with an imperial foreign policy. The purpose is to cut off subordinates from one another by forcing their commerce to traverse the imperial *hub*. I use the concept here not to argue U.S. trade policy is imperial,

Figure 1 below captures the disparity in market power between the U.S., China, and the EU in relation to their respective PTA partners.³⁵ As shown, an enormous gulf exist between the GDP of these leading economies and partner states. The data suggests that large economies prefer a hub-and-spoke preferential trade strategy, as they overwhelmingly select to forge PTAs with much smaller economies. In fact, there are no preferential agreements among the largest economies. That is, there exists no preferential arrangements between the U.S., the EU and China (in any combination). The three case studies presented later support the argument that large economies select PTAs with significantly smaller ones because of the asymmetrical bargaining environment afforded through their disparate market power. For the same reason, it seems the absence of PTAs among the largest economies results from their comparative market power, as no one side will possess asymmetrical negotiating leverage over the other.

in that it seeks to cut off partners from one another. Rather, I use it here for its descriptive purpose, as a traditional hub-and-spoke system entails bilateral relations between an overwhelming power and an array of much weaker polities.

³⁵ The Gross Domestic Product (GDP) data in these charts derives from the IMF's World Economic Outlook Database, released April 2011, <http://www.imf.org/external/pubs/ft/weo/2011/01/weodata/index.aspx>. Data on the European Union's GDP derives from the World Fact Book compiled by the Central Intelligence Agency, <https://www.cia.gov/library/publications/the-world-factbook/geos/ee.html>. The EU's GDP data is also reflected in terms of Purchasing Power Parity, whereas the GDP data for the U.S. and China are reflected in Current Prices. Economic data was not available for Macau (China FTA partner); Andorra, San Marino, Faroe Islands, and Liechtenstein (EU FTA partners). Further, GDP data on Macedonia, Albania, Croatia, Bosnia, Serbia, Montenegro and Turkey were omitted as these countries are recognized as potential EU candidates.

Figure 1 – Great Power GDP

Country	GDP	Country	GDP	Country	GDP
United States	14,657.80	China	5,878.26	EU	14,000.82
Canada	1,574.05	Australia	1,235.54	Mexico	1,039.12
Australia	1,235.54	Indonesia	706.735	Korea	1,007.08
Mexico	1,039.12	Saudi Arabia	443.691	Switzerland	523.772
Korea	1,007.08	Thailand	318.85	Norway	414.462
Colombia	285.511	UAE	301.88	S. Africa	357.259
Singapore	222.699	Malaysia	237.959	Colombia	285.511
Israel	213.147	Hong Kong	225.003	Egypt	218.466
Chile	203.323	Singapore	222.699	Israel	213.147
Peru	152.83	Chile	203.323	Chile	203.323
Morocco	103.482	Philippines	188.719	Algeria	160.27
Oman	55.62	Pakistan	174.866	Peru	152.83
Dominican Republic	51.626	New Zealand	140.434	Morocco	103.482
Guatemala	41.471	Kuwait	131.315	Tunisia	44.29
Jordan	27.527	Qatar	129.485	Lebanon	39.248
Bahrain	22.656	Vietnam	103.574	Jordan	27.527
Honduras	15.347	Oman	55.62		
Nicaragua	6.551	Myanmar	42.953		
		Bahrain	22.656		
		Brunei	13.022		
		Cambodia	11.629		
		Laos	6.341		

GDP comparison between largest trading economies (U.S., China, & EU) and their respective preferential trading partners.

Ikenberry (2011) looks again to the trade regime to support his first possible outcome, that the U.S. will voluntarily relinquish authority as its hegemony continues to decline. He claims that the WTO is, “already a post-hegemonic type of global system of rules” (p. 305). In which,

the United States does not have special rights or privileges under international trade law. The leading trade states do exercise power in various ways. This is due to their market size and overall standing in the international order. But the norms of trade law are fundamentally based on notions of equality and reciprocity (p. 305).

The first sentence in the quote is technically true. The U.S. has *never* possessed codified legal rights or privileges in international trade law. Regardless, nearly sixty years of GATT law, along with the character of international trade, were shaped and determined

by the overwhelming influence of American power. GATT laws were molded by the U.S.'s ability to cut deals and make threats outside of the official decision making forum (Steinberg, 2002). Thus, despite notions of equality in terms of rights and privileges, the regime operated through the ability of the U.S. to influence subordinate members.

Contrary to his prediction, the decline of American hegemony after the Cold War has not spurred a divestment of authority to the wider regime membership. Instead, U.S. trade policy has shifted away from multilateralism altogether and moved to bilateral environments where its leverage remains unchallenged. As the case studies demonstrate, the U.S. continues to use the same tactics once wielded multilaterally in its smaller bilateral and regional negotiating environments. Therefore, instead of a flourishing post-hegemonic international regime (steered by cooperation among secondary states and rising developing countries), the WTO, as evidenced by Doha's standstill and the proliferation of PTAs, faces serious challenges.

Ikenberry (2011) acknowledges market size as a power resource the U.S. used to achieve its goals in the second sentence; but underplays how, and the extent to which, market size influenced outcomes. Instead, he reverts back to the veneer of legitimacy the regime exemplified by its equality and reciprocity norms. The last of which, the Most Favored Nation (MFN) principle, was the bedrock of the postwar multilateral trade order. Yet, due to their non-reciprocal nature, the surge of PTAs since the late 1990s has significantly weakened this principle.

Ikenberry (2011) fails to mention the demise of the current Doha Round altogether. This is surprising, given the focus on the health and functionality liberals

place on international institutions. Doha's perpetual negotiating freeze indicates the regime is failing to achieve one of its fundamental objectives: To conclude periodic trade agreements to further the liberalization of trade. In a sense, the post-hegemonic WTO is a global system of rules experiencing a crisis preventing it *from making more rules*. Along with Ikenberry (2011), we should laud the WTO's dispute resolution mechanism, and the extent to which members uphold established WTO commitments.

Spaghetti Bowls, not Building Blocks

As mentioned above, Ikenberry's (2011) predictions for the continuation of a rules-based, liberal post-hegemonic international system downplays the fracturing of multilateral trade and its replacement with global preferentialism. The surge of preferentialism is a significant challenge to the optimism of liberal triumphalism, as multilateralism was a fundamental tenet of the postwar liberal order.³⁶ Liberals contend, instead, that preferential trade schemes are merely alternatives to multilateralism, claiming both advance free trade rules and norms. Thus, regional, bilateral, and plurilateral agreements actually represent a deepening of the liberal order.

However, while PTAs may be based upon free trade norms, the preferential privileges they create undermine the liberal character of the order. By explicitly violating the MFN principle, preferential trade agreements are inherently discriminatory. Bhagwati (1993, 1995, 1998, 2003) points out that studies supportive of preferential agreements fail

³⁶ For an overview of the cultural and intellectual challenges to the neoliberal triumphal ideology of the 1980s and 1990s, see Helleiner (2003). For arguments challenging the eventual convergence of a truly global liberal economic order see Higgott & Phillips (2000).

to account for how these arrangements affect liberalization at the multilateral level. For instance, Levy (1997) and McLaren (2002) suggest that otherwise feasible multilateral agreements can become obstructed by preferential agreements. Krisna (1998) adds that by diverting trade from excluded countries, preferential agreements create rents for members' producers. Since global free trade would eliminate these rents, governments may decide for political reasons to withdraw from multilateral negotiations in order to preserve them. Thus, preferential agreements create incentives for members to abandon multilateral negotiations, as their trade diverting consequences can generate rents for members' producers that are politically salient to protect.

Ornelas (2005) shows that the apparent success of preferential trade agreements may actually point to their failure. When external tariffs are low enough to attract the exports of non-members, excluded countries benefit. This is because they gain increased access to a preferential market without having to lower their own trade barriers; as they would be required to do in a multilateral agreement. This poses a danger to the trade regime, as it reduces incentives for even non-aligned countries to pursue multilateral negotiations. "Hence, FTAs [Free Trade Agreements] can harm the multilateral trading system when neither trade diversion nor the undermining of free trade by FTA members is a source of concern; instead, they may incite the *non*-members to hinder multilateralism" (Ornelas, 2005, p. 1719). Lowering tariffs to excluded countries, therefore, reduces their incentive to work towards cooperation in the multilateral arena.

The proliferation of preferential agreements also hinders international trade by generating a complex web of overlapping and often contradictory legalities and rules.

Coined as the Spaghetti Bowl Effect by Bhagwati (1995), preferential agreements must contend with issues concerning rules of origin, since preferential partners levy different external tariffs. Rules of origin determine whether the exports of one partner are subject to preferential tariff levels from the other partner. The criteria of origin often depends on how much of the exported good was sourced and produced in one country. The MFN principle intrinsic to multilateralism completely eliminates rules of origin issues. However, in a world of competing preferential blocs, they significantly create complexity and, “clutter up trade with discrimination depending on the ‘nationality’ of a good” (Bhagwati, 1995, p. 5). For instance, suppose state A and state B have an agreement. State A also has a separate agreement with state C. Goods imported into state A, from non-members, that are then transformed into new products for exportation now experience differing rules of origin when exported to states B and C. In addition to complexity, this constitutes the discriminatory effect of preferential agreements, as some rules of origin may be more beneficial than others, and is a serious point of contention among trading countries. During the 1980s and 1990s, the U.S. told the Japanese that the cars produced by their firms in the U.S. do not qualify as U.S. exports. However, the European suggestion that these same autos should be a part of the U.S.’s voluntary export restraints, enraged USTR Carla Hills (Bhagwati, 1995). The complexity and discrimination intrinsic to conflicting rules of origin requirements become amplified each time states forge new preferential agreements.

Neoliberal Institutionalism

Doha's decade long impasse also offers a recent challenge to the assumptions of neoliberal institutionalism.³⁷ This strain of liberal theory has a long pedigree, beginning with functionalist integration theory in the 1940s and 1950s (Haas, 1964; Mitrany, 1966), neo-functionalist regional integration theory in the 1960s,³⁸ the interdependence literature of the 1970s³⁹ and, last, neoliberal institutionalism (also known as regime theory) in the 1980s.⁴⁰ Liberal institutionalism aimed to account for the perpetuation of postwar regimes, despite the slippage of American economic hegemony in the 1970s. Indeed, Ikenberry's (2011) conclusion, that the system of embedded liberal rules and institutions will survive in a post-hegemonic world, is a restatement of the regime theory thesis – that liberal institutions can flourish without the coordination of a hegemon. Articulated frequently in the literature, regimes are, “sets of implicit or explicit principles, norms, rules, and decision-making procedures around which actors' expectations converge in a given area of international relations” (Krasner, 1982). Neoliberal institutionalists argued regimes mitigate the Hobbesian character of international anarchy, as the iterated

³⁷ Much of the intellectual roots of my critique of liberal institutionalism derives from Joseph Grieco's (1990) earlier analysis of cooperation over Non-Tariff Barrier rules codified during the Tokyo Round of GATT negotiations.

³⁸ See Haas, 1958; Haas, 1968; Nye, 1971.

³⁹ See Cooper, 1972; Morse, 1970; Keohane & Nye, 1977.

⁴⁰ See the special issue on regimes in *International Organization*, Krasner (1983); Axelrod, (1984); Axelrod & Keohane, (1985); Keohane (1984); Krasner (1981); Lipson, (1984); Snidal (1985).

interactions among states diminishes incentives to cheat. Theorists developed game theoretic models to demonstrate the rationality of cooperation regimes engender, offering a normative element to their analysis.⁴¹

Regime theory is most developed in Robert Keohane's (1984) important book, *After Hegemony*. Keohane argues that cooperation among regime members sustains the benefits previously afforded by a hegemon. The incentives regimes offer in areas of public goods socializes states to understand their interests depend on compromise, not unilateral calculation. Keohane sees his argument as amending a fundamental error of Hegemonic Stability Theory (HST) – that regimes face collapse as hegemony wanes. The theory of hegemonic stability, he argues, accounts for the rise of international regimes, as dominant states seek to advance their interests. It fails, however, to explain their continued existence after the decline of hegemony. In his analysis, the theory of hegemonic stability is treated in “crude” (p. 31) form as a simplistic power theory, based on structural realist assumptions. In this less complicated account, the distribution of material power explains the capability of strong states to generate regimes and exercise hegemonic leadership. The theory also predicts the disintegration of regimes when the dominant state is no longer hegemonic. Keohane (1984) argues that instead of dissolving after hegemonic decline, many regimes survive. This is because the demand for them persists, as regimes facilitate mutually beneficial arrangements among states.

⁴¹ For instance, the Prisoners' Dilemma and the game of chicken are classic game theoretic examples.

To explain why regimes do not disintegrate after decline, Keohane (1984) synthesizes the theoretical assumptions of institutionalism and realism. From the former, Keohane (1984) argues the interests of states create an environment of interdependence. Realism stresses the importance of power to coordinate interdependence among self-interested actors. Using rational choice theory, Keohane (1984) constructs a *functionalist theory of international regimes* that arrives at the same conclusions as institutionalism; yet operates on realist premises. His functionalist theory argues that, “international institutions change rational calculations of interest and facilitate mutually advantageous bargains among independent states; it also emphasizes the greater ease of maintaining existing regimes than of creating new ones” (p. 184). Thus, rational self-interest drives states in regimes to continue cooperating in the absence of hegemony. Keohane (1984) stresses the cooperation required for regimes to function is an arduous process by which, “actors adjust their behavior to the actual or anticipated preferences of others, through a process of policy coordination” (p. 51). As such, international regimes decrease instances of “discord” (p. 15) in the international system. Discord occurs when states, pursuing their interests, regard the policy pursuits of others as hindering their goals. Instead, regimes have the capability to transform discord into cooperation.

Therefore, we should expect cooperation among members of the trade regime to persist, despite U.S. hegemonic decline after the Cold War. As neoliberal institutionalism suggests, the decline of American hegemony should not entail the collapse of multilateral trade. Instead, the WTO should continue as the locus of coordination for member states. The benefits accrued through the deepening of trade liberalization should alter the

egoistic calculations of member states, generating the levels of compromise necessary to sustain robust trade interdependence, facilitating the conclusion of the current Doha round. If this accurate, then states should be exhibiting a will to compromise and cooperate with one another to ensure survival and supremacy of the multilateral structure. As neoliberal institutionalism suggests, we should be observing the WTO evolve into a functional, non-hegemonic regime (coinciding with American hegemonic decline since the 1990s).

Instead, the regime is discordant – evidenced by a decade of failed negotiations over the Doha agenda. Unlike the predictions of neoliberal institutionalism, the regime has not altered the egoistic calculations of member states towards compromise and cooperation. As a U.S. State Department trade negotiator, interviewed for this project, remarked on Doha’s failure: “No one is willing to sacrifice their golden cow” (State Dept. Interview, 2009). While multilateral trade continues to function among regime members, multilateralism has experienced growing competition by the surge of preferential trade catalyzed by Doha’s discord. Alas, despite the Pareto superiority of multilateral trade, U.S. hegemonic decline has accompanied a universal relinquishing of multilateralism as the primary vehicle of international trade. In its place, members have actively pursued unilateral and autonomous trade arrangements that, as Bhagwati (1993, 1995) and others claim, harms the postwar liberal trading order. Therefore, the decline of U.S. hegemony has not led to an environment of cooperation among non-hegemonic regime members. Contrary to Keohane’s (1984) analysis, Doha reveals states are unwilling to adjust their behavior to the preferences of others in order to forge policy

coordination around issues on the round's agenda. As he defines it, discord has characterized the behavior of WTO members throughout Doha negotiations, as states regard the policy pursuits of others as hindering their own goals. Chapter 3 provides greater empirical evidence of the discord undermining the Doha round.

Summarizing the Critique of Liberalism

This lengthy discussion of liberalism seeks to make the following arguments. Despite the optimism offered by liberal internationalism's predictions for a post-hegemonic world, the postwar multilateral trade regime is in crisis. Ikenberry (2011) offers two predictions for how the U.S. will reorient itself in response to declining hegemony. The first suggests the U.S. will voluntarily relinquish its hierarchical position and assume less responsibilities in international institutions. Instead, it will recognize shifts in the distribution of power towards developing countries and encourage such states to assume greater leadership in IGOs. The second prediction suggests the U.S. will attempt to retain its hierarchy over allies by renegotiating its hegemonic bargains. Understanding its hegemony is waning, the U.S. will pursue bargains with allies that retain its dominance; yet are more palatable to subordinates.

However, the evidence from the postwar multilateral trade regime since the descent of American hegemony in the 1990s challenges both of these claims. In response to Ikenberry's (2011) first prediction, if the U.S. was relinquishing control to ascending developing countries in the trade regime, the Doha round may already have concluded. However, the agenda would include the liberalization of agriculture in industrialized

countries, particularly the EU and the U.S. This outcome has been staunchly blocked by both U.S. and European trade negotiators. Thus, there is little support to suggest the U.S. is willing to relinquish control over the trajectory of global multilateral trade. His second prediction enjoys more empirical support, however. During the lead up to Doha negotiations in the late 1990s, the U.S. exhibited a willingness to renegotiate its traditional hegemonic bargains with subordinates in the regime. It did this by signaling its intention to seriously address what developing countries considered unfair trade practices. However, the early years of the Doha round revealed that developing countries were not interested in compromise, or only securing partial gains. As such, traditional subordinates rejected U.S. overtures to renegotiate the U.S.'s hegemonic bargain. Ikenberry (2011) does not account for the prospect that subordinates may actually refuse to accept a new hegemonic bargain, even if they make some gains.

His third prediction asserts that despite declining American hegemony, the postwar liberal international order will remain firmly entrenched. While I do not suggest the liberal character of global governance is under significant threat, the recent experience of the trade regime suggests the strengths of that order may be weaker than Ikenberry and others allow. The foundation of the postwar multilateral trade regime is the Most Favored Nation principle. Since the late 1990s, states have abandoned their commitment to this fundamental tenet of the postwar order through the proliferation of unilateral trade strategies by forging PTAs. While the flow of global trade orchestrated through multilateralism is still abundant, preferential trade has emerged as a significant competitor. As advocated by trade economists, the shift away from multilateralism and

towards preferentialism is Pareto inferior, and damaging to the postwar trade order.

Therefore, while U.S. decline may not translate into the collapse of the postwar liberal order, the experience of the trade regime in the wake of hegemonic decline suggests the order may not be as robust as Ikenberry (2011) asserts.

Last, neoliberal institutionalism predicts that declining American hegemony will steer member states towards ensuring the regime survives. The theory suggests that the loss of a hegemon, capable of furthering trade liberalization by concluding subsequent negotiating rounds, should alter the egoistic calculations of WTO members. Instead of narrow calculations of self interest, non-hegemonic states should be exhibiting a willingness to compromise in order to bring Doha to a close. However, as the decade long standstill has shown, there is little cooperation, or even coherence, among developing or developed states.

Hegemonic Stability Theory and U.S. Decline

Unlike the theoretical predictions offered by liberalism, the evidence from the history of the trade regime supports the theories of hegemony offered by Krasner (1976) and Gilpin (1981), both of whom contributed to the literature comprising Hegemonic Stability Theory (HST). While both liberalism and HST agree that hegemons establish international orders to further their interests, liberalism's conception of hegemony is hindered by its "roseate" (Grieco, 1990) outlook. In contrast, Gilpin (1975, 1981) and Krasner (1976) offer an explanation of hegemony that more accurately resembles the experience of U.S. dominance over the multilateral trade regime. As discussed below,

their assessment suggests hegemony is coercive, diverging from not only the image portrayed by liberal internationalism; but also Charles Kindleberger (1973, 1981, 1986a, 1986b) – considered the intellectual forbearer of the HST tradition.

Benevolent Hegemony

Reflecting on the stock market crash and subsequent global depression of the 1930s, Kindleberger (1973) wrote that the cause of those tumultuous years centered on the inability of the British Empire to stabilize the international economic system and the unwillingness of the U.S. to take the rein. Kindleberger argued that international economic stability is a public good that cannot exist in the absence of a single, dominant state who is willing and capable to sustain such a system. This outcome will likely manifest when one state is comparatively large enough to capture a share of the benefit greater than the entire cost of providing for the order (Snidal, 1985). Collective attempts to provide for such systems fail, as no single state is ultimately responsible for its maintenance in times of crisis. Kindleberger says, “economists and political scientists usually agree that such arrangements, whether duopoly or bilateral monopoly, are unstable...With a duumvirate, a troika, or slightly wider forms of collective responsibility such as the Summit of Seven or the Group of Ten, *the buck has no place to stop*” (1973, p. 298).⁴² According to Snidal (1985), Kindleberger’s (1973) approach entails two general conclusions. The first is that a dominant state will seek to establish stable international regimes. Second, though the dominant states turns a profit from providing

⁴² Emphasis added.

the international economic structure, smaller states gain even more. Small states effectively free ride, as they bear none of the costs of providing regimes; yet share fully in the benefits. The novelty of Kindleberger's approach, according to Snidal (1985), is not that powerful states create international regimes. As he says, that understanding goes back at least to Thucydides. Rather, the novelty is the use of a collective action formula, and the implication that hegemony is beneficial for all actors, particularly the weakest ones.

The logic of Kindleberger's argument rests, in part, upon Mancur Olson's (1971) notion of the collective action problem. Olson suggests that without a dominant state to pay the costs of maintaining an international economic infrastructure, individual states will pursue economic strategies maximizing their self-interest, irrespective of the effects their behavior has for the system. This includes pursuing mercantilist foreign trade policies, such as creating exclusive zones of trade aimed to discriminate against competitor states.⁴³

According to Kindleberger, a hegemon successfully bears the cost of maintaining the global economic and financial system if it performs the following five functions (1973, p. 289). First, despite domestic pressure to do otherwise, it must hold fast to free trade principles and maintain an open import market during times of economic crisis.⁴⁴ This allows non-hegemonic states to liquidate their surpluses and maintain a healthy trade

⁴³ Such as the imperial preference systems exercised by the British and French during the interwar years.

⁴⁴ Typically, domestic producers lobby for higher tariffs on imports to protect themselves from international competition.

balance, even though it may generate losses to the hegemon's domestic producers. With the exception of agriculture, the U.S. has offered this benefit to subordinates through the multilateral trade regime. Second, the hegemon must engage in countercyclical lending to keep the financial system stable. This means that during times of domestic recession, the hegemon increases foreign lending and in times of growth it cuts back lending and increases imports. Third, the hegemon must provide for a relatively stable system of exchange rates. It must also, fourth, coordinate the macroeconomic policies among the states in the system. Last, the hegemon must serve as the international lender of last resort to states in financial crisis. As hegemon, the U.S. provided these functions for the international order through its leadership of the postwar Bretton-Woods institutions.

Lake (1993) reformulates Kindleberger's five stabilizing functions into two simpler criteria. The first claims a stable international economy requires a medium of exchange. The second focuses on the hegemon's ability to provide liquidity. This also subsumes Kindleberger's first criterion, as maintaining a market for distress goods is another form of financing. Lake (1993) adds protection of private property to this list of requirements. He says, "The more fully specified and secure property rights are, the more easily the wheels of commerce and finance can turn" (Lake, 1993, p. 463). Thus, a stable international economy also demands clear definitions and protection of private property rights.

As Lake (1993) notes, one of Kindleberger's innovations is to suggest that international stability does not occur naturally. Rather, it must be created and maintained, thus constituting it as a public good. Not all scholars agree with the notion that free trade

is a public good, however (see Conybeare, 1984; Snidal, 1985). Lake generally concurs with this criticism; but claims it is misdirected. For Lake, free trade is, “rival and excludable and therefore not public, although the enforcement of trade rules – such as the unconditional most-favored nation principle is a public good prone to collective action problems” (1993, p. 463).

Kindleberger’s (1973) theory of hegemonic stability assumes a single, dominant state is necessary for the provision of international regimes. While Keohane (1984) disagrees, arguing regimes can survive after hegemony, both neoliberal institutionalism and Kindleberger’s theory envision U.S. postwar hegemony as benevolent. For liberals, benevolence manifested by adhering to multilateralism and rules-based institutions. For Kindleberger (1973), it was the free riding aspect of U.S. lead international regimes. Kindleberger even made reference to a “benevolent despot,” a powerful state with the capability and willingness to unilaterally provide an international economic order. While Kindleberger (1973) describes hegemons as altruistic, Lake (1993) clarifies that most scholars in this tradition treat dominant states as rational and egoistic actors seeking to maximize their material welfare. Importantly, this approach also assumes that the law of comparative advantage holds and states pursue free trade if an infrastructure exists. Thus, free trade emerges once a dominant state establishes such an order.

Coercive Hegemony

Departing from Kindleberger, Krasner (1976) and Gilpin (1975, 1981) offer a more coercive understanding of hegemony nestled within realist IR theory. This line of

theorizing focuses on the degree of openness and protection in hegemonic systems. Most relevant, these scholars are concerned with how hegemons use their superiority to structure the international economy to their advantage. Unlike Kindleberger (1973), the structure of the international economy may or may not benefit others in the system. As Snidal (1985) says, this version of HST, “fits as comfortably with situations in which a hegemonic power pursues ‘imperialism by free trade’ as with situations where an open international economy benefits a wider set of nation-states” (p. 586).

Stephen Krasner’s (1976) seminal “State Power and the Structure of International Trade” strongly represents this perspective. Krasner uses state power theory, assuming the structure of international trade results from the interests of powerful states. Gilpin’s (1975) argument regarding multinational corporations also shares the premise that hegemon’s establish international orders to promote unilateral interests (with no connection to the provision of public goods). Noting the difference between Kindleberger’s (1973) theory and those of Krasner (1976) and Gilpin (1981), Snidal (1985) concludes “even though Krasner’s and Gilpin’s arguments are often considered together with those of Kindleberger and Keohane, they differ substantially in not stipulating any of the generalized benefits associated with the public goods argument” (1985, p. 586). Gilpin’s *War and Change in World Politics* (1981), claims hegemony is fundamental to preserving peace and stability in the international system. In this way, Gilpin’s (1981) thesis claims that the stability hegemons provide is, in fact, a public good - benefiting all states in the system. Interestingly, this is the essence of Kindleberger’s (1973) theory. Though, as Snidal (1985) captures, Gilpin adds a “novel twist” that keeps

it distinct. He says that while the hegemonic state provide international order, it extracts contributions from subordinate states to offset the costs. The hegemon, in this rendering of the theory, acts like a centralized, quasi-government - providing international order and taxing states in the system. Subordinate states, reluctant to pay, succumb due to the hegemon's preponderance of power.

In contrast, Kindleberger's public goods argument supposes that the provision is decentralized. The hegemon is incapable of inducing others to share costs, or to exclude them from the good. Therefore, subordinate states take advantage of the hegemon, irrespective of its power. In Gilpin's (1981) version, the hegemon establishes itself as a centralized authority, extracting contributions. The implications of this shift refocuses the theory from the ability to provide public goods, to the ability to coerce others to pay for them (Snidal, 1985). According to Gilpin, subordinate states will remain exploited, until the costs of overthrowing the hegemon become less than the costs of exploitation. Therefore, systems with a strong hegemon will most likely be more exploitative than those with a weak one. In this way, Gilpin (1981) is making a relative power argument, as the ability of the hegemon to force payment relies on its capability to coerce contributions.

The literature representing World Systems⁴⁵ and Dependency⁴⁶ theories make similar arguments regarding hegemony as Krasner (1976) and Gilpin (1975, 1981).

⁴⁵See, Arrighi 1994; Arrighi & Silver 1996; Chase-Dunn 1989; Wallerstein 1974, 2004.

⁴⁶See, Cardoso 1972, 1977; Cardoso & Faletto 1979; Chew & Denmark 1996; Chilcote 1974; Dos Santos 1970; Frank 1966, 1996. For a critique of Dependency Theory see Smith, T. (1979).

World Systems Theory and Dependency Theory are perspectives concerning global economic hierarchy grounded in a Marxist perspective. Most important, they problematize a basic world structure between core areas of capital and peripheral areas of resources and cheap labor. Both approaches assume superordinate states exploit subordinate ones in order to maximize their economic gains and maintain dominance over the periphery. These perspectives offer similar accounts of American and British rule as Krasner's and Gilpin's theories. In both eras, the dominant power established free trade regimes, because open systems aggrandized the capital intensive hegemonic leaders most. This aggrandizement, however, derived at the expense of resource rich, labor intensive subordinate actors.

As Snidal (1985) articulates, the benevolent and coercive logics offer two different conceptions of the role of dominant states in international systems. Importantly, both claim the dominant actor provides public goods, and both assume that the order these public goods provide makes states better off than they would be in the absence of hegemony. However, they differ regarding the provision of this good. Their distributive implications can be reduced to a asking whether the dominant state is taken advantage of, or whether it exercises power over others to maximize its advantage.

Hegemony and Security

Others writing in this tradition consider the security externalities associated with trade (Gowa, 1989; Gowa & Mansfield, 1993). Gowa (1989) claims hegemonic stability

theorists, as well as theorists working in the standard international trade theory tradition, ignore the security dimension in their analyses. She criticizes that the economic exchanges of trade are treated as though they occur in a political vacuum, whereby the focus is exclusively on the real income gains accruing through trade interactions. Yet, as she rightly points out, national power is an integral component of trade agreements, as they generate security externalities. She says,

The security externalities of trade arise from its inevitable jointness in production: the source of gains from trade is the increased efficiency with which domestic resources can be employed, and this increase in efficiency itself frees economic resources for military uses. Thus, trade increases the potential military power of any country that engages in it. In doing so, it can disrupt the preexisting balance of power among the contracting states (p. 1246).

Noting the anarchic nature of the international system, Gowa (1989) claims hegemonic states are less concerned with the absolute income trade produces than with the relative power effect. Her argument is largely supported by U.S. hegemony over the trade regime, as American leaders used trade to fortify and secure its alliances against the Soviet Union. To the degree that states care about relative or absolute gains, Gowa (1989) argues states prefer to trade with friends than foes. As stated in the quote above, this is because the efficiency gains of free trade enjoyed by allies increases the strength of the coalition.⁴⁷

⁴⁷ See Gowa & Mansfield (1993) for a rehash of her initial argument, but presented with more statistical evidence.

Explanatory Framework

We now need to consider how the HST literature speaks to the questions pursued in this project. As discussed, there is a fundamental difference between Kindleberger's (1973, 1981) image that hegemony allows subordinates to free ride, and Gilpin's (1975, 1981) claim subordinates pay tribute. This dissertation does not seek to *test* these propositions, in fact the empirical chapters offer support for both conclusions. Nonetheless, the image of hegemony offered in the writings of Krasner (1976) and Gilpin (1975, 1981) aligns closer to the experience of U.S. dominance (and decline) over the trade regime. The historical narrative presented in chapter three offers evidence for why this is the case.

Despite their differences, both the benevolent and coercive strains find consensus on important aspects of hegemony; particularly why hegemons form regimes. As Kindleberger (1973) claims, the emergence of a free trade system is not a natural occurrence. Instead, it must be coordinated by a willing; yet dominant state. Both variants suggest international trading orders emerge when such a state is both sufficiently powerful, and able to capture most of the benefits. For instance, Krasner (1976) argues that the British and the Americans instituted free trade systems because open, barrier free orders overwhelmingly benefited their economies. Kindleberger (1973) also agrees with this premise. Though subordinates free ride in his analysis, the hegemon not only

recaptures the entire cost of providing for the system, it reaps greater benefits than all others.

The other literatures examined help to situate the investigation of American hegemonic decline over the trade regime. The literature on unipolarity problematizes the U.S.'s current unique situation. Though it achieved unipolarity by winning the Cold War, hegemonic decline has accompanied the U.S.'s preeminent status. As Ikenberry (2011), Finnemore (2009) and others suggest, American hegemony diminished due to a crisis of legitimacy. Akin to the discrepancy between coercive and benevolent hegemony, the causes of U.S. hegemonic decline are only of secondary importance to this dissertation. Instead, what is of central importance concerns *how* the U.S. exercised its hegemony over the regime, and the way it has reoriented behavior in response to decline. As Lake (1996, 2003, 2006, 2007, 2009) helps us to conceptualize, hegemony operates through exchanges with subordinate states. Through its exchanges, the hegemon gathers support for its economic and security interests. As Lake claims, superordinate actors provide incentives (or disincentives) to subordinates for acquiescing to particular demands. With respect to the trade regime, the U.S. used the relative enormity of its market size as a primary power resource to lock in support for its policies. Its status as hegemon also allowed it to wield other power resources in exchange for compliance. For instance, the threat of denying resources and aid, or weakening its security commitment to non-compliant states. The exchanges undergirding American hegemony in the trade regime are detailed in chapter three.

In line with Lake's logic, hegemonic decline occurs when the dominant state is no longer capable to negotiate hierarchical exchanges. At this point, subordinates stop acquiescing to the hegemon's policy demands, as what the hegemon offers is no longer sufficient. The causes leading to decline may derive from many sources, including the overextension of the hegemon's commitments (Kennedy, 1987), which, as Keohane (1984) notes, diminishes the hegemon's share of world wealth. As discussed here, hegemony also unravels when subordinates no longer recognize the hegemon as legitimate. Regardless, its inability to broker exchanges with subordinates erodes hegemony, potentially leading to regime fracture.

As Ikenberry (2011) and Gilpin (1981) argue, declining hegemons alter their strategies to cope with decline. Ikenberry (2011) offers predictions for how we should expect the U.S. to respond. However, the recent experience of the trade regime raises serious challenges to his assessment. Gilpin (1981) suggests declining hegemons attempt to reassert their power by reorienting policies in two ways. They either allocate resources towards reestablishing their preponderance, or they reduce commitments. Generating new resources to maintain the costs of dominance may occur through domestic taxation within the hegemonic state (Gilpin, 1981, p. 188). As Gilpin (1981) points out, efforts to increase taxation is often a short term solution, typically meet with resistance. Therefore, declining hegemons will more likely employ indirect methods to stave off decline. Most relevant for this study, he argues hegemons seek to manipulate their terms of trade with subordinate countries (Gilpin, 1981).

The case studies of U.S. bilateral FTAs support Gilpin's (1981) expectation of declining hegemonic behavior. As mentioned above, Gilpin (1981) specifies declining hegemons will attempt to renegotiate the terms of trade with subordinate states. The U.S. accomplished this by shifting to bargaining venues that assured its asymmetrical bargaining leverage. The case studies also suggest the U.S. pursued a range of foreign policy and economic goals in these smaller negotiating environments. Interestingly, these goals mirror those pursued while hegemonic over the regime. In particular, U.S. FTAs were used by the Bush administration to promote American War on Terrorism policy. As Gowa (1989; Gowa & Mansfield, 1993) argues, the operationalization of the trade regime intrinsically entails security externalities. The hegemon uses the regime as a vehicle to advance its geostrategic agenda by rewarding, enticing and threatening subordinates.

In sum, the assessment of these literatures allows us to form a theoretical framework conceptualizing the rise, fall, and consequences of American hegemonic decline over the multilateral trade regime. Hegemonic states create international trade regimes advancing their economic and geostrategic interests. The hegemon coordinates cooperation and compliance among regime members through a series of exchanges. Situated as a centralized authority, it wields power to entice and threaten states to follow the policies it promotes. The ability of the hegemon to coordinate such exchanges across the spectrum of regime members attests to its dominant status relative to others. Hegemonic decline manifests when the dominant state can no longer broker such exchanges. Subsequent regime failure will most likely occur unless another actor assumes the hegemonic role and coordinates the requisite exchanges to sustain the regime.

Alternatively, a contingent of non-hegemonic actors may reorient egoistic calculations and endure necessary compromises to ensure regime benefits are sustained. However, this outcome will only emerge if non-hegemonic states possess an overwhelming interest to rescue the fracturing regime.

The hegemon, unable to advance its economic and geostrategic policies, will shift to venues where its asymmetrical power remains intact. Instead of attempting to coordinate the activities of multiple states within the regime, it will move to negotiate trade in smaller settings, most likely with only one or two other states. This strategy allows the former hegemon to continue pursuing its economic and geostrategic policies.

As stated, we should expect the former hegemon to pursue the economic and geostrategic policies it once advanced multilaterally in its new, smaller bargaining environments. In certain instances, the former hegemon will use its asymmetry of power to broker trade agreements benefiting its own firms at the expense of those in partner states. In other instances, trade agreements may serve as an opportunity to exchange preferential access to its markets in order to secure support for security and foreign policy goals.

The following empirical chapters assess the theoretical framework presented here against the experience of U.S. hegemonic decline over the trade regime. The next chapter examines how the U.S. managed the regime during the height of its hegemony, and how its decline caused a strategic reorientation. The next chapter also examines the experience of the trade regime since the cessation of U.S. hegemony. The purpose is to assess the claims advanced by regime theory. In particular, regime theory expects that if non-

hegemonic states exhibit an overwhelming interest in sustaining the benefits of the GATT/WTO, they will engage in compromise in order to find a solution to Doha's impasse. The fourth and fifth chapters offer in depth case studies of U.S. trade agreements negotiated after hegemony. These agreements were negotiated outside of the multilateral order and support Gilpin's (1981) claims regarding hegemonic behavior after decline.

Chapter 3

HEGEMONY, THE FRACTURING OF THE MULTILATERAL ORDER AND THE RISE OF U.S. BILATERAL TRADE STRATEGY: AN HISTORICAL NARRATIVE

This chapter attempts to fortify the arguments established in the literature review, particularly that declining hegemony after the Cold War led to the fracturing of the post World War II multilateral trade order. Liberal IR theory suggests hegemonic decline is transforming postwar international institutions from being U.S. dominated towards a power structure reflecting the growing influence of developing countries. Institutions such as the multilateral trade regime will survive hegemonic decline and reflect the growing decentralized nature of power emerging in the international system. However, the narrative explicated here challenges this assumption. In the wake of declining American hegemony, regime members relinquished their commitment to exclusive multilateral trade and shifted to unilateral strategies based on bilateral and regional preferential agreements. As discussed in the literature review, this shift undermines the post World War II liberal international trading order, which adhered to multilateralism for normative and economic reasons.

I build the argument by first detailing the nature of American hegemony over the trade regime from the 1950s until the late 1990s. Based primarily on the work of Steinberg (2002) and others, I argue that American hegemony over the multilateral trade order operated by exploiting the consensus decision making rule governing the regime.

The consensus rule legitimated the outcome of multilateral trade rounds, as it appeared to constrain U.S. power and suggest all regime members (including developing countries) accorded with regime decisions. However, the veneer of legitimacy the consensus rule system offered to the outside world masked U.S. bargaining tactics operating in the background to influence developing countries not to block consensus on its desired proposals. Steinberg (2002) refers to this as bargaining in the ‘shadow’ of power. These tactics are examined in a mini-case study of the Kennedy round (1964-1967), and also a discussion of how the U.S. maneuvered consensus to conclude the Uruguay round (1986-1994). The tactics examined, known as ‘invisible weighting’ (McIntyre, 1953) align with the conceptualization of how Lake (2009) and Ikenberry (2011) suggest international hierarchy operates.

Next, I discuss how U.S. hegemony over the regime weakened in the years after the Uruguay round to render its invisible weighting tactics insufficient. The issues surrounding U.S. hegemonic decline include the growth in WTO membership of developing countries that were gaining economic strength. Concurrent with the rise of developing country importance and membership in the regime, U.S. shares of world trade continued to decline, weakening the trade supremacy undergirding its hegemonic position in the decades after World War II. As discussed in chapter two, the legitimacy of American hegemony was also under challenge from its increasingly unilateral behavior in international affairs. World leaders expressed concern that unilateralism was a consequence of the U.S.’s accession to unipolarity, and that their focus should aim to balance American preeminence. These factors influenced a check on traditional

American hegemonic tactics in the regime by developing countries. Developing countries, who traditionally acquiesced to not block consensus on American proposals, began making blocking threats in the lead up to the launch of the Doha round, demanding their issues on agricultural liberalization in developed countries move forward.

The chapter then examines the series of negotiations associated with the Doha round from the late 1990s until 2008. The outcome of these negotiations challenge the assumptions derived from neo-liberal internationalism, which suggests hegemonic decline will spur non-hegemonic states to ‘rescue’ the regime through a decentralized, cooperative leadership scheme. There is little evidence that this has occurred. Instead, the character of the negotiations accords more closely to Keohane’s (1984) description of international ‘discord.’

Last, the chapter introduces the global shift away from multilateralism, and the rise of preferential trade strategies that have emerged concurrent with U.S. hegemonic decline over the regime in the late 1990s.

U.S. Hegemonic Rule over the Trade Regime, 1947-1994

As Lake (2007) and Ikenberry (2011) suggest, the U.S. exercised hegemony over the trade regime through hierarchical exchanges with subordinate regime members from the regime’s inception until the mid 1990s. These exchanges made multilateral consensus possible, thereby furthering liberalization and bringing trade rounds to a close. This section argues hegemony over the regime operated through exploiting the consensus decision making rule system so that the U.S. could exercise ‘invisible weighting’ tactics

(McIntyre, 1953; Steinberg, 2002). A mini case study of the Kennedy Round (1964-1967) is presented to offer empirical support for this claim.

Producing Consensus Under GATT

The U.S. began soliciting developing countries to join the multilateral trade regime shortly after the Havana Charter⁴⁸ was signed in 1947. Membership in the regime was seen as a way to blunt the spread of Soviet influence in the developing world, and to encourage free enterprise and protect market access outside the communist bloc. However, the U.S. had to contend with how to maintain its dominance over the regime's trajectory and decisions, while still attracting developing countries to join. A weighted voting system was rejected, as a majority of developing countries could potentially form a bloc and prevent U.S. proposals (Steinberg, 2002; Jones, 2010). Instead, a consensus based model predicated on sovereign equality was instituted. The consensus model was attractive to developing countries, as it prevented non-Pareto improving proposals from becoming trade law, or proposals that were Pareto improving; but overwhelmingly beneficial for others.

A consensus based rule making system also permitted the U.S. to assure the regime's legislative outcomes reflected the power distribution of GATT members (Steinberg, 2002). Through a process known as 'invisible weighting' (McIntyre, 1953), the U.S. used the influence derived from its market size to prevent developing countries from blocking consensus around its issues. Invisible weighting tactics rely on the use of

⁴⁸ The Havana Charter includes the documents creating the GATT.

threats and side payments centered around granting or curtailing market access to products developing countries deem sensitive. Therefore, despite the consensus rule, the U.S. dominated outcomes at the GATT. This is consistent with realist explanations of bargaining in international organizations, whereby powerful countries use their influence to secure outcomes in organizations with unweighted voting systems (Morgenthau, 1940; Buzan, 1981; Krasner, 1983). The consensus mechanism also fortified the regime's legitimacy as a postwar liberal international organization, while simultaneously ensuring U.S. economic interests were advanced (Ikenberry, 2011).

According to Steinberg (2002), the consensus rule operated to the advantage of developing countries during the agenda setting stage in the years leading up to a round's launch. In fact, since consensus was necessary to launch rounds, the proposals of all member states made it on the agenda. This is because vetoing a state's agenda proposals would lead them to deny consensus to launch the round. Historically, this resulted in ambitious and wide ranging trade round agendas. The use of invisible weighting, however, was employed towards the end of rounds, after developing country proposals had been killed in committee. At this stage, the near complete agenda reflected the interests of the U.S. and the other most developed countries. Invisible weighting tactics became necessary at this point to ensure developing countries would not bloc consensus, allowing the round to come to a close. The power of the U.S. to engage in invisible weighting derives from the relative enormity of its market size. In free trade systems the gains and losses from market opening and closure more greatly affect smaller economies than larger ones (Hirschman, 1945; Waltz, 1970; Krasner, 1976). Whereas the U.S. was

effectively immune to market opening and closures of developing countries, the latter were greatly affected by American decisions to open and close market access (usually through the raising and lowering of import tariffs).

Steinberg (2002) discusses two invisible weighting tactics used by the U.S. to generate consensus for outcomes skewed in its favor. The first involved asymmetrical contracting. When targeted at one state, this took the form of side payments, entailing compensation to a GATT member that loses from a particular proposal in order to capture their support for it. When aimed at a group of states, asymmetrical contracting emerged as a 'package deal' offered in exchange for not blocking consensus.

The second tactic involves coercion, which Steinberg (2002) defines as threats to make weaker countries worse off. Coercion aimed at a group of states, "its most potent form" (Steinberg, 2002, p. 349), entailed the threat of exiting the regime altogether if consensus around its issues was blocked. The potency of this threat centered on locking developing countries out of trade preferences available because of U.S. participation in the regime. U.S. leaders threatened, and used, exiting as a strategy to move states towards consensus at least four times in the regime's history. In the 1970s, proposals were floated to create a GATT-plus regime as a way to side step the deadlocked Tokyo round. The threat entailed the most powerful developed countries creating a new organization that shut out developing countries from preferential access to their markets. Similarly, deadlock between developed and developing countries during the Uruguay round in the late 1980s spurred talks for a Free Trade and Investment Area in the Organization for Economic Co-Operation and Development (OECD). The FTA the U.S. negotiated with

Israel in the early 1980s is also an instance of an exiting threat. The FTA, the first U.S. bilateral trade agreement, signaled to regime members that the U.S. seriously considered negotiating outside multilateralism, and offering preferential arrangements to allies, if members did not submit to its calls to launch the Uruguay round. Steinberg (2002) and others argue that the North American Free Trade Agreement (NAFTA) was also an instance of exiting. NAFTA was a tactic to bring the European Community (EC)⁴⁹ back to the negotiating table during the late stages of the Uruguay round. In fact, NAFTA and the WTO came into force the same year. A final version of the exiting strategy entails withdrawing from the deadlocked organization and reconstituting a new organization, but under different terms. As discussed later, this was ultimately the strategy the U.S. and the EC used to close the Uruguay round.⁵⁰

Thus, the consensus decision making rule and invisible weighting tactics represent how the U.S. operated its hegemony over the regime. The consensus rule signaled to the world that multilateral trade rounds, and the laws they produced, were

⁴⁹ Throughout this chapter, I refer to the EC as the entity that existed from 1967-1993; the European Union (EU) as the entity that has existed since 1993; and the European Economic Community (EEC) as the entity that existed from 1957-1967.

⁵⁰ For a similar argument, see also Lloyd Gruber (2000) who argues secondary and weaker states join supranational economic arrangements out of fear of exclusion, not because of expected gains. For instance, he argues Mexico joined NAFTA in reaction to the U.S.-Canada FTA (which eventually was folded into NAFTA). Mexican leaders feared their country would lose U.S. investments in Mexico if exports were not assured the same treatment as those now secured for Canada. Similarly, the Italians and other European states were compelled to join Germany and France in plans for a single currency, even though they were have preferred states retained their own currencies.

legitimate. At the same time, consensus entailed the U.S. could wield its material power in the background to realize its desired outcomes.⁵¹

The next section offers a short case study of the Kennedy round (1964-1967). Due to the extensive reductions in tariffs it produced, this round is hailed as one of the most important efforts at global multilateral trade liberalization in postwar history. It was also the first round in which developing countries played an active role in establishing the round's agenda. However, as indicated in the paragraphs above, developing country issues were eventually sidelined and the final agreement failed to secure their proposals. The purpose of the case study is to offer empirical support for the characterization of American hegemony over the regime detailed thus far. It proceeds in three steps: The first part discusses efforts to launch the round, whereby developed countries (particularly the U.S.) encouraged developing countries to identify issues to be addressed during the upcoming round (in order to ensure they would not block the round's launch). The second part focuses on how developing country issues became sidelined once the round began. The third part discusses the invisible weighting tactics employed by the U.S. to ensure developing countries would, nonetheless, not block consensus on the final agreement.

⁵¹ Steinberg (2002) refers to this as exercising power in the "shadow" of law.

Case Study: The Kennedy Round (1964-1967)

I. Launching the Round – Developing Country Issues and the Quest for Consensus

In 1947, only ten of the twenty three original Contracting Parties⁵² to the GATT were developing countries. However, that number steadily increased during the 1950s and reached seventy-six by the end of the next decade. In 1957, GATT members commissioned a study to examine why developing country trade was not expanding as rapidly as developed countries.⁵³ The findings of the Haberler Report, published in 1958, suggested trade barriers in developed countries discriminated against their primary exports (Vingerhoets, 1969). The report concluded, “the prospects for exports of non-industrial countries are very sensitive to *internal policies* in the industrial countries and that on balance their development will probably fall short in the increase in world trade as a whole.”⁵⁴ The Haberler report represents the first concerted effort to address developing country issues. While it did not find general tendencies towards overt discrimination, it did identify trade barriers and unfair price trends as hindering the earnings from exports of foodstuffs and industrial raw materials from developing countries (Evans, 1971).

In response, the Contracting Parties included developing country concerns in a new program called the Expansion of International Trade. Its purpose aimed to create three committees to address how to expand trade in industrial products (Committee 1),

⁵² “Contracting Parties” refers to the countries comprising the membership of the GATT.

⁵³ The United Nations (U.N.) proclaimed the 1960s was to be the “development decade.” Rapid expansion of developing country trade was seen as necessary to meet the U.N.’s goal of increasing economic growth in developing countries by 5% a year (Preeg, 1970).

⁵⁴ *Trends in International Trade*, in Vingerhoets (1969).

agricultural products (Committee 2), and trade among developing countries (Committee 3) (Curzon & Curzon, 1973). The findings of Committee 3 culminated in a report submitted on November 15, 1961 identifying thirty products of export interest to developing countries. These included foodstuffs, tropical agricultural products, industrial raw materials (such as iron ores, copper, lead, aluminum, and timber), and manufactured goods, including finished leather, sports goods, and electric motors.

According to the report, quantitative import restrictions and tariffs represented a major obstacle preventing export growth among developing countries in these areas (Vingerhoets, 1969). Tariffs were also found to be disproportionately in favor of imports of raw materials over finished, manufactured items - further stunting the expansion of developing country exports. Based on these findings, Committee 3 was asked to provide recommendations for how to enhance developing country market access.⁵⁵ At the GATT ministerial meeting in May 1963, Committee 3 formally submitted to the Contracting Parties a “Programme of Action” detailing an eight point agenda to remedy developing country trade obstacles.

The eight point Programme of Action was accepted by the Ministers, ensuring the inclusion of developing country issues on the agenda launching the Kennedy round (scheduled to begin the following year) (Meier, 1973). In fact, the first agenda item listed on the round’s objectives was the, “Measures for the Expansion of Trade of Developing

⁵⁵ See also the U.N. report by Raul Prebisch (1964), secretary-general of the U.N.’s Conference on Trade and Development (UNCTAD), titled *Towards a New Trade Policy for Development*. Prebisch advocated for a hands on approach to encourage developing country exports and criticized the GATT’s traditional, passive approach of non-discrimination.

Countries as a Means of Furthering Their Economic Development.”⁵⁶ The eight point program centered on the primary objective of developing countries: To gain concessions from the U.S., the recently formed European Economic Community (EEC), Japan, and the United Kingdom (UK) in areas relevant to their most important exports (Vingerhoets, 1969).

The developing country’s agenda items read as follows:

- 1) *Standstill Provision*: No new tariff or non-tariff barriers erected by developed countries against developing country exports in the products identified as particular interest to the latter.
- 2) *Elimination of Quantitative Restrictions*: Quantitative restrictions on the exports of developing countries that are inconsistent with the GATT are to be eliminated within one year.
- 3) *Duty Free Access for Tropical Products*: Duty free access of tropical products from developing countries.
- 4) *Elimination of Tariffs on Primary Products*: The elimination of tariffs on primary products that are of export interest to developing countries.
- 5) *Reduction and Elimination of Tariff Barriers to Exports of Semi-Processed and Processed Products from Less Developed Countries*: Developed countries should urgently prepare a schedule for the reduction or elimination of tariff barriers to semi-processed and processed products from developing countries, providing for a reduction of at least fifty percent of present duties over the next three years.
- 6) *Progressive Reduction of Internal Fiscal Charges and Revenue Duties*: Industrial countries will progressively reduce internal charges and revenue duties on products wholly or mainly produced in developing countries, with a view to their elimination by December 31, 1965.
- 7) *Reporting Procedures*: Developed countries maintaining the above-mentioned barriers shall report to the GATT secretariat each July on the steps taken during the previous year to implement these decisions and on the measures which they propose to take over the next twelve months to provide larger access to the exports of developing countries.
- 8) *Other Measures*: Contracting Parties should also give urgent consideration to the adoption of other measure which would facilitate the efforts of developing countries to diversify their economies, strengthen their export capacity, and increase their earnings from overseas sales.

⁵⁶ See GATT Press Release No. 794, May 29, 1963.

The effort to include developing country issues on the agenda reflects the consequences of the regime's consensus decision-making rule system. Since every member possesses veto power, round launching agendas are always inclusive, as achieving consensus on an agenda requires accommodating the trade interests of all countries (Steinberg, 2002; Jones, 2010).

With the exception of the EEC, all the Ministers of the developed countries supported the inclusion of the proposals listed in the Programme of Action (Curtis & Vastine, Jr., 1971).⁵⁷ The EEC states resisted them because of their special relationship with associated African countries already benefiting from EEC preference schemes (Curzon & Curzon, 1973). Those African states feared a loss to their own exports if preferences were generalized to all developing countries.

II. Negotiations

As per the GATT's negotiating guidelines, developing countries were permitted to submit lists of products they hoped developed countries would omit from their so-called 'exemptions lists' (Evans, 1971). Exemptions lists detailed products developed countries considered too sensitive for trade liberalization. However, lowering or eliminating tariffs on these would benefit developing countries. Ensuring important products to developing countries were kept off the lists was fundamental to realizing gains from the Programme of Action.

⁵⁷ While the EEC states expressed no support for developing country measures listed on the Programme of Action, they did not deny consensus on their inclusion to the round's agenda.

In accordance with the procedure agreed upon by the Contracting Parties, twenty-five developing countries indicated their intention to participate in the Kennedy round negotiations (Evans, 1971). By the middle of the round, in 1965, developed and developing countries came together to specifically address the product exemptions lists. The outcome of these talks, however, signaled developed countries retreat on promises made during the agenda setting phase. Evans (1971) states that developed countries used these meetings to attempt justifying their exceptions lists, while developing countries voiced their disappointments (p. 248).

For instance, developing countries complained the U.S. Congress curtailed American negotiators from enhancing developing country exports in lead and zinc, as conditions of the Trade Expansion Act of 1962.⁵⁸ The U.S. list was also criticized because it included wool, textiles, leather footwear, rubber boots, and certain handmade products (Evans, 1971). The U.S. and the EEC also failed to deliver the promise of duty free access for tropical products, a preeminent goal of the Programme of Action agreed on at the round's launch. In fact, duty free access of tropical products was the largest concession developing countries aimed to achieve. Interestingly, the U.S. may have been prepared to offer greater concessions on tropical products. However, Congress' authorization of the negotiating team depended on the EEC taking similar steps. When the EEC unveiled its proposal for tropical products, no tariff eliminations were included.

⁵⁸ The Trade Expansion Act of 1962 authorized President Kennedy broad negotiating authority to lower or eliminate U.S. tariffs.

The final agreement only eliminated six percent of tropical product exports from developing countries into the U.S., EEC, UK, Japan, Sweden, and Switzerland.⁵⁹

The final agreement also retained pre-Kennedy tariff levels on more than half of tropical products. Only four percent were cut in half, and only four and a half percent were cut by more than half. Developing countries also failed to secure tariff elimination on forty-three and a half percent of processed foods, thirty-seven and a half percent of nonferrous metals, twenty-two and a half percent of cotton yarn and fabrics, nineteen percent of clothing, twelve and a half percent of other textiles, and twenty-three percent of leather and manufactures.⁶⁰

A joint statement issued by developing countries after the round highlighted the areas they hoped to make gains, but instead received little to nothing: “elimination of duties on products of particular export interest to developing countries, tropical products, commodity agreements, compensation for loss of preferences and removal of non-tariff barriers.”⁶¹

The failure to make good on promises to developing countries aligns with Steinberg’s (2002) conceptualization of how trade rounds were launched, and how developing country items were subsequently pushed to the side afterwards.

⁵⁹ The six largest industrial countries contracting to the GATT during the Kennedy round.

⁶⁰ Source data from GATT Doc., COM.TD/48/Rev. 1, November 21, 1967

⁶¹ Joint statement by the Developing Participating Countries in the Kennedy Round Negotiations, GATT, Press Release, GATT/994, June 30, 1967.

III. Closing the Round

When considering that developing country proposals were effectively sidelined, and that the GATT operated via consensus, the immediate question that arises is: Why would developing countries not block consensus on the final agreement? The answer is found in the U.S.'s invisible weighting tactics. In this case, a bare minimum of concessions was offered in a 'package deal' to developing countries to ensure they would not block the final agreement crafted by American and European negotiators. Concessions to developing countries included a suboptimal package of tariff reductions on sensitive products, and promises to promote developing country interests after the round. The U.S. presented developing countries with a final package deal that fell short of the promises made to launch the round; yet offered enough to prevent them from blocking consensus.

Steinberg (2002) details how the strongest states gather information during trade rounds on tariff preferences among the Contracting Parties. As trade rounds are typically multiyear affairs, negotiators have sufficient time to accumulate information regarding the principle interests and top priorities member states seek to gain from liberalization talks. Once the U.S. and the EEC reached agreement on tariff reductions among themselves, they used their information about developing country preferences to craft a final package that developing countries considered barely acceptable, but would not oppose. Alas, the information gathered by American and European negotiators was used to calculate the least amount of concessions they had to offer, while still preventing developing countries from blocking the final agreement.

As the section above details, developing countries largely failed to achieve the levels of tariff reductions and other concessions GATT members agreed on in order to launch the round. While this generated deep animosity among developing countries (as evidenced by the joint statement developing countries released), the package also included certain concessions aimed to ensure consensus would not be blocked. For instance, in textiles developed countries agreed to eliminate fifty-one and a half percent of tariffs from developing country exports. The U.S. also offered a separate side payment to developing countries. Whereas the final Kennedy round agreement only eliminated tariffs on six percent of tropical product imports into developed countries, the U.S. made a special arrangement to eliminate fifteen percent. Nevertheless, a study commissioned by the United Nations Committee on Trade and Development (UNCTAD) concluded that the reductions in tariffs facing developing country exports were far less than those achieved by developed countries.⁶² Considering only manufacturing products, the study found the average tariff reduction of products of interest to developing countries only reduced by twenty-nine percent. Taking all imports (manufactured and primary) into account, the percentage reduction was only twenty-six.

Though the Kennedy round officially ended in 1967, developing country proposals were effectively curtailed two years prior. As mentioned above, in addition to the final package of tariff reductions made by the U.S. and the EEC, developing countries were promised their issues would continue to be taken seriously after the round. Doing so entailed incorporating the recommendations made by Committee 3 on the eve of the

⁶² See UNCTAD, TD/6/suppl. 2, Sept. 4, 1967.

round into Part IV of the GATT (Evans, 1971).⁶³ Part IV also transformed Committee 3 into the permanent Committee on Trade and Development. However, the provisions codified in Part IV were largely recommendatory and not binding. For instance, the ‘commitments’ section includes language such as, “The developed contracting parties shall *to the fullest extent possible*...accord high priority to the reduction and elimination of barriers...of particular interest to less developed countries.”⁶⁴ Evans (1971) refers to these provisions as “emasculated,” and suggests the creation of Part IV was largely a symbolic move (p. 121).

This short case study offers empirical support for both Ikenberry’s (2011) and Lake’s (2009) conceptualization of hegemony. Ikenberry (2011) argues the U.S. established a “liberal hierarchy,” whereby its hegemony was legitimated by adhering to multilateral rules, in this instance the consensus decision making model. Though the U.S. constrained overt exercises of its power through postwar international institutions, it still successfully wielded sufficient influence to achieve desired outcomes. Lake (2009) claims hierarchies exist when a superordinate and subordinate actors voluntarily enter into a relationship of exchange. Subordinates follow the dictates of the superordinate and receive some benefit in return. Ikenberry (2011) also discusses that subordinates acquire gains through submission. While developing countries’ demands were largely unmet at

⁶³ The GATT had four comprehensive sections. Part 1 obliged Contracting Parties to offer Most Favored Nation treatment to all members. Part 2 consisted of the rules governing trade among GATT members. Part 3 defined conditions governing GATT negotiations, particularly waivers from the Most Favored Nation principle. Part 4, created in 1965, explicated general rules for good behavior with respect to developing countries (Curzon & Curzon, 1973).

⁶⁴ My emphasis.

the end of the Kennedy round, the final package they received included enough concessions to prevent them from blocking consensus, or leaving the regime altogether (which would terminate the hierarchical relationship). Their acquiescence, and implementation, to even a displeasing package deal signals the legitimacy of U.S.'s hegemony over developing country members of the multilateral trade regime during this period.

U.S. hegemony in the Kennedy round operated through the invisible weighting tactic of asymmetrical contracting, whereby the U.S. formulated a package deal to prevent developing countries from blocking consensus. The next section examines how the U.S. exercised coercion through exiting the regime, thereby threatening to cut off trade preferences to developing countries, in order to conclude the Uruguay round.

Exiting Success in the Uruguay Round (1986-1994)

On many accounts, the U.S. emerged victorious from the Uruguay Round. Despite serious resistance, the Reagan administration leveraged America's trading partners back to the multilateral negotiating table in the early 1980s. The U.S. also achieved its main priority, to radically expand the auspices of the trade regime to cover booming American industries previously excluded from the GATT, including trade in services. As Steinberg (2002) suggests, U.S. victories during Uruguay were due to its use of invisible weighting tactics. This time, the U.S. engaged in exiting to compel GATT members to restart trade talks in the early 1980s (Pearson, 2004; Rosen, 2004). Exiting was also used to bring the EC back to the negotiating table in the early 1990s. Near the

conclusion of the round, the U.S. and the EC exited the regime altogether (forgoing their obligations to developing countries codified under the GATT) by reconstituting the regime in the form of a new international organization, the WTO. Side payments to developing countries were also made to shore up American success.

The Reagan administration believed that a new round of liberalization would provide a remedy to the ailing American economy of the 1970s. By the time Reagan took office, the country was experiencing close to an 11% unemployment rate (Rothgeb, 2001). A strong U.S. dollar weighed down exports and contributed to a mounting trade deficit. The administration rightly worried that Congress would react to the economic situation by pursuing protectionist measures to satisfy its struggling constituencies. For Reagan, an ardent free trader, the remedy to the country's problems was to incorporate into the GATT fold burgeoning new American industries that promised to replace traditional forms of U.S. global economic competitiveness (Bhaumik, 2006; Pearson, 2004). Known as the *New Issues*, this strategy entailed liberalizing the growing service industry and reducing barriers to foreign direct investment. It also meant instituting more stringent protection for the intellectual property rights of U.S. pharmaceutical firms and the entertainment sector.

However, after an arduous and long Tokyo Round (1973-1979), GATT members were less than eager to dive back into another series of talks. In fact, representatives from the EC initially rebuffed American requests to commence a new round (Dryden, 1995). The Europeans, lead by France, flat out rejected any trade talks that included discussion of their protectionist Common Agricultural Policy (CAP). Developing countries, led by

India and Brazil, resisted the U.S.'s push for talks that included the *New Issues*. They argued that the liberalization of these sectors would crush their much smaller and vulnerable domestic markets.

The industries associated with the *New Issues* emerged as potentially big profit generators, and their liberalization was seen as vital to providing the country with a competitive edge, which it had lost since its manufacturing dominance began to erode in the 1960s. The service sector includes banks, brokerage firms, insurance and financial industries, transportation, construction, telecommunications, management and consulting, education, advertising, and the entertainment industries (Rothgeb, 2001; Chorev, 2007). Whereas traditional American producers were experiencing profit losses and deficits, the service industries were generating surpluses and big profits by the early 1980s. Liberalization of foreign direct investment was also pursued for similar reasons. By the early 1980s, American firms emerged as global leaders of innovative investment products and strategies. For instance, American firms led foreign competitors in mutual funds, investment banking, and asset securitization (Chorev, 2007). However, when investing abroad, American firms faced foreign governments that manipulated their capital towards their own interests (Chorev, 2007).

Nascent computer companies, along with firms from the apparel, motion picture, pharmaceutical, and publishing industries began to complain loudly to the government about intellectual property violations, especially among newly industrializing Asian states. Violators, these industries claimed, were costing them significant profit losses due to the inadequate structure of copyright protection (Chorev, 2007).

Liberalization was also seen as a remedy for American farmers feeling the brunt of high interest rates and decreased exports due to the strong dollar (Rothgeb, 2001). All of these issues served as the background factors that led USTR William Brock to press for a new round of global multilateral negotiations as early as 1982.

Developing countries fought the incorporation of the *New Issues* by refusing to sign on to the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs), the Agreement on Trade Related Investment Measures (TRIMs), and the General Agreement on Trade in Services (GATS). The U.S. and the EC were alarmed that developing country would use their leverage under the consensus rule to block their incorporation into the agenda. Under these conditions, the USTR proposed a tactic to force developing countries to accept the conditions of these agreements. After gaining the support of the State Department, the USTR approached the EC and gained its backing in what became known internally as ‘the power play.’ This tactic involved exiting the GATT altogether and reconstituting the trade regime as a new international organization whereby membership obligates signing on to the GATS, TRIPs, and TRIMs agreements (among others). This tactic was carried out in the Uruguay Round Final Act, which established the WTO. By creating the WTO, the U.S. and the EC officially exited from the GATT 1947 agreement, thereby eliminating all multilateral trade preferences with states that did not sign the Final Act and join the new organization. Under the enormous weight of U.S. and EC exiting, developing countries capitulated and joined *en masse* (Steinberg, 2002).

The U.S. also made side payments to developing countries to shore up consensus for its *New Issues* during negotiations. One large package it promised was to open agricultural and textile markets to exports from the developing world. This was seen as a big-win for developing countries. It indicated the U.S. was willing to make substantial concession regarding traditionally shielded American industries that were protected under the GATT's 1974 Multi-Fiber Agreement (MFA). The MFA was a GATT provision restricting clothing, apparel, and other textiles from trade liberalization. Developing countries, possessing a comparative advantage in these, claimed the MFA discriminated against their exports.

Last, U.S. success further rested upon developing countries' position as largely marginalized in multilateral trade agreements. At this time, with the exception of India and Brazil, the member states representing the developing world were still not power players in global trade negotiations. Bhaumik (2006) characterizes that during Uruguay many developing countries, "were content merely as fence sitters; cheering and shouting at the real players" (p. 67). Developing countries' inability to organize as a coherent and forceful bloc allowed the U.S. greater ease in coalescing those states around its proposals in exchange for promises to gain access to American markets after the round.

Eclipse of U.S. Hegemony

This section examines the shifts surrounding U.S. hegemonic decline over the regime in the years between the Uruguay and Doha rounds. American hegemony functioned by manipulating the consensus decision making rule to exercise invisible

weighting tactics against developing countries. By the late 1990s, these tactics appeared no longer available to the U.S. The factors eroding U.S. bargaining power included the expanding number of developing countries entering the WTO that were gaining greater shares in global markets and experiencing economic growth. Their increasingly important position in the world trade system led them to trend towards a coherent check on U.S. invisible weighting tactics. As it became apparent, developing countries were no longer willing to accept suboptimal package deals (negotiated largely in their absence by U.S. and European negotiators). The rise in developing country economic strength was coupled with questions concerning the legitimacy of increasing U.S. unilateralism after achieving unipolarity in the international system, further straining its hegemony over the regime (see chapter 2). Further, the growing membership of developing countries since the 1960s contributed to reducing U.S. shares of global trade volume. This contraction lessened the clear economic dominance undergirding America's postwar hegemonic position. Figure 2 demonstrates how shares of relative U.S. global trade diminished from the height of its hegemony in 1960 to 2010.

Figure 2 – Total Trade In Goods (in billions U.S. dollars)

* = All trading countries

Year	Total Exports (goods) Among OECD & Non-OECD Economies	Total American Exports (goods)	% of Total Exports (goods)	Year	Total Imports (goods) Among OECD & Non-OECD Economies	Total American Imports (goods)	% of Total Imports (goods)
1960	7.15	1.72	24	1960	7.19	1.26	17.5
1970	19.06	3.6	18.89	1970	19.4	3.33	17.16
1980	110.36	18.39	16.66	1980	122.33	21.42	17.5
1990	222.27	32.8	14.76	1990	230.22	41.28	17.9
*2000	635.9	65.16	10.25	*2000	653	101.5	15.54
*2010	1488	106.52	7.16	*2010	1502	159.43	10.61

Source: OECD.StatExtracts, http://stats.oecd.org/Index.aspx?DataSetCode=MEI_TRD

The chart reflects that in 1960 the U.S. accounted for twenty-four percent of exports among OECD countries and South Africa.⁶⁵ By 2010 this share reduced to seven percent of all trading economies in the world.⁶⁶ Shares of global imports remain relatively consistent, however, from 1990 onward the chart reflects a U.S. trade imbalance, as percentage of total imports are greater than total exports.

Post Uruguay Discord

⁶⁵ Among the non-OECD member economies included in this data set (Brazil, China, India, Indonesia, Russian Federation, and South Africa), from 1960-1980, data only exists for South Africa. Data on Brazil becomes incorporated from 1980 onward; data on India and Indonesia become incorporated from 1990 onward; and data on China and the Russian Federation from 2000 onward.

⁶⁶ This figure also reflects the overall drop in global trade since the financial crash in 2008.

The completion of the Uruguay round and the launch of the WTO was a bittersweet affair. Though ultimately compelled to accept the *New Issues* by way of the U.S.'s exiting strategy, developing countries praised the inclusion of agriculture (for the first time) in the agenda. However, after a short while, the sentiment among negotiators on both sides shifted to disappointment. The U.S. and other industrialized states wanted to consolidate their gains from the round immediately. This required developing countries to implement their new obligations codified in the TRIPs, TRIMs, GATS, and other WTO agreements. For their part, developing countries wanted progress on the agricultural liberalization promised in the WTO's Agreement on Agriculture (AoA), negotiated during Uruguay. However, in the years immediately after the round, developed states failed to implement their liberalization obligations, and found loopholes in the ones they did implement. This grievance was made worse by EU attempts to move forward with the so-called 'Singapore issues' before addressing developing country concerns.

Developing countries, believing they exchanged submission on the *New Issues* for agricultural access, now understood that their gains were hindered by the U.S. and the EU. Further, they faced the reality that the AoA required them to make deeper tariff cuts than developed countries (Clapp, 2007). While OECD countries made some reductions in domestic support, it became evident after the round that they could continue furnishing significant subsidies and assistance to their farm industries. In fact, in 2001 producer support to OECD farmers was 31% of farm receipts, a decrease of only 7% from 1986 (Bhaumik, 2006). Market access for agricultural exports was expected to be the area of

greatest gain for developing countries. Yet, this expectation was, “largely belied” (2006, p. 49), as developed country farmers maintained high protections. These disagreements in the immediate years after Uruguay produced a stalemate between developing and developed countries that largely remains, up to the time of this writing.

Recognizing that the deadlock was not improving, developing countries and the U.S. agreed in 1996 to reconcile their differences during the upcoming Singapore ministerial meeting. Unfortunately, the ministerial did little to end the stalemate. By the time Singapore began, developing country issues were sidelined. Instead, the EU chaired the creation of four working groups charged to form an agenda for a new round. The EU backed agenda focused on government procurement, trade facilitation (customs issues), investment, and competition policy. These became known as the Singapore Issues and were lobbied hard by the EU, Japan, and Korea. The U.S. lent support, but was more interested in gaining traction for the liberalization of the service sectors.

Developing countries vocalized vehement opposition to discussions on starting a new round, as they were promised their unresolved issues from Uruguay would be addressed first. The meeting showcased the first open fissuring of North-South hostilities post Uruguay, becoming a “platform for open ramblings” (Bhaumik, 2006 p. 58). Developing and developed countries took turns expressing their disappointment with the other camp. By the end of the ministerial, developing countries pledged to withhold consensus on any agenda failing to include their issues.

Acrimony between the North and South continued to grow after the meeting. By the second ministerial in Geneva during May 1998, these differences crystalized into two

competing priorities before the WTO. The first argued that negotiations must recognize the stark differences in levels of development among member states. Developed countries needed to provide assistance to developing countries to implement new obligations from the TRIPs, TRIMs, and GATs agreements. This camp also demanded that the WTO focus on completing the built-in agenda (the unfinished items left over from Uruguay), mandated in the AoA. Additionally, this camp urged WTO members to work towards achieving a parity in trade benefits derived from Uruguay between developed and developing countries. The second, with the EU at the forefront, put forward a more expansive proposal, arguing the agenda should be broad and include the Singapore Issues. The U.S. welcomed EU efforts, but was focused on making gains regarding e-commerce and further reductions in industrial tariffs (Bhaumik, 2006).

By the end of the 1998 Geneva ministerial meeting, a serious rift among WTO members was apparent, and the ministerial slated for Seattle in November 1999 was in jeopardy. While the EU was the driving force pushing for a new round, the Europeans seemed agnostic regarding developing country concerns (except when lobbying support for their agenda) (Bhaumik, 2006). Divergence even emerged between the middle income developing countries and the Least Developed Countries (LDCs). The latter seemed content with EU proposals, so long as duty free and quota free access was still offered for their exports. Conversely, India, Pakistan, Egypt, and Malaysia threatened to deny consensus to launch a new round without first addressing their issues.

During this period, we see the origins of the Doha round's standstill. The WTO in 1998 was a much different place than the GATT during the first years of the Uruguay

round in the mid 1980s (Bhaumik, 2006). Developing countries during Uruguay were still non-participants in multilateral trade negotiations. Like all the previous GATT rounds, Uruguay reflected the interests of the most developed, rich countries. Yet, by 1998 the WTO included 135 members, of which 97 represented the global South. This bloc became adamant upon making real changes in the power structure of the global trading system.

This was the context that WTO members found themselves on the eve of the Seattle ministerial conference, scheduled for November 1999. The Seattle conference was to be the venue in which the nascent WTO launched its first official round, dubbed the Millennium round. However, by the end of the Geneva ministerial in 1998, it was clear that an organized majority of developing countries had coalesced to control outcomes and denying consensus to U.S. and developed country proposals.

Hegemonic Restructuring & The Failure of Collective Leadership

Understanding its traditional hegemonic position was no longer tenable, the U.S. reevaluated its situation and sought consensus through other means. Faced with the reality that the regime could not progress without addressing developing country issues, the U.S. proceeded to propose serious liberalization of its agricultural schemes. However, doing so was contingent upon other countries sharing in the burden of agricultural liberalization. This is consistent with the hegemonic stability framework's expectation of the dominant state's behavior while experiencing decline. As Gilpin (1981) suggests, declining hegemons shift strategies to maintain control over outcomes. For the U.S., the

Clinton administration became amenable to opening up agricultural markets in order to gain traction on service liberalization, among other goals. However, it was not willing to do so unless others shared in the economic sacrifice this entailed. As Snidal (1985) suggests, declining hegemons may attempt to forge a collective leadership scheme with second tier powers in order to maintain regime functionality. The U.S. attempted to persuade the EC to share in this role. However, the EC, stymied by domestic politics, refused to compromise (Froning & Shavey, 2001; Fitzgerald & Gardiner, 2003). This left the regime in a precarious situation. For the first time in the regime's history, the U.S. could no longer compel consensus among developing countries, or co-opt the EC into supporting its leadership.

The U.S. sought to make agricultural reform central to its agenda in the run up to the Seattle ministerial. Its proposals included completing Uruguay commitments, such as terminating and reducing agricultural export subsidies, and abolishing domestic farm support (Rothgeb, 2001). Instead, the EC sought a broad agenda revolving around the Singapore Issues, particularly greater liberalization of investment and competition policies. This placed the two most powerful members of the regime in a stalemate over the nature and extent of the agenda on the eve of the Seattle ministerial. In fact, the U.S. was openly suspicious of the EU's broad agenda. The U.S. claimed EU negotiators were attempting to introduce a wide array of new issues as a means of averting discussion on its highly protectionist Common Agricultural Policy (CAP) (Elliot, 2006).

This was the moment the U.S. was most poised to make real concessions to developing countries in order to maintain the functionality of the regime. However,

domestic coalitions within Europe vehemently opposed to any weakening of the CAP's protectionist farm policies. As a result, EU leadership was forced to juggle competing pressures from international negotiators and its domestic constituencies. To appease international audiences, the EU proposed a series of reforms for its CAP. However, these were largely meaningless in terms of serious liberalization. As Fitzgerald & Gardiner summarized, "The reforms will not result in any reduction in the CAP's budget. The CAP will continue to be a huge welfare system for a relatively small group of large-scale elite European farmers who will continue to prosper" (2003 p.9). The EU's predicament is captured by Putnam's Two Level Games argument, whereby European ministers were caught between international pressure to liberalize and their own constituents demanding farm protections remain intact (Putnam, 1988). Given this quandary, the November ministerial in Seattle was doomed before it even began.

The Seattle ministerial collapsed at the hands of thousands of protesters who locked down the city's streets, and developing countries refusing to allow forward movement unless the regime addressed their issues. The U.S.'s position after Seattle indicated disapproval of the newfound assertiveness of developing countries, and signaled little interest at resuscitating the failed agricultural dialogue (Bhaumik, 2006). As a result, the U.S. became silent on the issue of Uruguay implementation that was so prized by the developing countries. The U.S. also refused to negotiate duty free access to American markets for the LDCs. It even signaled waning commitment to the proposals put forth by the EU, giving the European's main objective, the Singapore Issues, a low

priority. The U.S.'s posture indicated that if other countries wished to start a new round it would not object; however, American negotiators felt no need to offer concessions.

Developing countries were the biggest losers at Seattle, as they were poised to make great gains. Prior to the Seattle ministerial, developing countries drafted a list of 93 implementation issues to be addressed. WTO members agreed to remedy 54 of these during the ministerial. With the collapse of trade talks, developing countries failed to make any gains regarding agricultural implementation. The outcome of Seattle only increased the feeling of dejection felt by developing country negotiators. It also hardened the positions of countries like India and Brazil, further driving a wedge between North and South.

Things became a little better for the Europeans after the U.S. presidential election in 2000. President Bush appointed Robert Zoellick as United States Trade Representative (USTR), whom the Europeans considered someone they could work with to ensure the launch of a new round. By August 2001, the new administration offered support for the EU's broader agenda, including the Singapore Issues. Three months later, WTO members met in Doha to attempt resuscitating the regime after the implosion in Seattle. Developing countries immediately threatened to refuse consensus unless the agenda reflected a balance including their grievances. In fact, some trade ministers protested that a new round could not launch because of the unfinished business of Uruguay implementation (Steinberg, 2002). As a solution, developed countries offered that instead of a new round, the Doha ministerial would launch a 'work program' aimed to complete the unfinished business from Seattle. In order to generate consensus among developing countries to

launch the ‘work program,’⁶⁷ developed countries offered side payments. These included a favoring clarification of the compulsory licensing section of the TRIPs agreement and exemption from the EU-ACP Cotonou market access agreement (Steinberg, 2002). Acknowledging the surge of developing country power to affect outcomes within the regime, negotiators agreed to call the new round the Doha Development Agenda. The Doha ministerial agreed that the WTO would meet again in Cancun two years later and conclude the Round by January 1, 2005.

Discord Across the Trade Regime

The Cancun Ministerial (2003)

By the end of the twentieth century, the regime can no longer be considered hegemonic. No individual country wielded the influence to forge consensus around issues favoring their economic interests. Though the U.S. attempted to orchestrate a kind of collective leadership with the EU, domestic politics prevented its formation. The following paragraphs detail the experience of Doha negotiations to argue that the vacuum of hegemonic leadership gave way to discord among the rest of the regime. WTO members throughout the 2000s failed to produce any sort of compromising agenda that allowed movement towards completing the Doha Agenda.

Similar to the run-up to Seattle, the Cancun ministerial in 2003 was wrought with problems and disagreements that portended its failure. The Ministerial was supposed to be an important milestone for the Doha Round. However, it ended with a walkout by

⁶⁷ Steinberg (2002) notes the only difference between a ‘round’ and a ‘work program’ is the name.

developing countries, leaving members without a framework for how the round was to proceed. This created doubt that negotiations would end by the scheduled 2005 date. By the time Cancun began, the list of disputed issues had grown significantly, and North-South tensions were at an ultimate high. Pitting North against South were issues surrounding agriculture, Non-Agricultural Market Access (NAMA),⁶⁸ the extension of geographic indicators for TRIPs,⁶⁹ negotiations over trade in services, implementation of Uruguay Round commitments and special and differential treatment of LDCs.

Fergusson (2008) cites four reasons why the ministerial collapsed. First, despite retreating by the EU on some of its demands, developing countries refused to address the Singapore Issues until dealing with those from Uruguay. Second, Fergusson (2008) challenges whether certain countries came to Cancun with a serious intention to negotiate. “In the view of some observers, a few [developing] countries showed no flexibility in their positions and only repeated their demands rather than talk about trade-offs” (2008, p. 7). Third, there was still wide disagreement between developed and developing countries on a range of topics. For instance, the U.S.-EU agreement on agriculture was strikingly distant from the one proposed by the G-20 on special and differential treatment. Fourth, participants argued that the agenda was too complicated, and that the Cancun Ministerial Chairman, Mexico’s Foreign Minister Luis Ernesto

⁶⁸ The agreements on Non-Agricultural Market Access (NAMA) refer to lowering tariffs on trade in industrial products.

⁶⁹ Geographical indication is a term used in international intellectual property law. It serves as a certification of origin for certain products traded internationally. For example, only sparkling wines from the region of Champagne, France can be called Champagne. Accordingly, WTO members have a responsibility to enforce the geographical indicator of specific products originating in other member’s localities.

Derbez, ended talks too early. Critics claim that he should have steered talks into areas that showed some coherence, instead of suspending the meeting.

Developing countries were also furious about the manner that trade negotiations were still conducted. Ministerials featured a Green Room, where the most powerful states met exclusively to iron out the details of the negotiations (Jones, 2010). In the past, the rest of the membership was expected to endorse these proposals without contestation. Other tactics designed to disadvantage developing countries included holding concurrent meetings during the ministerial, which especially affects delegations with smaller numbers of negotiators and representatives. Additionally, developing countries objected to the use of introducing draft texts during the meetings as the basis for negotiation that were not widely agreed upon. Other strategies included *forum-plus* tactics, such as placing telephone calls to country capitals during the negotiations, thereby undermining the delegation (Lee & Wilkinson, 2007).

The Cancun ministerial fell apart largely because of developing country resistance to how trade negotiations were traditionally conducted. Further, developing countries regarded U.S. and EU offers to reduce subsidies as inadequate (GAO, April 2006). Developing countries refused to accept the *business as usual* approach to global trade negotiations (Clapp, 2007). However, while developing countries felt a strong sense of desperation and dejection after Seattle, they expressed an overwhelming sentiment of elation after Cancun. In a sense, they demonstrated their ability to organize and pushback pressure from the most influential states in the regime. The collapse of the ministerial changed the dynamics of the negotiations, as developing countries secured entry as

necessary participants in the decision-making process. For its part, the U.S. called the G20 collection of developing states *spoilers* for walking out on the negotiations. And while its hegemony over the regime had waned, the U.S. still exercised significant influence over individual members. For instance, the U.S. signaled disapproval over Latin American membership in the G20. “Following pressure to leave the group or forfeit the opportunity to engage in bilateral trade talks with the U.S., five of the G20 members – Colombia, Peru, Guatemala, El Salvador, and Costa Rica – dropped out of the group in the autumn of 2003” (Clapp, 2007: 45).

Despite Cancun’s collapse, the meeting did produce a text that the Chairman compiled into a draft Ministerial Declaration. This text was derived from facilitators working with members in six areas during the meeting and became known as the Derbez text. After Cancun, the draft Ministerial Declaration was circulated among members for comment. Though the text was widely criticized and failed to become adopted, members began to look at it a few months later as a possible framework for moving forward. On important issues, the text sought to find compromise between developed and developing countries. Concerning agriculture, the text recommended larger domestic cuts than the U.S. and EU proposed. However, it promoted their blended tariff approach, while offering better terms to developing countries (including the elimination of export subsidies for products sensitive to developing country markets). The text also recommended starting new negotiations on the government procurement and trade facilitation areas of the Singapore Issues, while eliminating the investment and competition negotiations.

The July Package (2004)

Cancun's collapse largely derailed any momentum built up from Doha's launch. In fact, all negotiations were suspended for the rest of 2003, as WTO members went into post-crisis mode. What emerged was a proposal towards putting the Doha talks back on track. Negotiated in July 2004, and known as the *July Package*, members agreed to a framework on agriculture and NAMA, forward movement on a services agreement and a commitment to keep talking about TRIPs extension. Agreement was also reached on the contentious Singapore Issues, in which negotiators agreed to drop all but one issue, trade facilitation, in order to get the round moving. Importantly, it was not the usual *quad* countries that negotiated the July Package (U.S., EU, Japan, and Canada). Recognizing the importance of India and Brazil as leaders of the G20, the July Package included the Five Interested Parties (FIP), comprising the U.S., EE, Australia, India, and Brazil (Lee & Wilkinson, 2007).

Not long after its introduction, fissures among regime members began to reemerge. The LDCs complained that the FIP essentially acted the same as the Quad and neglected to consider their issues. Other problems concerned widespread disagreement regarding how states interpreted the Package. The G10⁷⁰ and the EU worried about the language in the Package calling for severe reductions to domestic agricultural support. Later that year, the African delegation proposed amending the 2003 TRIPs agreement to

⁷⁰ The G10 (Belgium, Canada, France, Italy, Japan, the Netherlands, the United Kingdom, the United States, Germany and Sweden) represents the largest agricultural exporting countries.

loosen constraints on importing generic pharmaceuticals during times of health crises. This exacerbated the already deep fracture between North and South, as it infuriated representatives from many developed states, particularly Australia, Canada, and the EU. After a few months the talks drifted back into a stalemate, and only a few technical issues were resolved.

Hong Kong (2005)

The stalemate generated a lot of pressure for the upcoming Ministerial conference scheduled for Hong Kong. Many considered this the last opportunity to rescue the negotiations and conclude the round by 2007. The expiration of the U.S. President's Fast Track negotiating authority in 2007, and the unlikelihood of congressional renewal, made 2007 a *de facto* deadline to finish negotiations. Despite an upswing in optimism during 2005, WTO Director General Pascal Lamy said in November that a comprehensive agreement on modalities would not manifest in time for the Hong Kong Ministerial, slated for December 13-18, 2005. Instead, the focus of the meeting would assess progress and attempt finalizing agreements in areas where there seemed to be convergence. Modalities refer to the methods and formulas through which members agree to cut tariffs and increase liberalization.⁷¹

The Hong Kong Ministerial set a deadline for concluding the round by the end of 2006. This included an April 30th deadline on agricultural and non-agricultural modalities and a July 31st deadline for a tariff schedule covering these issues. However, by April

⁷¹ http://www.wto.org/english/tratop_e/dda_e/modalities_e.htm

21st, Lamy announced that no agreements had been reached on modalities, and therefore the April 30th deadline would pass without any consensus. Negotiators also failed to reach agreement during a high level meeting in Geneva that June, which propelled Lamy to announce he would take a more assertive role in negotiations to help forge a deal on agriculture and industrial modalities. For the first time, Lamy proposed a compromise deal called the *20-20-20 Proposal*. The proposal called for the U.S. to accept a ceiling on domestic farm subsidies under \$20 billion. It called for negotiators to use the G20 proposal of 54% as the minimum average tariff cut for agricultural products among developed countries. Last, the proposal called for a tariff ceiling of 20% for developing country industrial tariffs. The proposal was widely criticized and failed to become adopted in Geneva.

Modalities on agriculture and industrial market access were broached again during the G8 summit in St. Petersburg and leaders agreed to reach agreement within a month of the July summit. Despite the optimistic language offered at the G8, world leaders indefinitely suspended talks after the G6 (U.S., EU, Japan, Australia, Brazil and India) failed to find a compromise on agricultural subsidies and tariffs. The EU blamed the U.S. for not offering better terms on domestic support. The U.S. responded that neither the EU or the G20 offered satisfactory terms for market access warranting better terms. Congress praised the hard line approach of U.S. negotiators and reaffirmed that domestic subsidy concessions must be met with greater market access provisions.

After the 2006 suspension of talks, various country groups began attempting to restart negotiations. By January 2007, Lamy remarked that the negotiations were back in

full swing (though none of the country groups actually reached any agreements). Key players, such as the G4 (U.S., EU, Brazil and India) met bilaterally and in groups to break the impasse during the first months of the year. By April, the G6 (G4 plus Australia and Japan) agreed to aim for finishing the round by the end of the year. However, a G4 summit in Germany during July ended in acrimony over competing demands for higher cuts in developed country subsidies by developing countries and greater cuts in industrial tariffs by developed countries. In Geneva the following July, trade ministers again failed to reach any breakthrough after eight days of negotiations.

Talks to resuscitate the round have remained in limbo ever since. Lamy continues to speak optimistically that members can resolve differences and work towards the Round's conclusion. However, 2009 witnessed no real commitments between states, only informal consultations and discussions. By the end of the year, the only progress was on small technical issues, while solutions to the fundamental issues separating members remained illusive. In November 2010, Lamy called on countries to conclude Doha by the end of 2011. Currently, there seems to be little political will among leading members to make the serious compromises necessary to bring the round to a close. Alas, despite the Director General's optimism, there appears to be no end in sight for the Doha Round.

The Rise of Preferential Trade Agreements

The U.S.'s inability to forge consensus in the late 1990s coincided with another change to the global trading order. As U.S. bargaining power diminished, the nature of the trade system shifted from exclusively multilateral to include bilateral and plurilateral

agreements. These configurations violate the cornerstone of the postwar multilateral regime. The logic of the free trade system is its Most Favored Nation (MFN) rule. MFN requires states to offer the same preferences equally to all members. The principle is undergirded by classical trade theory, which suggests elimination of trade barriers is Pareto superior for all parties. By their nature, Preferential Trade Agreements (PTAs) provide more favorable terms among participants than those that do not join. Therefore, PTAs are discriminatory, and distort the free trade system.

As it became uncertain whether the WTO could deliver both developed and developing country promises, members began abandoning the legal and normative obligations to multilateralism and selected preferential trade strategies.

States claim preferential trade is favorable to multilateralism because it solves important issues. Whereas completing global multilateral trade agreements takes years and significant resources, regional and bilateral agreements require shorter negotiations. Developing countries feared perpetual stalemate would lock them out of achieving any new gains for an uncertain number of years.

When the Bush administration came into office in 2001, the U.S. also embarked upon preferentialism as a primary trade strategy. This is significant, as U.S. policy professed a strong commitment to multilateralism for both normative and economic principles since World War II. The U.S. was further compelled to support the principles of the regime because of its hegemonic position and leadership.

However, the administration quickly moved to negotiate numerous preferential agreements with both regional and global allies. Unable to advance consensus around its

issues during Doha negotiations, the U.S. worked to proliferate them in preferential agreements.

This section discusses the rise of preferential trade agreements negotiated since the decline of U.S. hegemony in the late 1990s. The range and purpose of PTAs are first examined, followed by an analysis of how they hinder multilateralism, and ultimately the free trade system. The last section introduces the U.S.'s shift to PTAs to help set up the case studies in the following two chapters.

The Landscape of Preferential Trade Agreement

Today, hundreds of overlapping and crisscrossing trade agreements negotiated outside of the multilateral order saturate the international system. As of February 2011, the WTO has been notified that 228 such agreements are in force.⁷² The bulk of these agreements were negotiated over the past ten to fifteen years. In fact, 124 were negotiated during the entire four decades of the GATT (1948-1995); and only thirty-six of those are still operational. Many became defunct when they evolved into new arrangements forging deeper integration. Instead, 243 have been notified to the WTO during its first ten years (1995-2006). This amounts to approximately twenty agreements annually since its creation. The magnitude is even greater considering those in force, but not notified to the WTO (approximately seventy); signed but not yet in force (approximately thirty); those still in negotiation (approximately sixty-five) and those still in the proposal phase (approximately thirty) (Fiorentino et al., 2007).

⁷² See <http://rtais.wto.org/ui/PublicAllRTAList.aspx>

Until the mid 1980s, international trade occurred exclusively under multilateralism. Undergirding multilateralism was the belief that preferential agreements would reignite the era of competing trade blocs leading up to World War II. The Europeans lead the world in number of preferential trade agreement. The EU is party to more than half of all notified to the WTO. The main grouping of European agreements fall under the EU and the European Free Trade Association (EFTA).⁷³ Initially, the EU focused development efforts on former colonies through aid and assistance. By the early 1990s, these packages began to include legal frameworks for trading and investing. Partners adopted EU laws and policies covering trade and business practices as a condition. Some pacts are seen as phase in agreements, whereby partners may eventually accede to the EU. For instance, the EU launched accession talks with Croatia and Turkey in 2005 and are now engaged in Stability and Association negotiations with Serbia and Montenegro. Progress has also been made towards a Euro-Mediterranean FTA between the EU and Mediterranean countries. In 2000, the EU signed the Cotonou Agreement with seventy-six former colonies in Africa, the Caribbean and the Pacific. In 2001, agreements were made with Algeria, Egypt, Korea and Bangladesh. A year later, more were signed with Algeria, Chile, Jordan and Lebanon. Syria signed an agreement in 2004 and Iran in 2005 (Whalley, 2008).

⁷³ The EFTA is an free trade organization among four countries that operates parallel to, and with, the EU. It was signed into force in 1960 by Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom. In contrast to the “inner six” (Belgium, France, Italy, West Germany, Luxembourg and the Netherlands) that founded the European Communities (EC), the EFTA states initially resisted European integration (though most later joined the EC).

China, who only accessed to the WTO in 2002, has since negotiated preferential agreements with Hong Kong, Macau, ASEAN, New Zealand, Australia, Chile, Pakistan, Singapore and the Gulf Cooperation Council. Currently, China is in talks with Thailand, APEC, Brazil, India, Mexico, Peru, the South Africa customs union, Mercosur (South America), Iceland, Japan and Korea. Japan, who until recently had no preferential partners, now has eleven. Japan's partners include ASEAN, Brunei, Chile, Indonesia, Malaysia, Mexico, Philippines, Singapore, Switzerland, Thailand and Vietnam. India is also joining the trend, negotiating nine agreements in recent years with ASEAN, Afghanistan, Bhutan, Nepal, Singapore, Sri Lanka, Korea, and MERCOSUR.⁷⁴ In addition to the seventeen countries the U.S. has FTAs with, agreements are also pending with Colombia, Panama and Korea. The U.S. is also involved in regional talks, such as the a Trans-Pacific Partnership Agreement.⁷⁵

States are also selecting typologies of preferential agreements that best serve their strategic needs. The typology of agreements center between Customs Unions (CUs), such as the EU, and free trade areas, including the U.S.'s FTAs. CUs are preferential trade agreements whereby members collectively impose common external tariffs. Members establish their own external policies towards nonmembers in free trade agreements. Overwhelmingly, states are selecting to establish free trade areas on a bilateral basis. This suggests these parameters satisfy important interests that CUs do not. The current surge in preferential agreements are encouraging states to negotiate them as quickly as possible.

⁷⁴ See <http://rtais.wto.org/ui/PublicAllRTAList.aspx>

⁷⁵ See <http://www.ustr.gov/trade-agreements/free-trade-agreements>

Unlike CUs, free trade areas offer this kind of flexibility and speed. While they can still take years to negotiate, recent evidence indicates the time is becoming shorter, especially between countries with comparable economic structures and outlooks (Fiorentino et al, 2007). Whereas CUs imply a bloc of countries, free trade areas are often established bilaterally; allowing greater flexibility in the scope and extent of the agreement, as well partner selection. This is especially significant for states utilizing trade agreements for strategic market or political alliance purposes. Free trade areas also allow states to retain economic sovereignty in their relations with non-members. CUs are more restrictive and reflect the goals of previous eras of regionalism, primarily to forge integration among geographically contiguous states. Since the most recent turn has been between geographically dispersed states, CUs are much less ideal. They also curtail state sovereignty, as they demand common commercial and external policies, requiring significantly longer negotiations. CUs also limit the choice of trade partners, as they are forged among regional economies.

Bilateralism is the most prevalent formation of recent agreements. Bilateral arrangements account for 80% of all preferential agreements notified and in force. Of those under negotiation, 94% of them are bilateral, as are the 100% under proposal (Fiorentino et al., 2007). One reason for the surge in bilaterals is that regional agreements were already established during previous episodes of integration. As mentioned above, bilateralism also presents less complex negotiations, since they involve only two states. Bilateralism is also popular as the purpose of agreements has shifted emphasis from integration to strategic market access. Agreements on the whole are becoming less

regional, as countries are targeting new markets and preferential partners. In fact, despite the wave of earlier regionalism, where states increasingly sought to forge deeper integration with their neighbors, the current trend in bilateralism is undermining these efforts, as states are looking to negotiate cross regional relationships and alliances.

Another interesting development of this current wave of preferential trade agreements is foregoing of non-reciprocal systems of preferences by developing countries, like those built into the multilateral General System of Preferences (GSP). Instead, developing countries are actively pursuing preferential agreements with larger economies in the North on a comprehensive and fully reciprocal basis. Part of this shift is driven by WTO commitments requiring developing countries to adopt greater liberalization over time. For others, this represents a conscious strategy to liberalize. Additionally, this wave of preferentialism is also marked by an increasing number of South-South agreements.

Political economists have attempted to make sense of this explosion in preferential agreements over the last decade and a half.⁷⁶ It seems they solve fundamental economic and political problems posed by multilateralism. Multilateral negotiations are slow to complete and it is difficult to broaden their scope to non-trade areas. For instance, the demand to cover competition and investment policies is an incentive to pursue preferential agreements (Whalley, 2008). Environmental and labor policies, issues difficult to negotiate multilaterally, are also easier to cooperate on bilaterally. Further, though U.S. efforts during the Uruguay round broadened the regime to cover new topics

⁷⁶ Bhagwati and others offer a serious critique of the turn away from multilateral trade in chapter 2.

(including telecommunication and financial services), major economies are finding quicker access to targeted markets through bilateral negotiations (Brown & Stern, 2011). The growing membership of the GATT/WTO regime over the last couple of decades, introducing more diversity among members' interest, exacerbated the coordination problems inherent to multilateralism. Thus, preferential agreements have become popular among countries because they solve important problems posed by the complexity of multilateral negotiations, especially as regime membership continues to grow. These problems became untenable in the absence of a hegemon capable to broker consensus.

The U.S. Turn to Preferentialism – Setting up the Case Studies

The Bush administration ushered in the U.S.'s shift in trade policy from exclusively multilateral to bilateral and plurilateral. Before Bush took office, the U.S.'s only preferential trade arrangements were a bilateral agreement with Israel negotiated in 1985 and NAFTA in the late 1980s and early 1990s. The Israeli agreement is largely anomalous in U.S. trade history. Policy makers point out that the agreement sought to reaffirm U.S. support of Israel, as the amount of two way trade is minuscule. At the time, NAFTA was the most complex trade agreement outside the WTO, and certainly concerned economic considerations among the three North American countries. As said earlier, both agreements were also part of the U.S.'s exiting strategy to garner consensus for American proposals throughout Uruguay.

However, the FTAs negotiated during the Bush years are significant for their number, and their role in the administration's security and economic goals. In total, the

USTR negotiated FTAs with eighteen countries between 2001 - 2009. Strikingly, most were negotiated with developing countries, including Bahrain, Costa Rica, Dominican Republic, El Salvador, Honduras, Jordan, Morocco, Nicaragua, Oman, Colombia, Panama and Peru. With the exception of South Korea, the other FTAs represent middle tier economies, including Australia and Chile. In terms of sheer market size, the U.S. only forged FTAs with countries possessing relatively miniscule markets.

The USTR's strategy to select FTA partners honed in on strategic allies in sensitive regions of the world. As the case studies demonstrate, the FTAs with Australia, Singapore and Morocco all emerged from those countries' commitment to advancing U.S. interests in the global War on Terror. South American FTAs also possess components relating to U.S. security concerns. For instance, the goals of the FTA with Colombia include abating the flow of drug trafficking and reducing the threat of the Colombian terrorist organization, the Revolutionary Armed Forces of Colombia (FARC). FTAs also provided U.S. negotiators an opportunity to advance new trade norms the U.S. could no longer implement multilaterally. For instance, more stringent intellectual property protections and weaker regulations on foreign direct investment. As its capability to forge consensus around issues favoring U.S. economic interests evaporated, American negotiators discovered they could easily proliferate them in preferential agreements. Developing country FTA partners issued little resistance to more stringent intellectual property protections and more open investment arrangements in order to gain preferential access to American markets.

The U.S.'s shift from acting as the leader of the multilateral trade system to becoming an ardent preferential trader is consistent with the theoretical framework presented in chapter 2. As the framework suggests, declining hegemons select alternative strategies to maintain their positions. The USTR's move to embrace preferential agreements offered the U.S. an opportunity to shift venues away from the WTO, where its bargaining tactics and leverage no longer achieved consensus, to a new negotiating environment whereby American influence remained firmly entrenched. As mentioned above, the U.S.'s success in promoting its trade agenda bilaterally derives from the relative disparity in market size with FTA partners.

Conclusion

This chapter offers an historical background of how hegemony operated to steer outcomes in the multilateral trade regime. In order to situate the case studies presented in the subsequent chapters, the history also focuses on the fracturing of the multilateral system. As argued throughout, hegemony in the trade regime entailed controlling the consensus decision making rule. So long as the U.S. could ensure consensus around its issues was not blocked, it remained hegemonic. However, on the eve of the Doha launch, developing countries denied this authority from the U.S., leaving the regime non-hegemonic. In an attempt to reorient its tactics post- hegemony, the U.S. attempted to persuade the EU to accept a type of cooperative leadership scheme over the regime. However, the EU refused, prevented by domestic coalitions unwilling to accept economic losses. Throughout the Doha round, ministerial meetings and high level conferences

exhibited great levels of discord among regime members. As of today, the round remains in stalemate, as “no one is willing to sacrifice their golden cow” (Personal communication, 2009). Coinciding with collapse of U.S. hegemony, WTO members began concluding PTAs at an increasing pace. The U.S. joined this wave after the Bush administration entered office in 2001, discovering it could promote its trade and geostrategic policies much easier in bilateral settings.

The selected history presented in this chapter aligns with the expectations of the theoretical framework developed in chapter 2. The framework suggests that hegemons structure international systems of trade to further their interests. The U.S. led global efforts after World War II to reconstitute the global economy. As argued throughout, the institutions it spearheaded supported American financial and geostrategic interests. The rules governing decision making in the trade regime were designed to assure U.S. dominance, while projecting an aura of legitimacy and sovereign equality. For more than forty years, the U.S. exercised asymmetrical leverage against GATT/WTO members to produce outcomes supporting the U.S.’s economic and security agenda.

However, once U.S. control over the consensus decision making rule system was denied by developing countries, its hegemony over the regime waned. The U.S. exercised its traditional hegemonic tactics throughout the Uruguay round, successfully incorporating a range of new issues in the multilateral fora and garnering consensus through the threat of exiting and promises on agricultural reform. However, events in the years between the end of Uruguay and the launch of the Doha altered the negotiating environment. The increasing economic importance, and growing membership, of

developing countries weakened the U.S.'s leverage over the regime. Aggravated by failed promises to implement agricultural reforms in the U.S. and the EU, an empowered contingent of developing countries emerged to resist efforts among developed countries to embark on new trade talks. Unable to effectively wield threats or broker deals, U.S. hegemony became challenged on the eve of Doha's launch.

Also consistent with the theoretical framework was the U.S.'s strategic reorientation, aimed to cope with the loss of hegemony. In an effort to maneuver consensus, the U.S. volunteered serious agricultural reform. However, its commitments depended upon the EU sharing the burden of reform by restructuring its Common Agricultural Policy (CAP). This shift in strategy is captured in the framework's expectation that second tier power may elect to join the falling hegemon in a collective leadership role (Snidal, 1985). When collective leadership between the U.S. and EU failed to coalesce, the regime began facing serious coordination problems. Keohane (1984) contends that the absence of hegemony will spur non-hegemonic members to lower egoistic calculations and work towards compromise in order to continue furnishing regime benefits. As the experience of Doha negotiations suggests, this expectation failed to materialize.

In fact, the experience of Doha captures Keohane's characterization of discord in the international system. For more than a decade, states have not even raised the façade of compromise and cooperation. Instead of offering to seriously find middle ground on the issues impeding Doha's progress, many ignore the proposals of others and solely articulate their own demands.

The experience of Doha also raises new questions about what happens when non-hegemonic states fail to *save* the regime through compromise and cooperation. Empirically, the past decade challenges Keohane's expectation of non-hegemonic state behavior. Despite an overwhelming interest to do so, regime members are effectively abandoning global multilateralism. While states continue to fortify the legitimacy of the WTO, by abiding its rules and regularly submitting disputes to its Dispute Settlement Body, the fundamental tenet of the multilateral order, non-discrimination, is no longer sacrosanct. Bilateral and regional agreements inherently discriminate and, as economists such as Bhagwati (1995) claim, undermine the goal of international free trade.

Keohane notes that states will not exert the compromise necessary to rescue regimes if there is no overwhelming interest. On the surface, this seems to explain the current status of the WTO and member behavior. However, it raises an important consideration, as multilateralism promises Pareto superior outcomes. Keohane does not discuss scenarios in which members abandon regimes in pursuit of suboptimal interests.

More importantly, the failure of WTO members to rescue Doha weakens the overall premise of regime theory. For more than fifty years, the regime supplied enormous benefits to its members and the health of the international economic system. It successfully fulfilled its mission to coordinate states towards global trade liberalization. Since 1995, the WTO has served as a model of international law and enforcement, as its Dispute Settlement Body is widely regarded a fair and legitimate adjudicator of trade disputes. Preferential agreements remove the WTO's function to provide this service, as disputes among preferential partners are settled bilaterally (often reverting to the realm of

power politics). Furthermore, the WTO not only promises economic benefits through global multilateral liberalization, it also provides members with the other benefits advocated by regime theorists. Regimes solve coordination problems among variegated and diverse countries. As Bhagwati (1995) warns in his Spaghetti Bowl analogy, the proliferation of preferential agreements poses significant consequences for the coordination of trade laws and norms. Like other regimes, the WTO also establishes expectations regarding the behavior of states. A system characterized by preferentialism reduces expectations to a bilateral basis, where states treat their trading partners differently. Thus, in addition to the eventual economic benefits of global free trade, there are overwhelming interests in salvaging the multilateral order. Indeed, these interests are paramount to those satisfied through preferential agreements and, it would seem, compelling enough to motivate members towards compromise. Considering these other provisions the regime provides, the failure of states to rescue the regime challenges Keohane's fundamental argument.

The purpose of this detailed historical narrative is to provide context for the case studies of U.S. FTAs in chapters four and five. Shifting back to the initial research question driving this dissertation, the case studies aim at augmenting existing knowledge regarding how declining hegemons reorient their foreign policy strategies. As argued here, by the late 1990s, declining hegemony rendered traditional American bargaining tactics untenable at the multilateral level. No longer able to achieve desired outcomes multilaterally, the newly elected Bush administration embarked upon a concerted unilateral trade strategy upon entering office in 2001. While multilateral negotiations

associated with the Doha round floundered in acrimony between developed and developing countries, the U.S. began pursuing bilateral FTAs with countries it possessed significant asymmetrical leverage over. Whereas hegemonic decline eroded American capabilities to achieve outcomes multilaterally, its leveraging power in bilateral settings remained unchallenged. Selecting FTA partners with such relatively weak bargaining leverage ensured the U.S. could advance new policies it failed to gain traction at the multilateral level. While advancing these policies through individual bilateral agreements was suboptimal to advancing them on a global multilateral scale, the administration understood their value in largely non-economic terms. Bilateral FTAs were utilized by the Bush administration as a means to capture support for its War on Terror geopolitical strategy with strategically important countries.

Index for Figure 2

1960			1970			1980			1990		
In billions U.S. dollars	Exports in Goods	Imports in Goods	Exports in Goods	Imports in Goods	Exports in Goods	Imports in Goods	Exports in Goods	Imports in Goods	Exports in Goods	Imports in Goods	
Australia	0.170601	0.1932334	0.3953078	0.3683668	1.809959	1.681329	3.308521	3.238113			
Austria	0.0933593	0.1179863	0.2392719	0.2972405	1.456484	2.033988	3.41614	4.077042			
Belgium	0.3126724	0.3257074	0.9661487	0.9515482	5.375583	5.98436	9.834558	10.00261			
Canada	0.4632972	0.4719959	1.342394	1.113489	5.427223	4.936601	10.63774	9.728457			
Chile	..	..	..	..	..	..	..	..
Czech Republic	..	..	..	..	..	..	..	..
Denmark	0.1247087	0.1508664	0.2796955	0.3672899	1.399123	1.612994	3.072995	2.760045			
Estonia	..	..	..	..	..	..	..	..
Finland	0.0823958	0.0886719	0.1916931	0.2192192	1.18277	1.305003	2.208984	2.246039			
France	0.5756577	0.5267241	1.51077	1.500822	9.673066	10.86373	17.66167	18.88169			
Germany	0.9577991	0.8534611	2.863245	2.504781	16.06531	15.65543	34.14192	28.7083			
Greece	0.0169278	0.0585028	0.0535472	0.1632	0.4321283	0.8851001	0.6678248	1.652611			
Hungary	..	..	..	..	..	..	..	..
Iceland	0.0058811	0.00765	0.0122115	0.0131006	0.077659	0.0836294	0.1322194	0.1379266			
Ireland	0.035703	0.0529462	0.093192	0.1348926	0.698967	0.9280744	1.976606	1.719318			
Israel	..	..	..	..	..	..	0.9541583	1.258942
Italy	0.3061452	0.3964721	1.096614	1.24344	6.491901	8.325561	14.15215	15.13883			
Japan	0.3379642	0.3743564	1.618104	1.58154	10.80096	11.76144	23.85947	19.48449			
Korea	0.0026667	0.0286667	0.0696667	0.1653333	1.459333	1.85775	5.417978	5.820306			
Luxembourg	..	..	..	..	..	..	0.5259917	0.6328446
Mexico	..	..	..	..	1.29265	1.661825	2.236542	2.605992
Netherlands	0.3381416	0.3803845	0.9820665	1.119949	6.153378	6.505297	10.9466	10.51305			
New Zealand	0.0700737	0.0650371	0.1015989	0.1032827	0.4517784	0.4561339	0.7827137	0.7894413			
Norway	0.0734892	0.1220615	0.2044417	0.3082948	1.5474	1.41118	2.825214	2.243867			
Poland	..	..	..	..	..	..	..	..
Portugal	0.0272802	0.0455699	0.079257	0.1303656	0.3860859	0.7884622	1.361523	2.072796			
Slovak Republic	..	..	..	..	..	..	..	..
Slovenia	..	..	..	..	..	..	..	..
Spain	0.059665	..	0.198833	0.3954372	1.698967	2.81667	4.612721	7.287389			
Sweden	0.2140575	0.2419514	0.5626755	0.5824876	2.581457	2.791899	4.785379	4.560233			
Switzerland	0.1549489	0.1838517	0.4280163	0.5388505	2.415364	2.932025	5.296297	5.798865			
Turkey	0.0159142	0.0194076	0.0464385	0.0749844	0.1845745	0.5110767	1.087346	1.879028			
United Kingdom	0.8862798	1.088898	1.611692	1.879443	9.114241	9.570001	15.34775	18.66214			
United States	1.716583	1.25625	3.602083	3.32925	18.38551	21.41534	32.79935	41.27588			
Brazil			0.2283333		1.6777	1.912931	2.617813	1.72178			
China			..		..	..	..	..
India			..		..	..	1.496963	1.96916
Indonesia			..		..	..	2.139611	1.823106
Russian Federation			..		..	..	..	..
South Africa	0.103584	0.1382586	0.2778834	0.3161961	2.118863	1.64134	1.967969	1.533272			
TOTAL	7.1457963	7.1889109	19.05518	19.402804	110.35844	122.32917	222.27272	230.22356			

Chapter 4

EXTRACTING ECONOMIC CONCESSIONS: THE AUSFTA

This chapter presents a case study of the U.S. – Australia FTA (AUSFTA), negotiated by the Bush administration during 2003. Unlike the two cases detailed in the next chapter, the AUSFTA is an instance of the declining hegemon extracting economic concessions from a weaker, subordinate state. As this case shows, in certain circumstances the declining hegemon engages in economic coercion to obtain preferential trade positions relative to subordinate partners. As developed in the theoretical framework presented in chapter 2, this agreement supports the argument that declining hegemons, no longer able to direct outcomes at the multilateral level, move to smaller negotiating environments to promote their agendas.

In addition to demanding Australia capitulate to stronger intellectual property and copyright regulations, the FTA also codifies unequal terms of trade, as the tariff scheme unilaterally benefits American firms and producers over their Australian competitors. The agreement immediately removes Australian tariffs while American protections remain intact, only to be phased out over the course of almost a decade and omits sugar, a key

Australian export. The FTA also weakens Australia's domestic regulatory structures, particularly its subsidized pharmaceutical program and agricultural quarantine laws.

Australia voluntarily accepted the lopsided terms of this agreement.

Understanding why requires examining the hierarchical relationship between Australia and the U.S. Australia has supported and fought alongside the U.S. in all its major wars since World War II. This includes contributing troops to the theaters in Iraq, Afghanistan and the broader U.S. led global War on Terror. Its commitment to supporting American wars and foreign policy stems from its position as sheltered under the U.S. security umbrella. The U.S. is also an important economic ally. Australia experienced a heightened sense of vulnerability because of its support for U.S. foreign policy, and its military contribution to American wars after the 9/11 attacks. The Bali terrorist bombing in 2002 that killed 88 Australians further increased concern. Australia sought to ensure the U.S.'s security commitment as it contended with the new threat of Islamic extremism and terrorism, in addition to its traditional security preoccupations. Though the Australians did not anticipate their American counterparts would demand such an asymmetrical agreement, the Prime Minister capitulated, calculating that the FTA would raise his country's level of importance to the U.S. and forge closer access to the President.

This exchange of economic concessions by a subordinate for security guarantees and greater access to the dominant state's leadership aligns with Lake's description of international hierarchy. As Lake claims, international hierarchies are dyadic exchanges in which a subordinate submits to demands by a superordinate in exchange for certain goods

or benefits. This case shows that when the U.S. could no longer organize hegemonic exchanges among regime members to produce multilateral consensus, it shifted venues to forge exchanges advancing its agenda bilaterally. Despite significant resistance from civil society groups, Australia exchanged sovereign control over its domestic regulatory structures and submitted to unfair tariff arrangements in order to gain greater access to the White House, and cement the U.S.'s security commitment.

The 'Special Relationship'

The Australians believed that their support for the unpopular wars in Afghanistan and Iraq would translate into an economically beneficial deal. In fact, Australia has a long history of supporting American geostrategic interests in Southeast Asia and around the world. Australia fought alongside in nearly all the U.S.'s modern wars. In 1951, Australia and New Zealand entered into a formal alliance with the U.S., codified by the Australia, New Zealand, United States Security Treaty (ANZUS). Prior to the treaty, the three nations fought together under the auspices of the United Nations in the Korean War and later, under ANZUS, in Vietnam. The U.S. suspended its treaty obligations with New Zealand in 1985 when it refused to allow American nuclear warships access to its ports after passing a series of domestic laws banning nuclear weapons. As a result, the U.S. relegated New Zealand to the status of *friend*; demoting it from *ally*. In 2003, Senator Charles Grassley and seventeen senate colleagues urged the president to include New Zealand in the proposed FTA with Australia. Yet, critical statements made by New

Zealand's Prime Minister regarding the Iraq war led Bush administration officials to deny the invitation (Stoler, 2004).

Australia has long treated its alliance with the U.S. as a fundamental foreign policy priority. During the Cold War, the purpose and importance of the alliance between the two countries was unmistakably clear. However, the collapse of antagonism between the U.S. and the Soviet Union placed the necessity of the alliance into question. As such, the end of bipolarity compelled Australia to seek new ways to frame the imperative of its relationship with the U.S. (Lantis, 2009). Ann Capling (2005) also suggests that the changing technological nature of warfare, requiring significant investment in intelligence gathering and rapid strike capability, pressed Australia to pursue even stronger linkages with the U.S.

Traditionally, Australia has served as an interpreter of Indonesian politics for American intelligence agencies (Capling, 2005). However, during the 1999 lead up to East Timor's referendum on independence, Prime Minister Howard's government made a series of crucial mistakes that threatened the relationship and caused a negative backlash from Washington. In the months preceding the referendum, the Australian government held back intelligence from its American counterparts and resisted requests to play a larger role in the referendum process. This generated a wave of criticism from Washington regarding Australia's lackluster response to the ensuing violence and its failure to fully share intelligence. With the candidacy of George W. Bush, and his trade policy advisor Robert Zoellick, Prime Minister Howard saw an opportunity to reaffirm the alliance. Like Howard, Zoellick advocated a trade policy incorporating not only

economic considerations; but also geostrategic and political policy goals. As it became clear that Bush would defeat Al Gore to win the White House in 2000, Howard consulted his cabinet and formulated his plan to approach the U.S. requesting an FTA.

The September 11th terrorist attacks on the U.S. helped shape the discourse surrounding the proposed FTA as a matter of national security for the two nations. Indeed, both governments began to frame the FTA in terms of strengthening the bilateral security alliance. Zoellick affirmed that any country wishing to negotiate an FTA with the U.S. must offer its cooperation, “or better – on foreign policy and security issues” (in Capling, 2005, p. 54). Australian leaders, shaken by the 2002 Bali bombings that killed eighty-eight Australians, made the case that an FTA with the U.S. would serve to further link their country to the world’s military superpower, “a safe bet in uncertain times,” remarks Weiss, Thurbon, & Mathews (2004, 140).

The Australian leadership believed that their commitment to fighting alongside in the unpopular wars in Afghanistan and Iraq would ensure a good deal from the Americans. As Weiss, Thurbon, and Mathews (2004) claim, “Without a doubt, there was a tacit view in the Australian government that toeing the line on military and foreign affairs would translate into a special deal on trade and economic affairs” (p. 141). When asked during a television interview whether Australia’s military partnership with the U.S. would produce a dividend towards FTA negotiations, Australian trade analyst Alan Oxley remarked, “We’ve got a special relationship with the United States which the PM seems to have intensified. Maybe he lucked in, and I think our contribution in Afghanistan produced a dividend.” When asked whether this would pay off for Australia during the

negotiations, Oxley claimed, “It’ll be a payoff, yes” (in Weiss, Thurbon, & Mathews, pp. 141-142).

The Howard government miscalculated that Australia’s military support for the wars in Iraq and Afghanistan would produce a favorable deal. Part of the miscalculation includes a failure to grasp the power special interests in the United States wield over Congress, which must approve the FTAs negotiated by the Executive branch. Another miscalculation derives from Howard’s relationship with President Bush. An Australian trade minister interviewed for this project emphasized that Howard and Bush shared a “close friendship” with “deep mutual respect and affection for one another” (personal communication, May 20, 2010). Howard, who rejected a request from Bill Clinton to form an FTA in 1997, believed that Bush was poised to offer a better deal due to their special relationship. However, despite the best efforts of the Australian negotiating team, and Prime Minister Howard’s special friendship with President Bush, the FTA usurps sovereign authority over many areas of the economy in order to serve American business interests.

Australia’s Bad Deal

This section examines the areas of the agreement covering phytosanitary measures and Australia’s public benefit scheme. The purpose is to demonstrate that declining hegemons compel subordinates to accept asymmetrical terms of trade. In this instance, the terms of the agreement require Australia to alter sovereign laws and domestic regulatory structures to comply with American standards that further U.S.

economic interests. The next two sections demonstrate how the terms of the FTA usurp sovereignty over Australia's quarantine regime and its public benefits scheme are examined in the following pages.

Quarantine

Australia is rarely afflicted by the pests and disease that ravage crops and livestock around the world. This is because the isolated island nation employs a stringent approach to quarantining agricultural and animal imports. This safeguard is overseen by the Australian Quarantine and Inspection Service (AQIS), which scrutinizes potential farm products from Australia's trading partners. The standards and rules governing how the AQIS assesses the safety of imports derives from Biosecurity Australia, an office located within the Department of Agriculture, Forestry and Fishery. During a quarantine assessment, panels of scientific experts from government, industry and academia convene to weigh the scientific evidence and produce a risk assessment report for agricultural products attempting to enter the country. Only items deemed low risk are recommended for importation.

Both the U.S. and Australia are signatories to the WTO's Agreement on Sanitary and Phytosanitary Measures (SPS).⁷⁷ This international agreement stipulates the responsibilities of members to make transparent the rules and procedures domestically employed to protect the health of human, animal and plant populations. The SPS agreement articulates that states cannot be punished for applying strict measures to

⁷⁷ For the full text of the agreement, see http://www.wto.org/english/tratop_e/sps_e/sps_e.htm.

reduce the risk of introducing pestilence locally. Critics, especially in the U.S., have decried that Australia's quarantine system is unduly protectionist and violates free trade principles. This is because the quarantine system prevents the importation of certain American agricultural products that fail to reach Australia's standards. The Australians counter that their quarantine system is based upon objective scientific assessments that have protected the country from such devastations as foot-and-mouth and Mad cow disease. When asked to provide an opinion, the WTO has publically defended and endorsed Australia's approach. After reviewing Australia's quarantine system, the WTO released a policy review in which it concluded,

...with Australia heavily dependent on agriculture and a major exporter of agricultural commodities and agrifood products, which receive relatively little government assistance and are sold at world market prices, these measures are believed to be necessary to ensure that Australia's reputation as a reliable exporter of high quality agricultural products is not jeopardized by pests and diseases (Australia's Trade Policy Review, 2002).

Unable to combat Australia's quarantine system within the multilateral venue of the WTO, the U.S. sought to control the quarantine review process as a stipulation of the FTA. Chapter seven of the FTA constitutes the agreement between the two countries regarding sanitary and phytosanitary measures. In addition to recognizing both party's responsibilities as signatories to the WTO's SPS Agreement, the chapter introduces a new dimension of how SPS conflicts will be dealt with bilaterally. While the legal language of the FTA is benign, the ramification of the agreement seriously compromise Australia's authority to control what products can cross its borders. Foremost, the agreement mandates that, "Neither Party may have recourse to dispute settlement under

this Agreement for any matter arising under this Chapter” (AUSFTA, Chapter 7). This means that neither party can take a trade dispute concerning SPS through the multilateral process instituted within the WTO’s Dispute Settlement Body (DSB). The DSB is an independent panel of trade experts staffed by a revolving roster representing all WTO member states. Since the inception of the WTO in 1995, the DSB has been praised as providing a fair forum in which states with much less economic and political influence can receive an impartial hearing. Prior to the creation of the WTO and its DSB, states resolved their trade disputes bilaterally. Typically, states with more economic and political power easily compelled their adversary to back down (Steinberg, 2002). Therefore, the stipulation in this chapter to remove recourse to the DSB reverts trade disputes back into the realm of power politics and provides an unfair advantage to the U.S., which can leverage access to its markets to persuade acquiescence on its demands.

Chapter seven takes dispute settlement out of the purview of WTO jurisdiction and instead creates two new bilateral committees charged with settling issues regarding SPS. These two new bodies are the Australian-U.S. Committee on Sanitary and Phytosanitary Matters (SPS Committee) and the Australian-U.S. Standing Technical Working Group on Animal and Plant Health Measures (SPS Working Group). The FTA states that these committees will “provide a forum for addressing bilateral sanitary and phytosanitary (SPS) matters, resolve trade issues, and thereby expand trade opportunities” (AUSFTA, Chapter 7). Stipulated in the agreement, the SPS Committee must comprise not only scientists, but American trade representatives as well. The reaction among Australian political scientists has largely been critical of this move:

...we have agreed to let U.S. trade officials sit on the bodies that will influence our quarantine standards. *Formalizing the participation of U.S. trade representatives in our quarantine decision-making process will give foreign government officials the power to intervene in policies crucial to our national economic security. Australia will be compelled to compromise its scientifically rigorous risk assessment as a result of U.S. trade pressure* (Weiss, Thurbon, & Mathews, 2004, pp. 31-32).⁷⁸

Thus, the chapter on SPS infiltrates Australia's quarantine review process by creating new committees staffed with American trade officials to intervene in that country's agricultural review process. This provision was so provocative that it became a centerpiece of the Australian Senate's inquiry into the FTA.⁷⁹ The Federation of Australian Scientific and Technological Societies (FASTS), the country's largest interest group representing scientists and technologists, testified during the Senate inquiry regarding Chapter seven's creation of the SPS Committee and SPS Working Group. In their statement, they said:

The objectives of both of those committees go to protecting animal, human or plant life and to facilitating trade between the parties. *So we would say that there is a potential internal conflict of interest between the two broad objectives of both parties. You would be well aware that for many years U.S. agribusiness has claimed vociferously that Australia has used quarantine measures as a barrier on trade. They – and indeed other countries - have been quite vigorous in trying to get Australia to relax its quarantine regime. FASTS's view is that this new structure would seem to shift a concession to the U.S. in this matter* (Smith, 2004).⁸⁰

⁷⁸ Emphasis added.

⁷⁹ After their negotiators submitted an initial draft of the FTA, which compromised on issues the government proclaimed it would protect (such as SPS and the Public Benefits Scheme), the Australian parliament conducted its own investigation and held hearings regarding the potentially negative impact of the FTA. These hearings pressured the Prime Minister to demand certain amendments to the FTA that the United States did not contest.

⁸⁰ Emphasis added.

Accordingly, the FTA mandates that individuals representing American trade interests must be inserted at the highest levels of Australia's quarantine regime. The primary purpose of these individuals is to press the interests of American agribusiness; not ensure the safety and vitality of Australia's agricultural sectors.

Australia's quarantine assessment system maintains the health of its agricultural industries without the need for subsidies. Loss of crops, and the application of pesticides, cost farmers and governments elsewhere millions of dollars a year. Governments in the developed world compensate for the uncertainty of agricultural loss by subsidizing farmers. Subsidized agriculture also allows farmers in developed countries to sell their products abroad at below market prices. This wreaks devastating consequences for developing country farmers, many of whom cannot compete in their own domestic markets with subsidized crops. By avoiding subsidies, Australia exports its products at competitive world market prices; not below market prices made possible by subsidy schemes largely employed in the United States and Europe. Dismantling the quarantine procedures could have dire effects on Australia's agricultural sectors. Particularly, it threatens the loss of crops and augments potential instances of animal disease. These ramifications are exacerbated by Australia's absence of agricultural subsidy programs.

Public Benefits Scheme

Australia's public system for the distribution of pharmaceuticals holds a deep cultural significance for its citizens. The perception held by Australians is that their approach to ensuring a fair, equitable and affordable pharmaceutical scheme sets them

apart from many other countries in the developed world. Similar to the quarantine system described above, Australia's approach to pharmaceuticals revolves around governmental institutions that determine which medicines can enter the country and the costs pharmaceutical corporations can charge Australian citizens. Just as the FTA diminishes Australian sovereignty regarding quarantine, it also weakens the country's authority to control the flow and cost of medicines. Similar to the committees that place American officials into the decision-making apparatus impacting agricultural importation, the FTA generates the same effect regarding pharmaceuticals.

The function of Australia's Public Benefits Scheme (PBS) is to ensure universal public access for Australian citizens to medicines at affordable rates. The government operates as a public wholesale purchaser of medicines directly from international pharmaceutical corporations. After negotiating the price Australia will pay for the drugs it selects to import, the government provides heavy subsidies to ensure that they are affordable for its citizens. Two primary committees are responsible for determining which drugs the government will purchase from pharmaceutical corporations and how much they will pay. The Pharmaceutical Benefits Advisory Committee (PBAC) comprises doctors and health care specialists charged with evaluating and determining the cost effectiveness and therapeutic value of new medicines offered by international pharmaceutical corporations. This body evaluates whether a new drug is more effective than similar drugs already on the market and makes recommendations whether the Australian government should subsidize them for consumers. A separate committee, the

Pharmaceuticals Benefits Pricing Authority (PBPA), decides the price that the government will pay pharmaceutical corporations for the product.

The pharmaceutical lobby in the U.S. has long charged that the PBS is responsible for high drug costs to American consumers. Because the government stipulates the costs of new medicines, they claim that the research and development costs of new and innovative drugs are not recovered in markets like Australia. Additionally, the pharmaceutical lobby has long held that the review process lacks transparency and provides no recourse for appeal. International pharmaceutical corporations, however, have the right to appeal in Australia's federal court system. Though policy analysts argue that their cases are hardly ever persuasive enough to stand up in Australian court.

Industry lobbyists pressed hard for U.S. trade negotiators to attack the PBS and its review process in the FTA. The Howard government reiterated to the Australian public that the PBS would not be up for debate. Despite these promises, U.S. trade negotiators successfully made their Australian counterparts capitulate with the threat of walking away from the deal. U.S. trade negotiators argued that the PBS and its review process lacks transparency. However, Australian trade policy experts counter that the real purpose behind calling for greater transparency is, "to provide pharmaceutical companies with a lever to systematically challenge the PBAC and increase the rate of new drug listings" (Weiss, Thurbon & Mathews, 2004, p. 64). As mentioned above, pharmaceutical companies already have a right of review via the Australian federal court system. Instead, pharmaceuticals sought to divert the courts and seize greater authority over the PBAC review decisions. "By introducing a right of review, the FTA now provides the U.S. with

the legal means to bring an action against Australia should its pharma industry be disappointed by the review outcomes” (p. 64).

The changes to Australia’s PBS include the creation of a Medicines Working Group (MWG). The stated aim of the MWG is to generate dialogue regarding new and innovative medicines marketed by international pharmaceuticals. Akin to the language covering the creation of the committees on agriculture and quarantine, the purpose and aim of MWG is vague. In fact, there is no stated mandate for the MWG in the FTA. “But there is no doubt that the U.S. side has a very clear vision for this group: they want it to become the preeminent body for making decisions concerning the distribution of pharmaceuticals in Australia, subverting the PBS and subordinating the PBAC and the PBPA” (2004, p. 65). In this way, American strategy to undermine Australian control over quarantine and the public benefits systems is clear. This tactic involves utilizing the bilateral agreement to usurp the authority of Australian institutions by replacing them with new bodies staffed with U.S. trade officials pressing the rights of American industry.

Harmonization as Hierarchy

Quarantine and changes affecting the Public Benefits Scheme are apart of a broader American strategy to proliferate new trade norms that benefit its economic interests. Through bilateral FTAs, the administration spread new trade norms it could no longer implement multilaterally. In the past, the U.S. advanced its economic interests by gathering multilateral consensus around the policies it proposed during trade rounds. The decline of its hegemony over the regime entails the U.S. can no longer advance its

policies in this way. Thus, the administration sought to advance them in piecemeal fashion; one FTA at a time. The goal was to generate a cascade of support for these new norms powerful enough to persuade states to support them during multilateral negotiations.

These new trade norms reflect, often verbatim, U.S. law governing intellectual property and regulatory standards. The push to standardize U.S. intellectual property laws derives from the multitude of U.S. corporations, from pharmaceuticals to software firms to media giants, that produce the bulk of the world's patents.⁸¹ The purpose is to ensure continued profitability for these firms by legally holding governments accountable to prosecute copyright violators. The same is true regarding U.S. efforts to globalize investment rules that allocate enhanced rights to American firms and diminish the authority of foreign governments to control their behavior.

WTO I.P. & Investment Policies

The administration's long term strategy sought to harmonize international trade laws that best served American interests (Graham & Wilkie, 1994; Simmons, 2001). Towards this end, U.S. negotiators pushed for greater protection of intellectual property and wider liberalization of foreign investments at the multilateral level. The goal was to combat national and local rules allowing varying levels of protection for domestic

⁸¹ According to the most recent World Intellectual Property Indicators report, the U.S. filed 456, 154 patents in 2007, the most patents in the world. Behind the U.S. was Japan (396, 291), China (245, 161), Korea (172, 469), the European patent office (140, 763), Germany (60, 992), Canada (40, 131), and Russia (39, 439). See, World Intellectual Property Organization (2009).

industries in favor of an international approach that makes trans-border business activities much more streamlined. As mentioned, the U.S. vigorously pursued these goals at the multilateral level during the Uruguay Round. Indeed, the U.S. successfully persuaded other WTO members to bring intellectual property rights into the multilateral fold. An agreement to liberalize investment also became apart of the WTO's complex of laws too. However, while these inclusions were a victory, many industry lobbyists considered the WTO provisions as not going far enough.

For instance, while the WTO receives enormous criticism regarding its agreement on intellectual property, known as the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), it allows states autonomy to pursue national variation in how they comply with the agreement. This allows developing countries, for which technology transfer from advanced industrial centers is crucial for economic growth, the ability to shape domestic laws that both pursue developmental objectives and comply with WTO law. To be sure, the TRIPS provisions are much more restrictive than the various international treaties covering intellectual property that existed before its implementation. Prior to TRIPS, the protection of intellectual property was left individually to states, and states were only bound to follow the particular configuration of international conventions they had joined (Maskus, 1997). Developing countries often created domestic patent regimes that limited the rights of foreign corporations and generated opportunities for local firms to imitate patented innovations. This was deemed a necessary step in the learning process for developing countries to attain industrialization (Shadlen, 2005).

TRIPS aims to curtail the rights of developing countries to establish patent regimes that allow imitation of innovations generated, primarily, in developed countries. It establishes international standards for the protection of computer software, databases, well known trademarks, and pharmaceutical and biotechnological inventions (Maskus, 1997). Yet, while TRIPS represents a formidable barrier for developing countries to reach technological sophistication, it is still designed to make compliance a national prerogative (Correa, 2000). In this way, many developing countries are able to implement domestic restrictions that comply with TRIPS, but also allow local firms to, “invent around patents without risking litigation for infringement” (Shadlen, 2005, 762). They accomplish this in part by issuing specific or narrow patents to their national firms and establishing far reaching exceptions for academic research (which is exempted under TRIPS).

Despite intensive lobbying by the U.S. and the EU, the TRIPS agreements also leave room for states to engage in compulsory licensing. Compulsory licensing is when the government of one country allows local firms to produce and distribute a patented good without consent of the patent holder. This was a primary process developing countries engaged in prior to TRIPS to speed up local innovation. While TRIPS circumscribes the extent to which states can offer compulsory licenses, it does not forbid them. In fact, compulsory licensing is still available to states facing public health crises in order to produce generic medicines that are too costly (Oxfam, 2004). Brazil gets around compulsory licensing restrictions by requiring foreign patent holding firms to manufacture their products locally, thus retaining exclusive rights (Shadlen, 2005).

American and European industry lobbyists also criticized the provisions covering trade related aspects of investments that derived from the Uruguay Round as well. The Agreement on Trade-Related Investment Measures (TRIMS) seeks to dampen the extent to which WTO members can regulate the activities of foreign investors (UNDP, 2003). Broadly, the TRIMS agreement limits the range of options developing countries possess to constrain the activities of foreign firms operating, or seeking to operate, within their borders (Wade, 2003). Fundamentally, this entails that states must extend the Most Favored Nation (MFN) practice previously reserved for matters of trade to foreign firms regarding issues of investment. That is, states must treat foreign firms no different than they treat their own firms. One way this occurs is by outlawing domestic regulations that mandate backward linkages between foreign investors and local producers. For instance, under TRIMS, states can no longer require foreign investors to source certain amounts of inputs locally. Nor can they require foreign investors utilize predetermined local inputs in their exports, a practice used to offset imported inputs (Shadlen, 2005).

Yet, while TRIMS represents a new era of multilateral legalization aimed to protect the interests of foreign corporations operating across national boundaries, it also leaves great discretion for states regarding its implementation and regulation. Most importantly, the agreement does not define what are and what are not, *trade related investment measures* (Shadlen, 2005). Instead, the agreement leaves it up to individual countries to determine which of their national policies fall within the provision of TRIMS. Instead of defining features of domestic policies that fall under TRIMS, the agreement provides a list of examples in its appendix. It is up to states to self identify

these policies, inform the WTO of their existence, and then eliminate them (UNDP, 2003). In essence, so long as states are not clearly violating the Most Favored Nation policy, as well as refraining from applying quantitative requirements to source locally, they can work creatively around TRIMS restrictions.

Thus, states can require foreign firms to transfer technology to local firms, and states can demand joint ventures. And states can regulate foreign investors' hiring practices, with the aim of enhancing development of human capital and skills. Such measures, also standard instruments of postwar development strategies, remain acceptable under WTO rules...Foreign firms do not have a 'right of establishment,' which means that states can restrict (or even prohibit) foreign investors' participation in particular sectors of the economy (Shadlen, 2005, 759).

Thus, akin to the TRIPS agreement, we should view TRIMS as an important shift towards the codification of rules aimed to harmonize international trade and finance.

Both measures usher in significant hurdles for developing states, as compliance entails rejecting development and local industrialization policies utilized since the inception of the GATT in the late 1940s aimed to nurture domestic sectors. However, both agreements preserve states' rights to pursue compliance in a manner that respects national autonomy. Indeed, both agreements provide transition periods for developing countries and even longer periods for least developed countries.

The multilateral bargaining arena of the GATT/WTO is the reason these provisions are not as stringent as industry lobbyist in the U.S. and the EU would like. As discussed in chapter 3, the U.S. was able to secure the inclusion of the *New Issues* (extending GATT rules to trade in services, investments, and protection of intellectual property rights). However, the poly-vocal nature of the multilateral arena, coupled with the consensus mechanism for decision-making, prevented U.S. negotiators from securing

the full extent of its preferences regarding these issues areas. As argued below, this is not the case with U.S. bilateral FTAs. In these arenas, the U.S. possesses enormous bargaining leverage over trading partners. As such, U.S. FTAs represent an alternative strategy towards the goal of harmonizing the strictest intellectual property laws and the most favorable conditions for American firms operating abroad.

I.P. & Investment in U.S. FTAs

Unlike TRIPS and TRIMS, U.S. FTAs stipulate precise regulations regarding intellectual property and the treatment of foreign investment that go far beyond their requirements as WTO members (El Said, 2005; Maskus, 1997; Oxfam, 2004; Roffe, 2004; Shadlen, 2005). Indicative of these greater commitments, the heightened intellectual property rules contained in U.S. FTAs are commonly known as TRIPS *Plus*. Since U.S. trade strategy aims to globalize the most favorable trade laws for American firms, each FTA contains near exact language in the text of the agreements. The most pronounced difference between U.S. FTAs and WTO commitments is the removal of national autonomy regarding implementation and interpretation in the former. Whereas WTO members possess the right to shape the content of domestic laws to reflect their own standards and procedures, U.S. FTAs demand partners implement domestic laws that reflect terms dictated by U.S. negotiators. Additionally, FTAs seek to globalize U.S. preferences regarding patent protection as immediately as possible. For instance, under the TRIPS provisions, states are given transition periods depending on their levels of

development. U.S. FTAs shorten or eradicate these transition periods and demand quick implementation.

Pharmaceutical companies secure enhanced profitability via U.S. FTAs because of these comprehensive requirements. For instance, U.S. FTAs contain what are known as *pipeline protections* for pharmaceutical goods (Oxfam, 2004). In the past, many pharmaceutical companies did not apply for patents in developing countries (primarily because developing countries did not offer patents on pharmaceutical goods at the time). Pipeline protections retroact these patents. That is, they apply patented protection for products that are *not new*, but rather have been on the market for some time, and these protections last for the duration of the life of the patent in the U.S. (Shadlen, 2005).

U.S. pharmaceutical companies are further protected by the inclusion in FTAs of provisions that block access to their clinical trial data for five years. Clinical trials are mandatory in nearly all countries before a local manufacturer can produce and market pharmaceutical drugs. Blocking this crucial data leaves no choice for generic manufacturers in FTA partner states but to conduct their own studies. However, the extreme costs typically prevent this from happening, thus further insulating the intellectual property of the patent holder. This significant barrier even prevents local companies from acquiring compulsory licenses in the case of national emergencies (Oxfam, 2004). In fact, U.S. FTAs nearly eradicate any rights to compulsory licensing, except for cases of declared national emergency. And even then, they are subject to pre-negotiations with the patent holder and often are severely restrictive. As Shadlen says,

“To be sure, regional-bilateral agreements do not prohibit compulsory licenses, but they establish clear and unequivocal biases against their use” (2005, 768).

Outside of pharmaceutical goods, membership in U.S. FTAs compel states to expand their intellectual property regime to areas they previously rejected, or are exempt under WTO law. For example, states are exempt under TRIPS from incorporating plant and animal patents into their national patent system (TRIPS Agreement, Article 27(3)(b), 1994). However, U.S. FTAs require states to relinquish such exemptions and provide protections in these areas. U.S. FTAs also require partners to lengthen the life of copyrighted materials longer than required under TRIPS. This extends the monopoly pharmaceutical companies possess over medicines, as it places a greater delay on the introduction of affordable generic medicines (Oxfam, 2004). Partner states not only have to relinquish any transition periods afforded under TRIPS to bring their national systems into compliance with WTO law, they are also compelled to become signatories to other international conventions and treaties they may have rejected in the past. All U.S. FTA partners, for example, must also ratify the World Intellectual Property Organization’s (WIPO) Copyright Treaty and WIPO’s Performances and Phonograms Treaty (El Said, 2005). The former was designed to meet the challenges of protecting intellectual property in the age of information technology. Its provision to accord computer software programs the same protections as literary works have been heavily criticized (WIPO Copyright Treaty, Article 4, 1996). Akin to the wider criticisms of the expansion of international intellectual property laws, critics remark that both treaties apply a *one size fits all* approach that ignores varying degrees of development and technological knowledge

across countries. Other international conventions that U.S. FTAs require partners to become signatories include, the International Convention for the Protection of New Varieties of Plants (UPOV) and the Joint Recommendation Concerning provisions on the Protection of Well-Known Marks of 1999. The former seeks to ensure patent protection for plant breeders and the latter seeks to harmonize global trademarks.

An area that receives little attention is the provisions contained in U.S. FTAs covering government procurement. Procurement is the public purchase by governments of goods and services from the private sector. As such, it is an important element to a country's trade policy, as it balances the demands of open free trade with the interest to support and grow domestic industries. The U.S., however, treats procurement as an important strategy to enlarge foreign markets for its firms. Yet, the U.S. ensures that liberalization is not reciprocated at home. It achieves this type of protectionism through its *Buy American* programs that mandate quotas for the purchase of American made goods over foreign competitors. Highlighting how this strategy opposes the tenets of free trade and reciprocity, Weiss & Thurbon (2005) remark:

no other state has been as globally active in driving open procurement markets; and no other state has been as nationally protectionist in legally mandating 'buy national' policies. On the one hand, the U.S. acts as the main driver to globalize government procurement markets and enlarge the space for its own firms to operate by establishing the rules of the public purchasing game; on the other, it maintains an aggressive buy national stance which is expressed in an uncommonly tight set of rules that safeguard the home procurement market for American firms (705-706).

While many states possess some set of local and regional preference system for domestic firms, U.S. rules revolve around mandates that federal agencies only purchase goods and services from American companies.

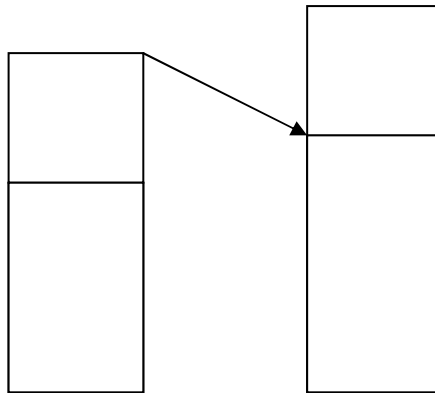
Economic Outcomes

In 2003, an International Monetary Fund (IMF) working paper predicted that Australia's Gross Domestic Product (GDP) would actually shrink as a result of the FTA (Hilaire & Yang, 2003). This is due to a loss of trade from Australia's other traditionally important trading partners, including Japan, Europe and certain other Asian countries. The IMF model indicated that dismantling trade barriers bilaterally would increase Australia's exports to the U.S. by \$2.97 billion. However, U.S. exports to Australia would increase by \$5.25 billion and reduce imports from other countries by \$2.9 billion. Indeed, in the year after the FTA's ratification, Australia's exports to the U.S. declined and American exports to Australia increased. In 2005, the U.S.'s trade surplus with Australia grew 31.7% in the first quarter compared to the previous year, as American exports grew at 11.7% (agriculture alone grew 20%). In 2007, the Australian Department of Foreign Affairs and Trade reported a significant increase in the imbalance of trade between the two countries (DFAT, 2008). The U.S. became the largest source for Australian imports, with goods and services valued at over AU \$31 billion. However, Australia's exports to the U.S. only valued at AU \$15.8 billion.

The negative economic impact for Australia is largely generated by what economists call *trade diversion*. This occurs in preferential trade agreements when a country no longer imports goods from the most efficient producing sources and instead imports them from a less efficient preferential partner. For example, suppose Japan and the U.S. both produce Honda Civics. Japan is a more efficient producer and can

manufacture and sell the car cheaper than the U.S. If a tariff applies to Civics coming from both countries, Australian consumers will purchase the Japanese models because they are less expensive. An FTA with the U.S. will eliminate the tariff on American Civics, making them cheaper than those coming from Japan (see the arrow in figure 1 below). However, while Australian consumers pay a lower cost for the Civic, the government loses all tariff revenue, as the majority of the costs pay for American production of the car. Figure 1 illustrates how diversion generated by preferential agreements can distort trade .

Figure 3. Trade diversion in automobiles⁸²



Therefore, not only is trade distorted by importing from less efficient sources, tariff revenue becomes diverted to American producers to cover their production costs. It should be noted that trade diversion resulting from the AUSFTA will only occur in products that the U.S. is not the world's lowest cost producer. Otherwise, Australia would have already sourced its products from the U.S. and there would be no trade to divert. In

⁸² Trade diversion example and illustration taken from Philippa Dee (2005).

terms of the bilateral relationship, the U.S. actually experiences more trade diversion. That is, because of the agreement the U.S. now imports more goods from Australia that are less efficiency produced than from other countries. However, because of the significant difference in size between the two economies, the overall proportion of U.S. trade affected by the agreement is negligible (Dee, 2005).

It is also estimated that the Australian economy will experience losses due to the extension of copyright protections American negotiators insisted for inclusion in the FTA. In 2000, the Australian Intellectual Property and Competitive Review (IPCR) considered whether extending the term of copyright protections to mirror U.S. and EU standards would incur greater benefits than costs. The Committee discovered no additional benefits and recommended that Australia's copyright terms remain the same length (IPCR, 2000). Three years later, a spokeswoman for the Minister of Communications, IT and Arts reaffirmed the government's satisfaction with the current length of copyright, highlighting that Australia's copyright laws promote innovation and investment in content industries while providing consumers, researchers and educators reasonable access to copyright material (Cochrane, 2003). Despite these accolades for Australia's copyright laws, USTR Zoellick demanded Australia make significant changes to its Intellectual Property regime so that they align more closely with the U.S.'s. Zoellick claimed that Australia's laws gave weak protection to online content and fell short of international commitments. Accordingly, serious reform to Australia's Intellectual Property regime became a feature of FTA negotiations.

Zoellick demanded that Australia ratify the World Intellectual Property Organization (WIPO) *Copyright Treaty* and *Performances and Phonograms Treaty*. As indicated above, he also demanded Australia adopt the copyright extensions set in Congress's Sonny Bono Copyright Term Extension Act of 1998, which extends copyright protections from the life of the author plus fifty years to the life of the author plus seventy years. Zoellick pushed the Australians to also adopt various elements from the U.S.'s Digital Millennium Copyright Act of 1998 and implement stronger protections to enforce the rights of copyright owners and abate piracy.

As late as December 2003, Australian Trade Minister Mark Vaile was publically committed to defending Australia's copyright regime. However, two months later he and his FTA negotiators capitulated to U.S. pressure and acquiesced to the demands stipulated in U.S. Article 17.4.4 of the proposed AUSFTA (Rimmer, 2006). As predicted by the IPCR study, the extension of the length of copyright generates more costs for Australia than gains. This is largely because Australia is a net importer of content; largely from U.S. copyright holders. As a net importer of copyright materials, the costs to Australia includes the additional royalties paid to copyright holders of existing works. Using figures from the Australian Department of Foreign Affairs and Trade, Dee (2005) calculates that Australia's net royalty payments could increase by up to AU \$88 million per year as a result of extending copyright protections. These royalties will largely pay American copyright holders.

Australia also took a big loss in terms of failing to secure any access for its sugar industry to American markets. In fact, while Australian beef and horticultural products

are subject to an eighteen years phase in period, sugar was completely excluded from the agreement. The negative impact of failing to secure access for sugar is magnified when looking at other U.S. preferential trade agreements. Both Chile and Singapore gained phase in periods eliminating quotas to sugar products in their respective FTAs. Neither country is a major producer of sugar; however the U.S. offered the same quota elimination schedule to five competitive sugar producing countries when it ratified the Central America Free Trade Agreement (CAFTA). To offset anger from Australia's sugar industry, the government announced a AU\$440 million dollar aid package to its producers. In order to do so, the government levied additional taxes upon the citizenry. In retrospect, it is quite problematic that Australia acquiesced on sugar, as it sets a dangerous precedent for its future trade negotiations (Dee, 2005). This is highlighted by Australia's rejection of a joint U.S. – EU proposal to substantially cut domestic agricultural subsidies during the WTO's Cancun ministerial, which would have had much greater benefits for Australian than any accrued in the FTA. Like all U.S. FTAs, they are no promises to make any such cuts to its domestic subsidy schemes.

Any economic gains Australia might accrue due to the FTA are also threatened if the U.S. continues to forge other preferential agreements. Even the projected model conducted by Australia's Department of Foreign Affairs and Trade suggests that the meager expected gains from the FTA will disappear if the Free Trade Area of the Americas (FTAA) is ratified (Dee, 2005). While progress on that agreement became stalled due to the opposition of Latin American leaders, the U.S. continued to negotiate a handful of other preferential agreements after the AUSFTA. Not only would any

preferential gains disappear, a quick look at other U.S. FTAs reveals that other partners secured more favorable terms. For instance, Singapore was given better terms in the area of financial service liberalization and Chile received important concessions regarding cable television content access (Dee, 2005).

The gains made by American exporters include the immediate elimination of all barriers to its agriculture and 99% of manufactured goods. Conversely, Australia must wait eighteen years before the tariffs and protections are completely removed from beef and dairy. After the initial negotiations were finished in February 2004, Prime Minister Howard met and directly appealed to President Bush to increase the quota of Australian beef by 30,000 tons. Not only did Bush opt not to compromise, he flat out refused the Prime Minister's plea. Beef quotas were eventually increased marginally; however, the FTA is subject to certain safeguard measures that permit the U.S. to raise tariffs on Australian beef if prices fall too low *after* the eighteen year phase in period.

Conclusion

The Australian government approached the Bush administration confident that it would secure an equitable and beneficial preferential trade agreement from its most important ally. However, negotiators from the USTR presented their Australian counterparts with a take-it-or-leave-it deal that demanded significant changes to Australia's sovereign regulatory legal system. Economically, the agreement has thus far disproportionately favored U.S. exporters, copyright holders and pharmaceutical corporations. Australia made meager gains in terms of its access to American markets;

however, it failed to secure any access for its sugar industries. This was a prominent negotiating goal on the Australian side when talks began in 2002. Additionally, any market access gains will most likely disappear as the U.S. continues to negotiate more preferential agreements (such as the FTAs recently finalized with Colombia and South Korea).

As discussed in the literature review, declining hegemons pursue an array of economic and foreign policy goals through the medium of trade. During the Uruguay Round, the U.S. fought hard to include strong intellectual property and copyright protections among GATT law. Its efforts resulted in the passage of the TRIPS Agreement at the conclusion of Uruguay, implementing a stringent global regime to protect the intellectual property of patent and copyright holders. As discussions began surrounding the launch of the Doha Round in the late 1990s and early 2000s, U.S. negotiators aimed to make TRIPS even stronger. However, its hegemonic decline over the regime rendered the U.S. no longer capable of overcoming resistance to these policies by developing countries. Unable to achieve its aims through the multilateral forum, the U.S. shifted venues and began negotiating bilateral FTAs with significantly smaller economies, retaining its asymmetrical bargaining leverage over trade partners, and ensuring the spread of new trade norms favoring American economic interests. Whereas weakened hegemony rendered the U.S. incapable of including new trade norms benefiting American firms in the Doha agenda, it successfully persuaded a reluctant Australia to implement them using the relative power of its economy, military and prestige.

As Gilpin notes, extracting concessions from subordinates can be considered apart of the declining hegemon's strategy to prevent further economic contraction (thereby mitigating further decline). Interestingly, the U.S. *offers* economic concessions in the two cases detailed in chapter five. In those cases, promoting U.S. foreign and security policy undergirded the administration's desire to forge trade agreements with Singapore and Morocco. As the evidence indicates, no signs of overt economic coercion exist in those cases. However, the U.S. did successfully persuade both countries to adopt the stronger intellectual property provisions Australia reluctantly capitulated to in this agreement.

The terms, and politics, surrounding the AUSFTA support the assertions derived from Krasner (1976) and Gilpin's (1981) understanding of hegemonic stability. The case fails to lend much support to Kindleberger's (1973) assumptions; namely that hegemons behave benevolently (even during their decline). The Bush administration sought to weaken multilateral rules regarding sanitary and phytosanitary measures and use the FTA as an opportunity to proliferate more stringent Intellectual Property covenants. Furthermore, instead of providing an opportunity for Australia to free ride, the crux of Kindleberger's (1973) argument, U.S. negotiators threatened to walk away from talks if Australia did not acquiesce to the asymmetrical terms of the agreement. These included denying any access for Australian sugar in American markets and instituting a two decade long phase in period for beef and dairy.

According to Lake, operating within all hierarchical relationships is a logic of exchange, whereby a subordinate actor agrees to relinquish an extent of its autonomy to a superordinate actor to secure some good. In the case here, Australia submitted important

elements of its economic and cultural sovereignty to the U.S. The deal usurps economic sovereignty from Australia in the areas of intellectual property, government procurement, foreign investment, agriculture and the medicine subsidy scheme. While the Australians were loathe to sacrifice so much to American negotiators, they calculated that submitting to these demands would afford them closer access to the Oval Office and elevate their standing to a priority country for the President. As such the logic of hierarchical exchange extant in this case involves voluntarily relinquishing control over sovereign domestic regulatory regimes, and accepting asymmetrical terms of trade, in exchange for securing closer and more prominent relations with the White House.

However, to Australia's detriment, it appears they obtained very little by sacrificing so much. There is no evidence that Australia augmented its standing as a priority country to the Bush administration, or that they secured any political benefits. Indeed, whatever gains they may have expected to accrue certainly expired when Bush left office and Barack Obama succeeded him. If anything, this case highlights a foreign policy failure on the part of Prime Minister Howard's government. His initial belief that the affinity shared with the President would translate into an equitable and fair agreement for Australia appears quite misplaced. Indeed, when it became clear during the early days of the negotiations that the U.S. would not budge on the agreement, the Prime Minister began offering rationales for going ahead with the deal anyway. He calculated that walking away from the deal would seriously offend the U.S., which could entail wider negative political ramifications (Rimmer, 2006). He also expressed careful optimism that in the long run, the agreement would generate benefits to the manufacturing, services and

investment sectors. Howard was also eager to deepen political ties between his Australian Liberal Party and U.S. Republicans and, again, thought walking away from the agreement would jeopardize these relations. In the end, however, these appear to be after the fact concessions the Prime Minister articulated to rationalize a bad agreement to opponents in parliament and the Australian citizenry.

Chapter 5

ECONOMIC CONCESSIONS FOR SECURITY BENEFITS: FTAS WITH MOROCCO AND SINGAPORE

The two cases detailed in this chapter examine how the declining hegemon promotes the geostrategic foreign policies it no longer can coordinate multilaterally. During its hegemony, the dominant state possesses enough leverage to persuade subordinate regime members to support its broad foreign policy agenda. For instance, the U.S. used the GATT forum to promote its containment policy and strengthen the western alliance against the Soviet Union. As its power waned, however, subordinate regime members became less likely to capitulate to supporting its foreign policy agenda. This is because the loss of hegemony renders it less capable to offer rewards, cut deals and exercise threats effectively at the multilateral level. Therefore, just as the declining hegemon shifts from multilateralism to bilateralism to promote its economic policies (as in the AUSFTA), the same occurs to advance its security and geostrategic agenda.

However, unlike the AUSFTA, in which the U.S. extracted economic concessions from Australia, the U.S. *offers* concessions in the cases presented here. Using the enticement of preferential market access, the two cases detail how the Bush administration wielded FTAs to advance geostrategic policies surrounding the U.S. response to the 9/11 attacks and the War on Terror. Both Morocco and Singapore

emerged as strategic allies in the administration's war against terrorism, and states that harbor terrorists, as well the theaters in Iraq and Afghanistan. The FTAs represent both a reward, and insurance of continued support, for the administration's security agenda.

As the hierarchy mechanism developed by Lake contends, a logic of exchange undergirds both of these agreements. In both FTAs, there is an exchange of preferential market access in return for supporting specific elements of the Bush administration's War on Terror policy. Morocco, who emerged as a crucial Muslim partner in the Middle East, heeded the White House's call for Middle Eastern countries to adopt political and economic reforms in line with western norms. The FTA was used as an enticement and reward for Morocco to take steps in that direction. The FTA with Singapore is a reward, and a mechanism to ensure its commitment in the future, for supporting U.S. security policy in Asia and contributing military resources for the Iraq and Afghanistan theaters of war.

The purposes of presenting two cases is to detail that while both promote the U.S.'s security agenda, the exchanges undergirding the hierarchies represent subtle differences. The FTA with Morocco, which ultimately concerns U.S. geostrategic policy, demonstrates how dominant states institute normative hierarchies over subordinates. The Bush administration made a serious link between proliferating western political and human rights norms with the promotion of U.S. security interests. Morocco, for its part, had to demonstrate to the Bush administration that it was seriously committed to reform by acquiescing to American calls to increase political participation, allow greater press freedoms and recognize the rights of women. The FTA with Singapore is more directly

representative of a security hierarchy. This is because the FTA is a means of rewarding, and locking in, Singapore's staunch support for American geostrategic policy in East Asia and its military contributions to fighting the wars in Iraq and Afghanistan.

The U.S.-Morocco FTA

As the theoretical framework developed in the literature review suggests, declining hegemons shift strategies as a result of their diminished global positions in order to continue advancing their economic and security policies. No longer capable of effectively promoting its policies multilaterally, the administration shifted to bilateral negotiating environments whereby the U.S. still possessed asymmetrical leverage to advance its interests. However, unlike the FTA with Australia, the U.S. negotiators behaved much more benevolently in its dealings with Morocco in order to promote the Bush administration's War on Terror agenda. In comparison, the agreement permits Morocco significant flexibility and concessions. Morocco also made important gains in market access, while retaining what it considered vital protections to sensitive markets. Compared with Australia, the U.S.'s negotiating posture also appears less rigid. Moroccan negotiators successfully debated, and won, the exclusion of trade barriers protecting important elements of its agricultural industry. Australia failed to do the same concerning its sugar markets. In addition, to help prepare Morocco reach compliance with the political and economic requirements stipulated in the agreement, Congress allocated generous funds and aid packages to assist the transition. Though Australia is a developed country and Morocco is not, Australia was offered no aid to assist in its transition to FTA

compliance. Both the market access provisions and the aid support Gowa's (1989) argument that dominant states are more interested in the security externalities of trade agreements than economic gains. Australia, it seems, ended up with a bad deal economically because the administration calculated it as less significant from a security vantage point than other allies; especially Muslim countries in the Middle East.

For their part, the Moroccan monarchy worked for years to bring the Kingdom's economy in line with neoliberal principles of privatization and liberalization in order to appear attractive as an FTA candidate. Through its experience securing similar types of preferential access to the EU's markets, the monarchy engineered political changes pleasing to the U.S., such as strengthening its human and women's rights regimes. Historically, Morocco made similar gestures in order to satisfy European requirements for aid and trade packages. When the U.S. announced it would promote human rights and democratization in the region as part of its wider War on Terror after September 11th, the Moroccan monarchy strategically positioned itself as a tolerant Muslim ally, worthy of preferential access.

Background

In March 2001, Bush nominated Margaret Tutwiler to serve as ambassador to Morocco. Previously serving under both Presidents Regan and George H. W. Bush, Tutwiler came to the position after a long career in the State Department. She was confirmed by the Senate in July 2001 and two months later, after the September 11th attacks, witnessed Morocco's strategic importance elevate to a crucial ally in the region.

Tutwiler worked hard to maintain Morocco's level of importance to the administration in the months after the attacks. Though FTA negotiations did not officially start until January 2003, high level diplomatic discussions between both countries emerged shortly after she took office (White, 2005). Initially, the discussions were plagued by conflicts emanating from the economic proposals in the agreement and the political ramifications of the impending Iraq invasion. In fact, tensions reached a point that negotiations were moved from Rabat to Geneva (Sparshott, 2003; White, 2005). After these initial setbacks, an agreement was reached and the FTA came into effect on January 1, 2006.

Prior to the agreement, trade between both countries was trivial. In 2003, Morocco only conducted 3.6% of its trade with the U.S.⁸³ In contrast, during the same year, 65% of its trade was with EU member states. For the U.S., the amount of trade was more miniscule. In 2003, trade with Morocco accounted for only .04% of total U.S. trade volume (White, 2005). Machinery and transport equipment represent the majority of U.S. exports to Morocco.⁸⁴ The U.S. exported \$523 million in goods to Morocco during 2004, of this \$222 million (43%) represented these sectors. Aircraft sales totaled \$140 million and cereals \$147 million (White, 2005). Morocco primarily exports mineral fuels, oils and to a lesser extent electric machinery to the U.S. In 2004, \$118 million of its exports came from mineral fuels and oils, while \$108 million came from electrical machinery and \$79 million from minerals such as salt, sulfur and phosphates. Only \$47 million came

⁸³ See www.oc.gov.ma for figures.

⁸⁴ See U.S. Department of Commerce data, made available at the American Chamber of Commerce's website about the FTA, www.moroccousfta.com.

from textiles; however a goal of the Moroccan negotiators was to increase this figure (White, 2005).

Morocco's decision to pursue FTA negotiations with the U.S. was fundamentally influenced by economic factors. First, because of its disproportionate reliance on the EU, the monarchy sought to diversify the Kingdom's trade relations. Since the 1980s, the EU and Morocco have signed an array of economic, trade and aid accords. The most important is a trade treaty called The Association Agreement negotiated in 1996 that entered into force in 2000. However, akin to many EU preferential agreements, this one entails a slow process of piecemeal liberalization over more than twelve years. While initially Morocco expressed optimism regarding the prospects of the agreement, a recent wave of skepticism has taken over. The disappointment includes the use of non-tariff protections by particular EU countries and stagnant trade growth between the bloc and Morocco. To combat the lackluster initial experience of the Association Agreement, the Kingdom has taken steps towards diversifying its trading partners, primarily with other Mediterranean countries. In 2001, Morocco joined with Egypt, Jordan and Tunisia to initiate the Agadir Declaration, which aims to form an FTA in the coming decade. Similar steps have been taken to arouse interest with China, Russia and Turkey (White, 2005).

Second, Morocco envisioned the FTA as a means to stimulate economic growth. In addition to securing new markets for its firms, the FTA promised to heighten the flow of U.S. foreign investment. In the years leading up to the FTA, Morocco's growth was fairly impressive. In 2001, Morocco's GDP increased by 6% from the previous year.

Growth slowed the following year, but returned in 2003 and 2004. Since the FTA has been in force, GDP has fluctuated, with big gains reported for 2006 and then a 5% decrease in 2007 and strong output in 2008 and 2009. While Morocco's growth is outpacing its North African neighbors, it still lags behind the enormous growth of east Asian countries and is certainly not growing fast enough to ensure full employment for its rapidly expanding population (White, 2005). The FTA was seen as a way to quickly create new jobs by attracting direct foreign investment.

Third, the neo-liberal policies Morocco embarked upon that made the Kingdom an attractive FTA partner are highly unpopular among certain sections of Moroccan society. The monarchy calculated that signing the FTA would lock in these domestic reforms as international commitments that opponents could not reverse. Many of these reforms seek to improve business regulation, which the monarchy hopes will generate new foreign investment from the U.S. other countries (Brunel, 2009).

Coinciding with the launch of talks, President Bush announced in 2003 his desire to forge bilateral FTAs with multiple countries in the region to create an encompassing Middle East Free Trade Agreement (MEFTA) (White House press release, May, 9 2003). While the MEFTA never materialized, the Bush administration successfully negotiated agreements with Jordan, Morocco, Bahrain and Oman. The motivation behind these FTAs centered on rewarding countries that embraced Western human rights and political norms, supported American strategic interests in the region and served the U.S. as model nations for other Arab countries to emulate ("United States, Canada, Africa," 2004). Unlike other FTAs, these agreements have virtually no economic significance for the

U.S. (Galal & Lawrence, 2005; Sparshott, March 3, 2004; Brunel, 2009). Though they are economically important for Middle Eastern partner states, their purpose serves fundamental U.S. political interests.⁸⁵

The promotion of a MEFTA was largely tied to the neoconservative ideology that influenced the foreign policy of Bush's first years in office. Neoconservatism possesses elements of the democratic peace theory. In particular, the administration's policies claimed that promoting democratic institutions produces positive outcomes for U.S. interests, as democracies tend to forge close and trustworthy relationships (Brown, Lynn-Jones & Miller, 1996; Halper & Clarke, 2004). Indeed, Bush characterized the MEFTA as a way to, "defeat poverty and promote the habits of liberty" (in Sparshott, May 28th 2004, Washington Times). FTAs were seen a vehicle to bring strategically significant countries at risk of Islamic extremism into the mainstream of the global economy and to cement alliances with the U.S. Economic liberalization tied to international agreements such as FTAs were thought to spur the development of political liberalism and usher in greater democratic practices and transparency. The result of the MEFTA, the administration argued, would assist in transforming the region away from the practices that encourage militancy and towards those of tolerance and democratization.

Morocco was carefully chosen to become a U.S. FTA partner for a series of reasons that align with the administration's broader War on Terror strategy. First, the

⁸⁵ Brunel classifies the U.S.-Morocco FTA in this way: "The Morocco-U.S. FTA belongs in the class of US FTAs motivated primarily for foreign policy objectives. Morocco represents for the United States a reliable partner in a region characterized by instability. The United States believed the FTA would help strengthen the process of political and economic reform in Morocco and the whole Middle East North Africa (MENA) region" (2009, p. 17).

agreement with Morocco is only the second with an Arab nation and third with a Middle Eastern country (the first was with Israel and the second with Jordan). Therefore, the agreement with Morocco was considered a vital step in the administration's plan to forge the MEFTA. After the announcement by both nations to begin negotiations, USTR Robert Zoellick said: "Our agreement with Morocco is not just a single announcement, but a vital step in creating a mosaic of U.S. free trade agreements across the Middle East and North Africa" (in Sparshott, March 3rd 2004). Second, and perhaps most compelling, the FTA was a signal to other states in the region that the U.S. rewards those embracing the human rights and democratization reforms it has publically advocated (Becker, 2003; Sparshott, 2003; "Moroccan PM, U.S. Envoy," 2004). After the agreement was finalized, Zoellieck told the media that this FTA sends a powerful signal to the Muslim world that the Bush administration actively supports states making strides to become tolerant, moderate and modern Arab societies. In this way, the administration anticipated that other Muslim countries would see the benefit of acquiescing to U.S. policy preferences for the region. In the run up to the negotiations, Undersecretary of State for Political Affairs Marc Grossman praised Morocco's reforms in the areas of family law, the release of political prisoners and the establishment of a commission on justice and reconciliation ("Morocco; State's Grossman," 2004).

FTA talks with Morocco's North African neighbor Tunisia failed largely in part because of its shortcomings in achieving political reform. While on tour of North Africa during his tenure as Secretary of States, Colin Powell paid tribute to Tunisia's leaders for making strides in the areas of healthcare, literacy and recognition of women's rights.

However, he also admonished the president's smothering of opposition parties, dubious elections and lack of press freedoms (Marquis, 2003).

Third, Morocco was selected because of its unwavering support for the U.S. after the September 11th attacks. The two nations have a long history of close diplomatic relations. In fact, Morocco was the first country to recognize the independence of the U.S. after the revolutionary war against Britain in 1777. Morocco has been an important ally supporting U.S. military operations in the War On Terror. Indeed, Zoellick remarked that Morocco is a, "strategic ally for a long time" ("Moroccan Prime Minister," 2004).

For their part, Morocco was pleased to serve as a model, or signal, to the rest of the region that political reform paid off in American support, especially market access via preferential trade agreements. In a press release, the Moroccan Foreign Affairs Minister stated that Morocco is: "officially viewed as a reference for other Maghreban countries in matters of economic reforms, and a locomotive for market economy and democratic reforms in the Arab world" ("Free Trade Agreements with EU", 2003). Indeed, the country's leadership seems proud to transmit U.S. signaling in the region, as such behavior recognizes the close ties between the two countries, and solidified the eventual FTA.

The Bush administration's strategy for changing the political culture of the Middle East revolved around incentives, including FTAs and aid packages. Instead of using the threat of force, sanctions or other political disincentives, the Bush administration merely signaled its policy wishes through public pronouncements broadcasted through the media and diplomatic channels. Middle Eastern countries that

signaled back intentions to pursue reform were welcomed by the administration and given aid to assist their efforts. Financial and technical aid came largely through the State Department, USAID and grants from Congress. In 2000, USAID awarded Morocco \$4.6 million to support continued efforts to enhance, “just and democratic governance” (Brunel, 2009, p. 19). The Middle East Partnership Initiative (MEPI) still plays a large role supporting efforts to regularize free and fair elections, empower women in Arab-Muslim societies, enhance the rule of law and make shifts towards economic reforms in line with Western free trade norms (“US Initiates Programme,” 2003; “Morocco; State’s Grossman,” 2004; Brunel, 2009). This strategy is indicative of the type of hegemonic persuasion discussed in the literature on soft power (Nye, 2004). In these instances, hegemons achieve policy outcomes not by imposing their will with coercion; but rather by rewarding followers. In a speech given while visiting the region, Undersecretary of State for Political Affairs Marc Grossman clearly affirmed the strategy. He said, “I want to be clear here...that the United States of America cannot and will not impose reform from the outside. The instructions we have from our President are to support those who are pursuing reform and we recognize that reform will take many different forms” (“Morocco; State’s Grossman,” 2004).

This is not to say that the public pronouncements by administration officials were without great rhetoric, or lacked a compelling tone. A series of op-eds written by USTR Zoellick during the summer of 2004 reiterates the us-against-them position the administration presented to world leaders in support of the global War Against Terror.

For instance, in the New York Times, Zoellick made this characterization of recent changes in the Middle East:

In Morocco, Jordan, Bahrain [U.S. FTA partners] and elsewhere, young leaders are struggling for the soul of Islam. It is a battle of leaders who embrace tolerance against extremists who thrive on hatred. It is a conflict of economic reformers against those who fear modernization because it threatens their power to intimidate. And it is a contest of those who welcome closer ties with the West against those who see us as an enemy (2004).

In this way, the USTR delineated between those embracing modernity and those locked in an antiquated, medieval mindset. Middle Eastern states embracing modernity are described as reforming in the requisite areas of democratization, privatization, and recognition of the rights of women and a free press. States rejecting modernity are portrayed as totalitarian, theocratic, non-modern, with planned economies, weak legal institutions and are susceptible to Islamic extremism. Accordingly, U.S. FTAs were rewards for countries that chose to actively enter into the international society promulgated by the West. Doing so differentiated them from other Muslim, Arab states which, as Zoellick characterizes, remained outside of modernity.

As the dominant state, the U.S. organized a strategy of rewarding strategically important Middle East countries with FTAs. However, to legitimate selecting these states as FTA partners required demonstrating that these societies were moving towards embracing the political and economic institutions practiced in the West. The next two sections describe the economic and political reforms engineered by the Moroccan monarchy, beginning in the 1980s. These reforms were strategically deployed by the crown to appease EU, and later U.S., foreign policy objectives of spreading Western

human rights norms and strengthening political liberalism. The crown, in a top down reform process, instituted changes in accordance with these objectives to secure preferential aid and trade agreements. First, the crown employed this tactic with the EU in the 1980s and 1990s. It did the same to lock in preferential agreements after 9/11 promulgated the U.S. to advocated for the same types of changes in the Middle East.

Morocco's History of Reform, 1956-1999

In 1956, Morocco emerged from French colonial rule as an independent country. The political system established by King Mohammed V entailed direct monarchical rule with a strong centralized government. Political parties were allowed to form; however, the monarchy prevented them from accruing any significant power. Despite their limited influence, their presence was unique as other Arab countries at the time banned their formation outright (Ottaway & Riley, 2006). The King's successor, Hassan II, took power in 1961 and the political system remained virtually unchanged until the early 1990s. The only changes that occurred involved further consolidations of power by the monarchy. The 1962 constitution affirmed the King's power to dismiss and nominate Prime Ministers and cabinet members without accounting for election results. The constitution also protects the monarch's power to dissolve parliament at his will and rule with unlimited authority during declared emergencies. Political parties continued to exist under Hassan's rule; however, they remained ineffective as the King successfully played them against one another and co-opted party leaders. The late 1960s and 1970s presented great hurdles for the monarchy, including a coup d'état attempt. The response involved

severe human rights abuses, as political opponents were abducted and disappeared. Thousands of others were imprisoned and many tortured (2006).

During the 1980s, the King began reforming Morocco's economic structure to align with the tenets of neoliberal thinking promoted by Western economists and the International Monetary Fund (IMF). He began reducing government deficits and initiating economic liberalization in order to stabilize Morocco's economy. These efforts were pursued because of the King's belief that prosperity hinged upon access to the global markets dominated by the West.

The end of the Cold War presented a new international context and the West began redirecting foreign policy towards encouraging democratic reforms abroad. The long reining and aging monarch became especially sensitive to external pressure to initiate domestic reform (Ottaway & Riley, 2006). In fact, democratization promotion became a stated aim integral to the EU's foreign and security policy (Haddadi, 2002). EU leaders encouraged Morocco to pursue political and economic liberalization by awarding steps taken towards meeting human rights and liberalization standards. For instance, the European Parliament denied Morocco an aid package in 1992 because of its human rights record. This compelled the crown to implement human rights laws and divest power to parliament and civil society. These reform permitted closer ties with Europe and awarded Morocco a series of bilateral investment measures and trade agreements. France lifted restrictions on its firm to invest in the kingdom in 1993 and Morocco became an original signatory to the newly created World Trade Organization two years later. The following

year, the trade relationship was strengthened through the Morocco-EU Association Agreement, taking effect in 2000.

King Hassan II initiated reforms in the areas of human rights, empowering parliament, generating more opportunities for political parties and reforming corruption (Ottaway & Riley, 2006). In the mid to late 1990s, the King created both a Ministry of Human Rights and a human rights council, the Couseil Consultatif des Driots de 'Homme (CCDH). A limited number of political prisoners were released and reforms were made to laws restricting public demonstrations and preventive detention. He also ratified international human rights conventions and established a committee to investigate the forced disappearances that occurred earlier during his reign. He transformed the parliament from a unicameral body, in which only two-thirds of its members were directly elected (the King selected the rest), to a bicameral one whereby the lower house became directly elected by universal suffrage. His biggest reform came in 1997 during a period known as the *alternance*. After the parliamentary elections, the King asked long time regime opponent and exiled leader of the leftist party to form a new government. Traditionally, the King brushed aside electoral outcomes and instructed the *palace parties* to lead. This was the first time in Morocco's history the Prime Minister was linked to the election results. The King also permitted civil society groups to begin speaking out on corruption. The results were negligible; however, the move ended an longstanding taboo and created a new space for discussions about women's rights and past human rights abuses (Ottaway & Riley, 2006).

Second Era of Reform, 1999-Present

Upon the death of King Hassan II in 1999, his son Mohammed VI became monarch. His legacy thus far centers on extending the recognition of human rights initiated by his father. After assuming the throne, Mohammed released a more significant number of political prisoners, strengthened the CCDH and took steps to align Moroccan law with international human rights norms and conventions (such as amending the penal code to eliminate torture). Most significantly, Mohammed acknowledged the role his father's government played in the forced disappearances and other human rights abuses. To recognize cases of past abuse and compensate victims, he formed the Independent Arbitration Panel and later established the Instance Equite et Reconciliation (IER), which aimed toward establishing the first attempt at a truth and reconciliation process in the Middle East.

The most controversial of Mohammed's reforms is the replacement of the Sharia based family laws, *moudawana*, with a new set of codes governing women's rights regarding marriage, divorce, custody and property. The new codes radically shifted Morocco's family law regime from one of the most conservative to the most progressive in the Arab world (Salime, 2009). The *moudawana*, or code of Personal Status, was introduced in 1957, one year after Morocco's independence. The codes were based on the idea of a male headed household whereby men held unilateral rights to repudiation and polygamy, while codifying women as subject to their husbands and fathers. Women

required a male guardian to consent before they could enter into marriage and provided no rights to women regarding their children or their father's legacy. Indeed, a widowed woman had no right to manage her child's inheritance. It was supervised by a judge until the child reached puberty. If divorced, a women's right to see her children depended upon her living in the same city as the father and remaining unmarried. Employment for women was also conditioned upon approval by her husband.

King Hassan II took steps to reform the *moudawana* in 1993; however Mohammed VI enacted the most sweeping changes a decade later. The new laws, along with the King himself, raised the ire of many traditional and fundamentalist Muslims in Morocco and across the region. Fierce opposition culminated with a massive demonstration in Casablanca. The new laws raise the marriage age from fifteen to eighteen and grant women the right to file for divorce and to enter into marriage without a male guardian. They recognize equal rights between both husbands and wives, replacing a wife's duty of obedience with the concept of joint responsibility. Though they do not outlaw polygamy, the new codes places greater restrictions on the practice and expand the rights of wives in polygamous marriages. These changes put Morocco well ahead of most other Arab countries in the region regarding women's rights.

Normative Reform for Strategic Purposes

While the reforms the Moroccan monarchy instituted entail significant changes for the lives of women, expand some political freedoms and bolster civil society, they need to be examined in the context of the state's strategic efforts to gain access to

Western markets and aid. To be sure, Morocco now stands apart from the rest of the Arab world regarding its recognition of women's rights. However, any real shifts towards deeper democratization and transitions of power to political parties, parliament and civil society are virtually nonexistent. The political reforms initiated by King Hassan II during the mid to late 1990s derived from pressure by the EU. As mentioned earlier, aid packages and trade status relations hinged upon embracing Western standards. While his son, King Mohammed VI, came into power forcefully calling for much greater reforms in the areas of human rights and democratization, he has in fact perpetuated the same strategic thinking as his father.

The areas in which Mohammed VI made the most strident reforms reflect those outlined by the Bush administration after the September 11th attacks. The administration called for Arab countries to embrace allegiance to the U.S. and institute domestic reforms congruent with Western human rights norms. In particular, an emphasis was placed on women's and human rights, freedom of the press and deepening democratic processes. "It was in this context that the Kingdom adopted important legislation in these four areas, moving in the directions indicated in the U.S. comments" (Aloui, 2009, p. 64). Morocco took quite seriously the Bush administration's call for significant movement in these areas. However, while Morocco successfully signaled its status as a moderate and tolerant Muslim country through these reforms, the process actually tightened the grip of the King on the political system. Closer inspection indicates that these are *not* significant victories for the voices of civil society, nor real advancements towards political liberalism.

Though King Hassan II began his human rights campaign by releasing political prisoners and forming a committee to explore forced disappearances, thousands remained in jail and he never took responsibility for the disappearances executed by his government. The constitutional changes creating a bicameral parliament had the effect of cementing his control over the legislature. Even though the lower house is elected by direct vote, the upper house is selected by palace councils and professional organizations backed by the King. The changes to the 1996 constitution grant the monarchy the power to veto parliamentary approved legislation, add amendments without revision and introduce new laws without consideration of legislators. In fact, the entire reformist period, the *alternance*, was a political move engineered by the king in order to consolidate his power in the face of external pressure to reform.

The *alternance* was engineered by the king, who decided that it was a good idea to take such a step; it was not imposed on him by an overwhelming electoral victory of the Kutla parties, which had won only 102 of 325 parliamentary seats. As a result, the Youssoufi government [the opposition Prime Minister] had little power, leaving the king once again the arbiter of Moroccan politics... The King maintained control over major policy issues, for example, imposing the neoliberal economic policies prescribed by the IMF and the World Bank on the left leaning USFP [opposition party]. In other words, by engineering the *alternance*, King Hassan succeeded in co-opting the two main opposition parties of long standing without being forced to give up any power or change policies (Ottaway & Riley, 2006, p. 166).

The opening he sanctioned for civil society groups to investigate and call attention to corruption also had little to do with popular sentiment or electoral mandates. Instead, his empowerment of these groups derived from a World Bank report singling out corruption as the most significant impediment to foreign direct investment. The impact of the reports and investigations presented to the parliament were negligible and produced little change,

except presenting to the international community that Morocco took corruption seriously and intended to take action.

His son, King Mohammed VI, came into power promising to be a *modern* monarch, even signaling intentions to increase democratic practices in the kingdom. However, in practice his record largely reflects the same strategic approach towards reform pursued by his father. Most strikingly, all the reforms he instituted are top down initiatives of the monarchy; not real responses to civil society or electoral politics. Indeed, some of the reforms praised by U.S. officials as true indicators that Morocco embraces Western standards are lackluster upon closer inspection. For instance, the Independent Arbitration Panel established to compensate and record human rights abuses by the state was disbanded in 2003 after only making payments to 4,000 victims and providing no reconciliation. The Instance Equite et Reconciliation (IER) was supposed to remedy these shortcomings; however, it failed to generate any significant testimonies from security forces, failing to provide the *truth* aspect of the truth and reconciliation process. Furthermore, its mandate only extended to 1999, leaving abuses conducted in Morocco under the auspices of the War on Terror outside its scope. (Ottaway & Riley, 2006).

Arab scholars argue that the family law reforms were a direct response to the pressures of the War on Terror (Salime, 2003). After the 2003 Casablanca bombing, the crown sought to affirm its image as a moderate Muslim nation safe for international investment and committed to eradicating militant Islamists. Salime says, "...increased world attention on Morocco [because of the bombing] shifted the balance in favor of

reforming women's status in family law...it was in fact through the reform of family law that the Moroccan monarchy truly recovered its image as a modern and 'moderate' regime" (2003, p. 164). The monarchy perceived that sweeping reform in the area of women's rights would affirm the kingdom's commitment as a partner in the fight against Islamic extremism. Unfortunately, since it was political considerations by the crown and not the advocacy of those supporting women's rights, women have yet to make real and significant gains. Feminists loathe to call the reforms victories for their movement for this reason. Indeed, there has been a gap between the state's recognition of a women's right to ask for a divorce and the practical measures that make it possible (Ottaway & Riley, 2006).

Civil society, within Morocco and abroad, rally that these reforms do not reflect a genuine interest to become a more open and democratic society that embraces Western human rights norms and values. Instead, the monarchy responded to the politics of the War on Terror and its discourse of modernization, democracy and reform in the Middle East. Their reward for doing so culminated with the FTA. Tellingly, the reforms lacked strong public support and women's rights advocates loathe to consider them any sort of victory (Salime, 2003). Though pleased by the rights extended to women, they know it was not popular sentiment that brought change.

Economic Outcomes

Morocco's economic performance since ratifying the FTA has been mixed. Exporters have not fared extremely well in the last few years; though the global recession

is certainly a contributing factor. The recession's effects on Europe, Morocco's main export market, have not only depressed exports; but also stymied the flow of tourists and remittances, two primary sources of foreign currency. Moroccan consumers, on the other hand, seem to have made some gains because of a new flow of cheap American imports resulting from the FTA. In addition to the worldwide recession, Morocco's exports have dropped sharply since 2008 because of the decline in global phosphates prices, representing the bulk of Morocco's exports by value. The losses in exporting have been offset by a record agricultural harvest, robust government spending and increases in domestic consumption. In fact, despite a slump in exports, Morocco's GDP grew an impressive 5.1% in 2009 (CIA, 2010).

While the growth in GDP is a positive indication that the country is moving in the right direction, Morocco still faces serious structural challenges in order to fully exploit the FTA and lift the majority of its citizens out of poverty. To combat its high levels of unemployment and underemployment, the government must accelerate and sustain growth. In the long run, this demands serious improvements to education and creating a large number of jobs for Morocco's youth population. At a societal level, the monarchy also needs to combat the disparity in wealth between rich and poor. Many of these problems can be mitigated by expanding and diversifying its exports beyond phosphates and low-value added products. (CIA, 2010).

Assessing the actual terms and performance of the FTA similarly reveals mixed results. To be sure, Morocco achieved favorable gains in particular arenas. Though, as discussed below, it does not possess the necessary institutions and infrastructure to fully

exploit many of those gains. Upon implementation, the FTA renders 95% of all consumer and industrial products between both countries duty free. The remaining tariffs will be phased out over the next nine years. In comparison, the agreement is considered the best market access package of any U.S. FTA with a developing country (White, 2005). That said, some clarification is warranted. U.S. markets are already fairly open and liberalized in comparison with other countries. On average, the U.S. applies a tariff rate of approximately 4% on imports. Conversely, Morocco applies an average tariff of 20% the cost of a commodity. Thus, total elimination of U.S. tariffs is not an enormous sacrifice. Tariffs are the mechanism through which Morocco attempts to protect its domestic industries. The U.S., on the other hand, protects its manufacturing and agricultural sectors with subsidies, export promotion aid and other non-tariff barriers, including stringent consumer protection and sanitary regulations for imports. White (2005) quips, “One might even argue that well negotiated FTA agreements are also ways in which the U.S. government supports its constituents’ economic interests” (2005, p. 604). Thus, even FTAs that appear favorable to partner states do not represent significant economic sacrifices to the U.S. To be clear, achieving preferential access to American markets is certainly a big win for FTA partners; however, it does not entail serious economic strain to American producers.

In addition to market access, Morocco achieved comparatively favorable terms of trade by securing the continuation of important safeguards covering its sensitive wheat and cereals markets. Bargaining over agriculture represented the most contentious aspect of the negotiations. Morocco’s agricultural sector employs over half the population, with

approximately 75% working in cereal and wheat production. In fact, 75% of all agricultural land grows these commodities. Protecting these industries against imports of low cost, high quality American grain constituted the core of Morocco's negotiating goals. In the end, Moroccan negotiators successfully maintained its tariff protections against cereal imports from the U.S.

Morocco also won protections against American beef and poultry exports, which will gain access over a phased in period as well. Sheep, lamb and goat products will continue to be barred from exportation to Morocco. However, the U.S. does gain immediate barrier free access for pistachios, pecans, pizza cheese and breakfast cereals. Duty free access will also eventually apply to American exports of corn and corn products, sorghum, soybeans, and soybean meal (White, 2005). Another big win for Morocco is in the area of textiles. Moroccan exporters now enjoy 100% access to the U.S.'s textile sector (Benabderrazik, 2009). As White (2005) attests, "This is extremely generous to Morocco, since the agreement waives stringent rules of origin laws and allows the use of imported yarn and fabric into Morocco for three years, until Morocco's input sector can be upgraded" (2005, p. 605). The FTA even accords Morocco protections to its audiovisual market against American film imports. Despite these gains, however, the FTA does not require any restructuring of the highly criticized American agricultural subsidy scheme. This is a sore point for many Moroccan farmers⁸⁶ (White, 2005).

⁸⁶ As it is for most farmers outside the U.S. and the EU.

Business and policy leaders in both countries had high expectations that the FTA would produce mutually satisfying economic outcomes. However, a review of the FTA's performance in 2009 by DeRosa (2009) suggests the FTA has failed to achieve important expectations. As stated earlier, the agreement opens Morocco's import and investment markets to the U.S. Yet, American markets were already open to Moroccan exports and investments.

Thus, among the primary benefits of the Morocco-U.S. FTA are expanded U.S. exports to Morocco at lower cost than before the agreement – a clear boon to U.S. exporters and Moroccan consumers, and probably to many Moroccan businesses and local producers as well; the benefits of the FTA have so far been less evident to Moroccan exporters (2009, p. 53).

DeRosa (2009) suggests these unmet expectations derive from Morocco's lack of economic institutional development. He claims that Morocco's economic policies and institutions are not sufficiently outward oriented to take full advantage of the FTA. Despite economic reforms to encourage momentum in the private sector, the economy still features a robust system of public enterprises and state run firms. Further, entrenched labor coalitions dominate the workforce. Labor laws make workers, once hired, costly and limit employment mobility across sectors of the economy. "High levels of protection for inefficient domestic industries coupled with layers of corruption in government circles and even in the judiciary have compounded the economy's inefficiencies" (DeRosa, 2009, p. 50). Until these institutions become more transparent and efficient, the Kingdom will fail to achieve its potential in the areas of trade and remain unattractive to American foreign investment. Unfortunately, the FTAs lackluster success is stifling the rapid growth necessary to absorb Morocco's expanding workforce. Morocco's gains are

also lessened by the financial and bureaucratic burden of reform to be in compliance with the agreement. Akin to other FTAs, the government must allocate significant resources towards developing new intellectual property policies and restructure its financial services sector to allow greater competition (Benabderrazik, 2009).

The assessment is not completely pessimistic, however. Morocco's primary exports to the United States represent ores and metals (41 percent), the remaining are manufactures (32 percent) and to a lesser extent, agriculture (15 percent) and fuels (13 percent). While economic advisors worry about the concentration of Morocco's exports in extractive natural resources and urge diversification (World Bank, 2006), DeRosa (2009) suggests that the FTA could boost exports to third countries if American investment becomes successfully attracted. This could especially work if U.S. investment encourages manufacturing targeted to European markets.

Despite any unmet expectations stemming from exports and investment, the FTA accords Morocco generous aid packages to assist transitioning its economy (Brunel, 2009). According to Malka and Alternam (2006) aid comes primarily from three sources: USAID, MEPI, & the Millennium Challenge Corporation (MCC). USAID formulated a plan to help Morocco implement the reforms necessary for FTA compliance by focusing on three core objectives: increased opportunities for trade and investment; education and training for employment; and increased government responsiveness to citizens. Towards that end, USAID's financing to Morocco hit a high of \$26.7 million in 2008. The MCC announced in 2007 its intention to give Morocco \$700 million over a five year period. Its goals seek to finance programs aimed to reduce poverty and stimulate economic growth

by increasing productivity and employment in high potential sectors, such as fruit cultivation, fishing, and crafts.⁸⁷ The textile market also received a 2.6\$ million aid package under the Moroccan Fast Track Trade Project (MFFT), another initiative stemming from USAID. This program aims to assist small and medium firms increase exports to the U.S. (White, 2005). This level of U.S. aid demonstrates the importance the administration placed upon Morocco as a strategic partner in the Middle East. For sure, Mexico did not receive an enhanced foreign aid package to assist implementing domestic changes to accord with NAFTA requirements.

In addition to its enhanced aid packages, Morocco increased its standing with the U.S. in June 2004 by becoming designated as a non-NATO ally. This designation makes Morocco eligible to participate in defense research and development programs, priority delivery of defense materials and also makes Morocco a beneficiary of U.S. loan guarantees to purchase military equipment. Morocco has been elevated as a key player in the Pentagon's efforts to train African countries to fight terrorism and abate extremism. This program allocates \$500 million over seven years to nine African countries (Tyson, 2005).

Conclusion

This case demonstrates how declining hegemons coordinate trade agreements to advance important geostrategic policy goals. In particular, this case represents an instance whereby the dominant state offers economic concessions to a subordinate for acquiescing

⁸⁷ See www.mcc.gov.

and adopting the political and economic institutions practiced in the dominant state. As shown here, promoting compliance to its political and economic norms were tightly linked to the U.S.'s conception of furthering its security interests. As such, this case suggests that a normative dimension of hierarchy operates in the strategic calculations of declining hegemons. Unlike the coercion operating in the Australia case, this strategy relies on U.S. capabilities to persuade and reward subordinates to engage in reform. The administration broadly articulated the reforms it desired Middle Eastern countries to adopt. Countries that took steps towards those changes were rewarded with economic and political aid; sometimes a full-fledged FTA. Indeed, we can categorize all the Bush FTAs with Middle Eastern countries as emblematic of this normative dimension of hierarchy. In line with Lake's characterization, the Morocco case reveals an exchange of sovereignty by a subordinate state for a good provided by a superordinate. Morocco exchanged normative compliance with U.S. policies for preferential access to American markets. The crown imposed human rights laws, signed international human rights treaties and granted greater press freedoms to attract preferential economic treatment. In doing so, the monarchy relinquished Morocco's culturally entrenched Sharia based laws governing family relations for a standard acceptable by Western human rights norms.

The case also reveals how subordinates respond to the declining hegemon's strategy. Morocco, aware that the U.S. was interested in forging closer ties with Middle Eastern countries through FTAs, followed the requisite steps to secure an agreement. However, as the case shows, these reforms are largely misleading, as important elements of civil society were missing from the process. Further, though the King describes the

Moroccan political system as an Executive Constitutional Monarchy, his power is in no way curtailed by the constitutional changes he enacted. The reforms in the areas of human and women's rights, press freedoms and recognition of past abuses emanated directly from the King himself in a top-down process; not because of a robust citizenry demanding and winning change. Instead, these reforms serve as signals from the monarchy to the West that Morocco is a tolerant and modern Arab country deserving the privileges of membership shared among international society, particularly trade access to America's vast markets. On the ground, however, real democratic processes and pluralism continue to be stifled.

Instead, Morocco exploited an opportunity made possible by new U.S. foreign policy goals after 9/11. The crown implemented the same political and economic reforms the Bush administration asked Arab and Muslim countries to adopt. It did so knowing that compliance entails rewards. This aligns with Lake's assumption that hierarchical relationships are voluntarily initiated. The subordinate actor acquiesces because it calculates the relationship will produce benefits. For Morocco, these benefits include diversifying its trade partners and the opportunity to attract investment in order to raise living standards.

The case also raises another interesting facet of U.S. FTAs negotiated by the Bush administration. Most of the states the administration selected to pursue FTAs with are developing countries. As Morocco's experience highlights, the economic concessions the U.S. offers in preferential agreements may fail to be fully exploited by such partners. This is because developing countries often do not possess the infrastructure to both

export at a high capacity, and coordinate foreign direct investment from American investors. So long as the development of infrastructure in developing country partners keeps them from underperforming the levels allotted by the terms of the agreement, the impact on the American economy will remain minimal at best.

The U.S.-Singapore FTA

The FTA with Singapore demonstrates how a declining hegemon maintains vital security commitments with subordinates after its effectiveness wanes at the multilateral level. During hegemony, the U.S. garnered support for its security agenda through its asymmetrical position within the regime. Regime members submitted to U.S. foreign policy and security dictates as a consequence of benefiting from the trade system coordinated by the U.S. As stated before, the trade regime was fundamental to the U.S.'s strategy of maintaining cohesion and prosperity among its allies. As U.S. hegemony waned over the regime, so too did its ability to influence the behavior of subordinate members. According to the hegemonic stability framework, declining hegemons must reorient their strategies to continue projecting influence in international politics. This FTA suggests declining hegemons entice allies with preferential market access to reward and ensure continued unwavering political and military support of their geostrategic agenda.

FTAs were used as an enticement by the Bush administration for Middle Eastern states to make normative changes to their political systems. Instead, it is used here as a reward for Singapore's long standing allegiance to U.S. security policies. As such, the hierarchical element operating in this case is distinct from the Moroccan case. In the

Moroccan case, the preferential access gained through the FTA is intrinsic to the exchange constituting the hierarchy. Instead, in this case the hierarchy exists in the security relationship extant between Singapore and the U.S., whereby Singapore abides as an unquestioning junior ally acquiescing to U.S. geostrategic prerogatives. For its part, the U.S. acts as guarantor of Singapore's security. The FTA is a symbolic indicator of both countries' commitment to carrying forward their obligations inherent in the relationship into the future.

The foundation of the U.S. - Singapore relationship is based on security. Since its independence, Singapore has treated survival as its most paramount and constant domestic and foreign policy concern. Much of this emanates from its small size, status as a global free trade entrepôt and an anti-Chinese sentiment shared by its most immediate neighbors. Singapore shares the Strait of Malacca as a border with Indonesia, which represents the world's largest Muslim population. Since the late 1990s, it has also had to contend with an emerging threat of Islamic terrorism in the region. Its vulnerability to a terrorist attack increased after 9/11 because of its long standing allegiance to U.S. foreign and security policies. For the U.S., Singapore's strategic location in Southeast Asia permits it to project power in Asia and the Middle East. As a long time ally, Singapore also allows the U.S. military to occupy its naval and army bases. Politically, Singapore is one of the only countries in Asia that openly welcomes U.S. intervention in the region. It backs U.S. positions regarding the balance of power across Asia and was one of the first country's to openly support the U.S. plan to invade Iraq.

Singapore is a city state in Southeast Asia situated across the Strait of Malacca from Indonesia on the southern tip of Malaysia. Its population is approximately three and a half million and it is roughly three and a half times the size of Washington D.C. The U.S.-Singapore FTA represents the first of its kind between the U.S. and an Asian nation, and the first President Bush signed in office. After two years of negotiations, the agreement was finalized in January 2003 and entered into force the following year. Both countries essentially allowed free trade prior to the agreement. Therefore, the goals of the FTA revolved around increasing access for American service providers, strengthening Singapore's business environment through stricter intellectual property protections, and assuring Singapore of the U.S.'s commitment to Singapore's security in the region. The agreement immediately makes all U.S. goods entering Singapore tariff free. Like other FTAs, goods entering the U.S. will be phased in according to a tariff schedule over ten years. The agreement grants U.S. service providers and investors the same treatment from the government as their Singaporean counterparts.

Singapore is the U.S.'s largest trading partner in Southeast Asia. Major U.S. exports include machinery, electrical machinery, aircraft, optical and medical instruments, plastics, and mineral fuel oil (Nanto, 2008). As a free trade hub and entrepôt, Singapore is a longtime supporter of trade liberalization. In fact, 99% of all goods enter the country duty free. Import tariffs are only levied on certain beer and alcoholic beverages. To discourage consumption and promote health and environmental protection, the city state also applies high excise taxes on tobacco, motor vehicles and distilled spirits and wine (Singapore, of course, also bans chewing gum). Since the U.S. has low trade

barriers as well, the only areas potentially affected by the FTA are government protected industries, such as textiles and apparel (Singapore is not an agricultural exporter, thus poses no threat to American farm industries).

Singapore's Strategic Importance to the U.S.

Though there is no official formal alliance, the relationship with Singapore is the closest in political, diplomatic, commercial and military terms that America has with any country in Southeast Asia (Smith, 2005). “A point of continuity in the relationship, spanning the Cold War and post Cold War era, is Singapore’s stated desire to keep the United States engaged in the Asia-Pacific region” (Smith, 2005, p. 2). In 1990, amid fears of U.S. downsizing in Southeast Asia, and its uncertain future in the Philippines, Singapore signed a Memorandum of Understanding (MOU), giving U.S. forces access to its naval and air facilities. After the bases in the Philippines closed, the U.S. asked and was rejected by all the ASEAN countries for similar military arrangements (Pang, 2007). In 1992, when the decision to leave the Philippines was finally reached, the U.S. Navy relocated the Commander, Logistics Group, and Western Pacific (COMLOG WESTPAC) to Singapore. COMLOG WESTPAC supports the seventh fleet, coordinating U.S. naval exercises across Southeastern Asia, including one hundred ship visits a year to Singapore (Smith, 2005). In 1998, Singapore gave the U.S. Navy access to its deep water pier at Changi Naval Base, allowing the Navy to bring in aircraft carriers

(Smith, 2005). After 9/11, Singapore was one of only two Southeast Asian countries to support the U.S. led invasion of Iraq. This support permitted U.S. armed forces to transit through Singapore on their way to Iraq and Afghanistan. Singapore has also contributed to the war in Iraq by training police and loaning transport aircrafts (Smith, 2005). To bolster U.S. domestic security needs, Singapore signed an agreement in 2003 with the U.S. Customs Service known as the Container Security Initiative (CSI). This agreement allows U.S. customs agents to pre-inspect shipments destined for American soil.

The U.S.'s access to Southeast Asia is crucial for implementing its foreign economic and security policies in the whole of Asia and the Middle East. Since September 11th, the U.S. has prioritized a strategic re-engagement with Southeast Asia as part of its global war on terror, and to promote its interests in the regional balance of power, including challenging ascending Chinese hegemony (Acharya, 2004; Pang, 2007). U.S. attempts to assert influence in the post September 11th climate include dramatically increasing military engagement and security assistance to states in the region. Assistance ranges from logistic and military operations support in the Philippines to seeking cooperation with Indonesia and Malaysia (Acharya, 2004). For instance, in January 2003, 600 U.S. troops entered the Philippines to assist with what was dubbed a hostage rescue and counterinsurgency operation. The U.S. and Malaysia have also made strides towards establishing a counter terrorism center (Acharya, 2004).

As the U.S. has increased its military presence in the region, so has the specter of anti-Americanism. While most states in the region condemned the September 11th attacks, this did not translate into support for the U.S.'s mode of retaliation. Indeed,

national leaders in Malaysia and Indonesia spoke out against the U.S. invasion of Iraq (Acharya, 2004). Much of the criticism charges that the War on Terror focuses too heavily on attaining military solutions without addressing the causes of Islamic extremism. Particularly, critics contend that the U.S. does too little to ease the suffering of the Palestinians while overtly favoring Israel. This degree of criticism creates an even greater incentive for the U.S. to guard and nurture its relationship with Singapore. Geostrategic gains in the region, and the War on Terror, depend greatly upon ensuring Singapore's continued logistical and political support. However, unfettered support for an overt U.S. military presence in Southeast Asia has come with a price. It has generated diplomatic tensions with its neighboring countries that vehemently oppose U.S. intrusion. This is especially the case with Indonesia, which has the largest Muslim population of any country in the world, and also Malaysia.

Singapore's Vulnerability Complex

Singapore's embrace of a strong U.S. military presence in the region reflects its own perceived vulnerabilities. Singapore sees regional instability, border disputes and terrorism as deep concerns that threaten the vitality of its open, free trade economy. From Singapore's perspective, region-wide instability emanates from multiple sources. These include the threat of terrorist elements both inside the country and across the border in neighboring Muslim states. Singapore also worries about territorial conflicts upsetting the region, such as between China and Taiwan regarding the sovereignty of the latter, the hostilities on the Korean peninsula and the Spratly Islands dispute in the South China

Sea. Singapore's leaders have also voiced concern regarding the animosity among countries to the north, especially among China, Japan and North and South Korea. It also contends with local border clashes and conflicting claims to natural resources in Southeast Asia. The city-state thrives on its busy ports and enormous flow of maritime trade that traverses the island country. Protecting this flow from piracy and terrorism is fundamental to maintaining its economic health. Since independence, it has linked security needs to trade, believing that greater economic interdependence will produce regional stability and strengthen ties among Asian nations.

Therefore, *survival* has been Singapore's fundamental preoccupation. Its size and location in a volatile region has pervaded Singapore's leaders with a perception of insecurity since its independence during the mid 1960s. Historically, this derives from an anti-Chinese sentiment shared among Singapore's immediate neighbors, Indonesia and Malaysia. The city state is also sensitive to feelings of resentment by neighbors because of its high level of economic success (Tan, 2006). To counter these vulnerabilities, Singapore looked to emulate the defense strategy developed by Israel after its own independence years earlier (Huxley, 2000). Like Israel, Singapore calculated that its size and location among hostile neighbors placed it exceptionally at risk. After independence, the Israelis offered military expertise and sent advisers to guide Singapore as it developed its defensive capabilities. Modeled on the Israeli Defense Force (IDF), the city state created the Singapore Armed Forces (SAF) in 1967. Like the IDF, the SAF emphasizes air superiority, the widespread use of armor and a preemptive doctrine of deterrence. Also akin to Israel, Singapore imposes national service for all men. While these efforts

certainly had the effect of creating a deterrent, its embrace of the Israelis and their “Forward Defense” model generated a significant amount of regional hostility (Tan, 2006). In line with the Israeli influence, since 1965 Singapore has relentlessly built up its military capabilities. The recession of 1984-1985, and the relaxed post Cold War environment generated by the collapsing Soviet Union, offered an opportunity to slow this buildup. The government’s refusal to do so, however, is indicative of Singapore’s sense of insecurity. Its leaders watch political developments in the region closely, and the SAF operates as though the need to use force to deter a threat, or defend the country from invasion, is imminent (Tan, 2006).

Largely in accordance with American perspectives during the early 2000s, Singapore sees the threat of Islamic terrorism as the primary danger to regional and national security (Fernandes & Kingsbury, 2005). As a close U.S. ally, its leadership also shares the assumptions and perspectives regarding how to categorize and combat terrorism as the Bush administration, especially the controversial strategy of preemption. Differences regarding how to abate terrorism have served as a further wedge between Singapore and its Muslim neighbors (Mendelsohn, 2007). Whereas Singapore and the U.S. approach terrorism as an existential threat, Indonesia and Malaysia understand it to be a political and police issue (Smith, 2005). Exacerbating these tensions, Singapore’s leaders have made explicit links between Islam and terrorism. For instance, Eddie Teo, from Singapore’s Prime Minister’s office, publically stated in 2003 that, “it may not be politically correct to focus on the relationship between Islam and terrorism. However, the common thread that seemed to unite Jemaah Islamiah members was their desire for

spiritual revival...What they were...taught was that to be a good Muslim, you would have to hate the West, bring down secular pro-Western governments in the region and pave the way for an Islamic regional government” (in Acharya, 2004, pp. 3-4). During a 2004 visit to the U.S., ex-Prime Minister Goh made similar remarks on the growing influence of Salafism in Southeast Asia, claiming that “Salafi Islam promotes the idea of an Islamic state and defines the Islamic commitment to *Jihad* as a ‘holy war’ against unbelievers” (Smith, 2005, p. 3). Though critics quickly derided any links the Bush administration made between Islam and terrorism, Singapore’s leaders were much more vehement (Smith, 2005).

The principle terrorist organization in Southeast Asia is the al Qaeda affiliated group Jemaah Islamiyah (JI). Their influence ranges across four regions including Singapore and Malaysia; Indonesia; the Southern Philippines; and Australia. As mentioned above, Singapore sees itself vulnerable because of its wealth, the heavy concentration of its national infrastructure in a limited space and its close security relationship with the U.S. (Acharya, 2004). Its security cooperation with the U.S. includes hosting a logistics facility for the Navy, which is crucial for American military operations in the Indian Ocean, the Gulf of Persia and Afghanistan. However, the threat facing Singapore predates the 9/11 attacks and the War on Terror. A rise in Islamic consciousness promoting the overthrow of regimes in Southeast Asia (especially Indonesia, Malaysia and the Philippines), began during the 1990s. In Indonesia, for example, the end of the Suharto regime in 1998 spurred the rise of radical Islam, raising fears over the future trajectory of the country. In fact, despite the heavy presence of

American and coalition forces fighting in the region, many suspect a growing number of al Qaeda affiliates are hiding in the thousands of jungled islands in the Malay archipelago (Tan, 2006).

For these reasons, Dr. Tony Tan Keng Yam, Deputy Prime Minister and Coordinating Minister for Security and Defense, calls Singapore an “iconic target” for Islamic terrorist groups (Smith, 2005). The significance of the threat facing Singapore was realized in December 2001 when officials arrested the first of a number of JI members. Those arrested were accused of plotting to bomb various targets around the island. Their plans included American military personnel at a local subway station, U.S. naval vessels at Singapore’s Changi Naval Base, U.S. commercial interests, Western and Israeli embassies, and Singaporean military facilities (Tan, 2006). If successful, the attacks would have been the largest acts of terrorism after New York and Washington D.C.

Increasing occurrences of piracy in the Malacca Straits also register as a top security concern for Singapore’s leaders. The Malacca Straits represent 550 nautical miles of territory that Singapore must patrol. It is the longest strait in the world, serving 500-600 vessels each day (Mak, 2006). The rise in piracy led Singapore’s Home Affairs Minister, Wong Kan Seng, to remark in December 2003 that there should be no distinction between pirates and terrorists and that piracy should be a top regional security concern. In 2004, Singapore’s Dr. Tan proposed that the U.S., Malaysia and Singapore jointly patrol the Malacca Straits. The Malaysian government immediately moved to reject the idea that American marines would be involved in active patrols. Separately,

both Indonesia and Malaysia reacted strongly when Admiral Thomas Fargo, Commander of the Pacific Command (PACOM), was misreported as saying that U.S. forces might become active in patrolling the straits as a facet of the proposed Regional Maritime Security Initiative (RMSI). According to Smith (2005), “the incident demonstrates that Singapore clearly has no difficulty with a U.S. presence in Singapore, or even a U.S. military role in Southeast Asia. Malaysia’s objection, and Singapore’s quiet withdrawal of the idea, demonstrates the regional constraints that Singapore faces in linking with the United States” (p. 4).

Related to the vulnerability of the Malacca Straits, Singapore status as a open economy and free trade hub makes it a significant security threat. Though Singapore is a small city state, it controls one of the busiest ports in the world, making it truly a hub of global free trade. Furthermore, with one of the lowest tariff regimes in the world Singapore attracts foreign business interests from all corners of the globe. U.S. corporations account for 27% of foreign investment, Japan accounts for 20% and the EU 23%. In total, approximately 6,000 multinational corporations operate in the city-state. 1,500 of these are U.S. multinationals, accounting for 25% of all global companies present in Singapore (Pang, 2007). Obviously, the sheer size of the Western financial presence compacted into the small country makes it an attractive target.

Economic Outcomes

As merchandise trade is virtually free between the two countries, U.S. negotiators sought to eliminate Singapore’s barriers on an array of services. These include high tech

industries such as engineering, medical, information technology, environmental, legal, financial, education and distribution (Nanto, 2002). The FTA also commits Singapore to enforce tougher restrictions on intellectual property. Though Singapore is a signatory to the World Intellectual Property Organization and the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs), the USTR charged the government was too lax enforcing and policing the spread of pirated software, music and film (Nanto, 2002). Accordingly, Singapore's concessions to the U.S. in the FTA include wider access for U.S. service providers, strengthening intellectual property rights and leveling the playing field for American companies to bid for government projects.

The economic outcome of the FTA are very positive for both countries. The U.S. enjoyed a \$6.9 billion surplus in merchandise trade in 2006, up from \$1.4 billion in 2003. During the same period, U.S. exports expanded by an impressive 49% from \$16.6 billion to \$24.7 billion (Nanto, 2008). However, despite this massive growth of exports, the U.S. share of Singapore's total imports declined from 16% to 13% during this period. This is because Singapore's imports from around the world have grown significantly, as it also aggressively negotiates FTAs with countries around the world (Nanto, 2006). Since the FTA, U.S. imports of pharmaceuticals from Singapore have risen sharply from \$0.09 billion in 2003 to \$2.4 billion in 2006. Since pharmaceuticals already entered the U.S. duty free, other factors account for this dramatic increase. Namely, Singapore's success attracting multinational drug companies allowed it to become a regional center for pharmaceutical manufacturing and exportation (Nanto, 2008). Interestingly, this seems to result from the tougher intellectual property provisions stipulated in the FTA. The FTA

has also enhanced U.S. direct investment access to Singaporean markets. U.S. income from assets in Singapore more than doubled from \$6.7 billion in 2003 to \$14.3 billion in 2006 (Nanto, 2008). More recent calculations report that trade between the countries approached \$37 billion in 2009, an increase of 17% since 2003, the year before the agreement took affect.⁸⁸

The economic successes generated by the FTA align with Kindleberger's assumption that hegemons pursue trade policies leading to absolute gains. Leaders from Singapore and the U.S. meet each year to review the economic progress and discuss issues related to the implementation of the FTA. Consecutively, each review demonstrates that two way bilateral trade and investment continues to grow since the FTA took force in January 2004. The most recent FTA review, held in October 2010, indicates that U.S. goods exports totaled \$22.2 billion in 2009, an increase of 34% since signing the FTA. U.S. trade in services to Singapore also continues to grow each year. In 2008 (the latest available data), U.S. service exports reach \$9 billion, a 60% increase since 2004. Two way foreign direct investment has also soared resulting from the agreement. In 2009, Singaporean investment in the U.S. topped \$22.9 billion and U.S. investment in Singapore totaled \$76.9 billion.⁸⁹ For Singapore, the immediate elimination of 92% of U.S. tariffs greatly benefits many sectors of its export led economy, including electronics, chemicals, instrumentation equipment and mineral products. The U.S. also

⁸⁸ Figures from <http://www.ustr.gov/trade-agreements/free-trade-agreements/singapore-fta>.

⁸⁹ Figures from <http://www.ustr.gov/about-us/press-office/press-releases/2010/october/united-states-and-singapore-hold-sixth-annual-free>.

agreed to waive a Merchandise Processing Fee that costs Singaporean exporters approximately \$30 million a year. The service agreement in the FTA also commits U.S. states to treat Singaporean service providers equally to providers in its own state or other U.S. states.⁹⁰ This boom in goods, service and investment trade benefiting both sides contrasts with the asymmetrical results favoring the U.S. in the Australia FTA. Whereas that agreement aligns closer to the assumptions of hegemonic behavior in the coercive variant, this agreement is closer to the benevolent. U.S. negotiators presented their Singaporean counterparts with favorable terms that genuinely promote and enhance the volume of two way free trade between both countries.

Security Hierarchy

As Lake indicates, relations of hierarchy are founded upon exchanges between super and subordinate actors. Like the Moroccan case, the U.S. offered Singapore preferential market access in the form of an FTA. This access comes in exchange for the many years Singapore supported American security and geostrategic policy in the region and globally, and for its support fighting the War on Terror. Due to its own vulnerability complex, Singapore welcomes an overt U.S. presence in the region and American interjections into Asian geopolitics. However, its deep alignment with U.S. policies and strong commitment to American military operations has significant consequences. Diplomatically, its closest neighbors resent Singapore's acquiescence to American foreign policy positions. This cleavage was apparent in the aftermath of 9/11 and

⁹⁰ See http://www.fta.gov.sg/ussfta/info_kit_ussfta.pdf.

Singapore's support for the U.S. response in Afghanistan and the Iraq invasion. With Islamic extremism on the rise after the 9/11 attacks, Singapore may have strengthened its position by tempering allegiance to the U.S. to diffuse tensions with its neighbors. Instead, it continued working to forge the preferential FTA, symbolically affirming its commitment to the Bush administration's post 9/11 global foreign policy. Further, instead of using public pronouncements to quell any tensions with its Muslim neighbors, the government's rhetoric regarding Islam was seen as divisive. Singapore could have also formulated its policies towards terrorism to align with those shared by its neighbors to ease tensions and appease Muslims. Instead, the government's official position mirrored verbatim the Bush administration's. Accordingly, the relationship Singapore has developed and courted with the U.S. has isolated the small city state from its neighbors. Instead of working to enhance its security position independently, Singapore has deepened its dependence on the U.S. security umbrella to the point where its foreign policy choices are limited to only those promoted by the U.S.

In this respect, this FTA solidifies a relation I term a *security hierarchy* between the U.S. and Singapore. Despite its precarious situation with neighboring states, and the risk of Islamic terrorism, Singapore does not publically challenge U.S. foreign policies, or decide to forgo America's security commitment by charting an independent foreign policy course. In fact, the government refrains from even minor criticism of U.S. tactics, even remaining quiet on the issues surrounding Guantanamo Bay and allegations of torture. The FTA locks Singapore in this subordinate position as a much junior ally in the War on Terror and U.S. security policies in the region. As the diplomatic and political

consequences of this subordinate role heighten its vulnerability, Singapore leaders enthusiastically welcomed the FTA as a sign of the U.S.'s commitment to guarantee its security. While the FTA benefits Singapore (and the U.S.) economically, the exchange intrinsic to this hierarchy occurs in the realm of security. The U.S. guarantees to protect Singapore in exchange for Singapore's unquestionable support and loyalty to U.S. security and geostrategic policies. In the Moroccan case, the market access provisions of the FTA are inherently apart of the exchange. However, in this case the FTA is more a symbol of each country's commitment to maintaining the status quo regarding the relationship.

Conclusion

The FTA is a reward to the city-state for its deep commitment and longtime support of U.S. security interests. *Asia Times* reporter Jeffrey Robertson remarked a year after the deal came into effect:

It is widely accepted that recent US trade policy has been somewhat tainted by its cozy relationship with Bush administration foreign policy goals. Strong supporters of US action in Iraq...were rewarded with expedited free trade agreements. Others opposed to action, such as Chile, had their agreements postponed, while other countries long opposed to US policies such as New Zealand - which since the 1980s has refused to admit nuclear-powered or armed vessels in its waters - were not even allowed in the negotiation room (2005).

Unlike the case of Morocco, through which the U.S. rewarded shifts toward normative alignment with western standards, the U.S. is largely silent regarding Singapore's authoritarian democracy (Kampfner, 2010). This reflects how FTAs are strategically deployed to service divergent American interests. Based on the belief that reform would

bring countries in the region closer to the international society propagated by the U.S. and Europe, the Bush administration pursued normative changes as a fundamental aspect of its Middle Eastern foreign policy. This, it was argued, would isolate the extreme elements in Middle Eastern societies that potentially threaten the West. The administration's fundamental concern regarding Singapore is its strategic location and willingness to allow the U.S. to use its bases and support American security policy in the region. Any concern for human rights abuses or lack of political freedoms are secondary to U.S. strategic interests in Singapore.

The dimension of hierarchy present in the U.S.-Singapore FTA is fundamentally benevolent and the terms of the agreement favor both countries economically. Further, the FTA did not hinge upon whether Singapore opened its political system or radically altered its domestic laws concerning public health or agriculture (as in the other two cases). This FTA serves as a reward and insurance for Singapore's continued support of U.S. geostrategic interests. The hierarchical dynamics of this relationship can be distilled as follows: Singapore sees the FTA as a commitment by the U.S. to continue guaranteeing its security. The U.S. sees the FTA as a guarantee of unfettered access to Singapore's territory for projecting military power in the context of the War on Terror, Iraq, Afghanistan and Asia. The hierarchical aspect of the security relationship codified by the FTA involves Singapore's support of the U.S. in the face of regional hostility towards this embrace. While Singapore's security strategy has been to welcome and support a strong U.S. presence both inside its borders and the region, its decision to do so has caused it to become completely reliant on the U.S. security guarantee. In effect,

Singapore has generated an existential dilemma through its relationship with the U.S. This is because it has rebuked the calls of its neighbors to deter a strong U.S. presence in the region. Its public support and cooperation with Israel, as well as its logistical and military support for the wars in Iraq and the U.S. led War on Terror heighten its prospects as a target for Islamic terrorists. The conditions that make the security hierarchy advantageous for the U.S. and Singapore are multifaceted. For Singapore, these involve its perception of vulnerability. As stated above, U.S. motivations to codify and tighten the relationship concern Singapore's strategic military importance.

Chapter 6

CONCLUSION

This dissertation set out to analyze an important shift in global trade behavior. The conclusions derived offer insight into the nature of hegemony, and contribute to the discipline's understanding of hegemonic decline. The initial puzzle centered on the rapid abandonment of a multilateral-only trade policy by WTO members, the U.S. included. Since the late 1990s, WTO members have proliferated hundreds of preferential trade arrangements, overlapping and sometimes conflicting with multilateral ones. Multilateralism characterized the global trade regime under postwar U.S. hegemony. From the end of the Second World War until the end of the Uruguay Round, multilateralism was the only legitimate trade strategy states could pursue. The EC began negotiating outside of the multilateral nexus years earlier. However, Europe's agreements were largely tied to its integration on the continent, or represented preferential arrangements offered to former colonies. Importantly, these agreements were marginal in comparison to the effort states exerted multilaterally. Even the U.S. negotiated a friendly bilateral agreement with Israel in 1985 to demonstrate solidarity.

Neoclassical economic theory, advanced by postwar American economists, undergirded multilateralism's legitimacy. The free market ideology informed not only

trade, but the new monetary and financial regimes established under the Bretton Woods system. Neoclassical economic theory holds that a world without barriers to distort trade produces the best economic outcome for all actors. The absolute gains theory associated with economic liberalism informs this assumption. Though global free trade will create enormous windfalls of wealth for some nations as others struggle, the free movement of goods and services *lifts all boats*. Tariffs, subsidies and import quotas distort markets and prices. The effects cause consumers to pay more, poor farmers with comparative advantages to compete with subsidized crops, and inhibits the transfer of new technologies to less developed regions of the world; thereby stunting industrial development.

Multilateralism efficiently and effectively moved the world towards the goal of free trade for over four decades. Multilateralism also sought to prevent trade from becoming a catalyst for military conflict and competition. The European empires of the 19th century established exclusive zones of preferential trade among their colonial holdings. These zones provided abundantly cheap raw materials for high end production, while simultaneously discriminating against imperial competitors on the continent, and the U.S. Under this system, trade was a mercantilist tool of European imperialism many attribute to exacerbating tensions leading to World War I. After the Second World War, the U.S. affirmed trade would no longer devolve into stoking the flames of war. Under U.S. hegemony, regional trade blocs and imperial zones were demolished and a global regime, informed by the tenets of free market liberalism and backed by the force of U.S. hegemony, replaced the old system.

Therefore, multilateralism was the paramount ideology fortifying and legitimizing the global system of trade generated under U.S. hegemony. Its abandonment by the U.S. presents an extremely important puzzle for IR theory. Most central, how can we account for the global shift away from a multilateral-only trade strategy to bilateralism and regionalism? The following conclusions are derived from this study to help answer the puzzle.

Hegemonic decline catalyzed the breakdown of the multilateral trade regime.

The global shift from a multilateral-only world, to one populated by bilateral and regional trade agreements, resulted from the decline of American hegemony over the regime. That is, hegemonic decline led to the decay of the multilateral order. Before commenting on the evidence supporting this argument, I first want to discuss the claim that the regime is *broken*. The regime is understood to be broke because of its failure to conclude the Doha Round. Concluding trade rounds continues the decades-long project towards establishing a global free trade system. Therefore, it is a fundamental purpose of the regime's existence. Members' inability to conclude Doha (a first in the regime's history) indicates it is failing to produce this fundamental public good. Chapter 3 provides detail regarding the reasons for the inability of regime members to forge consensus on Doha proposals. Among regime members, no state has exhibited the will and, more importantly, the capability to broker the deals necessary to forge consensus on an agenda. As argued in chapter 3, non-hegemonic members have also failed to work collectively towards rescuing the round. However, all is not lost at the WTO. It still

provides international governance in critical areas of global trade. For instance, the Dispute Settlement Body remains the incontestable arbiter of international trade disputes.⁹¹

Support for the conclusion that hegemonic decline is responsible for the regime's demise is located, first, in a suggestive correlation. When American hegemony operated over the regime, trade rounds successfully concluded. In the absence of American hegemony, the current round has sputtered with no end in sight for a decade. The third chapter gives evidence for this, demonstrating the hegemonic strategies to corral states towards consensus around U.S. policy proposals. Doha revealed the U.S. no longer wields the asymmetry of negotiating leverage to accomplish this. In its wake, the round has become a cacophony of competing voices, unwilling to make sacrifices and compromise positions. As a high ranking trade official at the State Department remarked on the current state of WTO negotiations, "no one is willing to sacrifice their golden cow" (Personal Communication, 2009).

Other support comes from the design of the postwar trade regime itself. The architecture of the regime assumed U.S. hegemony would coordinate members towards the goals of liberalization. It was founded on the premise that the consensus based model would be a tool providing legitimacy to U.S. hegemony over matters of international trade. The demise of the regime was reasonable to predict given the multilateral, consensus based model. It was not designed to function in the absence of hegemony.

⁹¹ Though, only for WTO law; not preferential agreements.

States have been selecting preferential agreements in the wake of U.S. hegemonic decline for various reasons. These include fears that Doha's demise will perpetuate the status quo and fail to improve access to trade markets. For the U.S., its shift towards preferentialism aimed at retaining hegemony through the mechanism of trade policy. The U.S. merely shifted to more manageable settings. Support for this conclusion comes from the U.S. advancing the policies it failed to achieve multilaterally in its bilateral and regional agreements.

The U.S. shifted to bilateral and regional negotiating environments because it could still exercise hegemony in these venues.

Therefore, the second conclusion is that the U.S. shifted to bilateral and regional negotiating environments because it could still exercise hegemony in these venues. Commenting on President Obama's plan to finalize the leftover Bush era FTAs, Kevin Gallagher (2010) affirms, "Reviving the Bush strategy of bilateral and regional deals concedes that the United States cannot compete in a (far-from-perfect) global rules-based system where developing countries also have a say in the negotiations. Rather than playing a multilateral game at the WTO, going one-on-one with developing nations makes it much harder for them to push back." The rationale for the Bush administration's shift in policy centers on the benefits preferential agreements offer. As discussed in chapter 3, preferential agreements avoid many of the hurdles presented by multilateralism. Unlike the multilateral forum, preferential agreements reduce the complexity of many actors pursuing unilateral interests. Instead, most preferential

agreements consist of only two states. These environments, therefore, also make it easier to incorporate novel areas of liberalization, as well as environmental and labor issues, that prove difficult multilaterally.

More importantly, preferential agreements offer a negotiating environment that sustains the U.S.'s hegemonic status. As noted throughout, U.S. preferential agreements were negotiated with countries representing significantly smaller economies and weaker political leverage. The dynamic of U.S. preferential agreements typically entailed small, developing economies eager to gain any sort of access, or preferences, from the world's largest economy. At the bilateral and regional level, the U.S. dictated the terms of FTAs, thereby realizing trade policies unable to advance at the WTO in the late 1990s, early 2000s and especially now. As shown in the Australia case, these policies included more stringent intellectual property laws aiming to protect the profits of American patent holders and the safety net enjoyed by U.S. farmers.

These environments also proved highly useful to advance American geostrategic, ideological and security policies. FTAs were wielded by the administration to entice and reward strategic states to comply and adopt policies advancing American foreign policy goals. As indicated in the exchanges undergirding the normative and security dimensions of hierarchy, the U.S. influenced the leaders of non-liberal, Middle Eastern states to politically enfranchise civil society, women and the press with preferential agreements.

U.S. FTAs Exhibit Hierarchical Exchanges, Supporting Lake's Expectations

Aligning with Lake's description of how hierarchy operates, a single logic of exchange undergirds the bilateral agreements in the case studies. The Bush administration enticed countries to implement and follow policies it promoted in exchange for preferential trade agreements. The specific nature of the exchanges depended upon the particular goals the administration sought to achieve with each FTA. The primary geostrategic and foreign policy concern of the Bush administration, especially during his first term, centered fundamentally on America's response to 9/11 and fighting global terrorism. Not surprising, FTAs were utilized as a tool in the administration's arsenal to influence strategically important states to comply with and promote U.S. military and political efforts. Among these FTAs, we can isolate two dimensions of hierarchy exercised by the administration. One dimension of hierarchical exchange centers upon persuading countries to adopt and abide by certain norms promoted by the White House. The second dimension revolves about ensuring continued unwavering support for U.S. military and global security policy. Cases representing the *normative dimension* (U.S.-Morocco) involve enticing countries with FTAs for altering domestic sovereign laws and policies so that they accord with Western standards of human rights and political liberalism. The *security dimension* (U.S.-Singapore) represents FTAs whereby countries were rewarded with FTAs for maintaining loyalty and obedience to U.S. geostrategic policies and contributing militarily to War on Terror and operations in Iraq and Afghanistan. In both dimensions, the exchange of acquiescing to U.S. policy wishes entailed gaining preferential access to the U.S.'s vast domestic markets.

However, not all the cases align with the logic of exchange described above. Certain FTAs reveal a different logic of exchange, whereby the administration used bilateral agreements to proliferate new trade norms that fundamentally benefit American corporations at the expense of partner states. Partner states entered into the negotiations believing they would receive beneficial and equitable agreements. However, in these instances negotiators from the Office of the United States Trade Representative (USTR) were charged with scoring highly asymmetrical deals. Since the bargaining dynamic in bilateral FTAs always favors the U.S., American negotiators were not compelled to budge on their positions. This category of U.S. FTAs raises questions, however, concerning why partner states would agree to such unfavorable terms? Indeed, the exchange operating in these FTAs are murkier to identify. In the case that represents this *economic dimension* (U.S.-Australia) of hierarchy, the partner accepted unfavorable terms because their Prime Minister calculated that forging a preferential trade relationship would nonetheless elevate their standing to the President and grant his government exclusive access to the White House.

The exchanges extant in the FTAs under investigation provide important insights regarding the nature of hegemony, and speak back to the theories of hegemonic stability. First, the cases demonstrate that a hegemon's costs to realize its international policies rise as its hegemony contracts. If the U.S. is truly a global hegemon, it should not have to entice and reward states with preferential market access to ensure they follow its dictates. To be clear, the reward of market access is generally a *small* cost to the American economy, as FTA partners typically have a much lesser capacity to export. However, it

still represents an approach to managing and pursuing its international affairs that was unnecessary during the height of American hegemony. Second, the cases suggest that as hegemony contracts, hegemons attempt to retain their influence by interacting with states in new venues where they still wield significant asymmetrical bargaining power. All U.S. bilateral FTAs are with miniscule economies in comparison to the U.S.'s vast markets (with the exception of the FTA with the Republic of Korea). This market power affords the U.S. the ability to set the terms of the agreements with little room for debate.

The cases also raise interesting questions regarding the behavior of subordinate states. For instance, why would Australia voluntarily enter into such a bad trade agreement? That is, how can we account for Prime Minister Howard's acquiescence to such unfavorable terms? One explanation claims that Howard was optimistic that the FTA would eventually bring long term benefits in manufacturing, services and investment. Howard may have also been fearful of antagonizing the U.S. if Australia rebuffed the agreement (Rimmer, 2006). This explanation has some weight as Howard was keen to strengthen political ties with U.S. leadership, especially given the close affinity between the his Liberal Party and U.S. Republicans. I also speculate that Howard miscalculated his close relationship with the President. Howard perhaps believed the close affinity he and Bush shared would ensure a beneficial agreement with the U.S. Once the negotiators began talks and the Australians realized that a good deal was not available, Howard may have thought it was too late to walk away. If anything, this demonstrates that relying on their close relationship was a serious miscalculation.

The Singapore and Morocco cases offer insight into the U.S.'s decision-making circumstances as it experiences hegemonic decline. In particular, these cases suggest that declining hegemons incur greater and greater costs in order to coordinate states to follow their foreign policies. Hegemony entails that subordinate states follow the policy wishes and dictates of the hegemon without the need of rewards and payoffs. However, as these cases show, persuading countries to follow its geostrategic policies were only possible with the enticement of preferential trade access. If this is the case, then the more hegemons have to pay to garner obedience, the greater the evidence of declining hegemony. This observation is especially compelling in the Singapore case. Singapore faces many threats to its security that suggest it should align with U.S. War on Terror policies without U.S. enticements and rewards. The necessity to offer this type of endowment to secure Singapore's long term commitment to American geostrategic policy is indicative of its weakened hegemonic status.

The exchanges constituting the hierarchy determine if hegemony is benevolent or coercive.

Whether hierarchy is coercive or benevolent depends on the exchanges constituting the hierarchies codified by U.S. FTAs. The nature of the exchanges reflect particular U.S. agendas. After the Bush administration signaled for political reform in the Middle East, Morocco responded. To appear an attractive FTA candidate, it relinquished traditional and cultural laws governing families and began recognizing women's legal rights. The U.S. rewarded submission on these issues with a preferential agreement that

Morocco may one day benefit from.⁹² The text of the agreement permits Morocco to free ride, as it is allowed to retain a number of trade barriers protecting key sectors. However, the terms, and consequences, of the U.S.-Australia FTA stands in sharp contrast. This exchange consists of submission by the Australians to an asymmetrical deal whose impact actually shrank the Australian economy, while profiting particular American sectors. The exchange also usurped Australian sovereignty in two culturally significant areas. The agreement inserts American trade representatives on the decision-making bodies determining the price of pharmaceuticals, and the standards for safe farm imports. As the exchange generates relative economic gains for the U.S., the hierarchy is coercive. The unwillingness to compromise and negotiate with their Australian counterparts affirms the coercion intrinsic to this hierarchical exchange. As discussed in the case study, the Australians were presented with a take it-or-leave it agreement, not open to debate or flexibility, by the USTR. Even President Bush denied a personal request from Prime Minister Howard to raise beef import quotas.

Therefore, in the realm of trade, the nature of American hegemony during its decline is dependent upon the goals it pursues. Singapore's commitment to U.S. military and geostrategic objectives was a fundamental foreign policy of the Bush administration. Especially since it regarded Southeast Asia the second front of the War on Terror. The FTA offered to Singapore was both a reward for this service and a guarantee to assure Singapore's continued support. Indeed, Singapore offers a lot to the U.S. that is both economically and strategically costly to lose. For instance, Singapore allows U.S. armed

⁹² As discussed in the case studies, Morocco can not fully exploit the preferential terms, as it lacks the infrastructure and resources.

forces access to its bases and ports to facilitate supplying soldiers in Iraq and Afghanistan; for conducting military exercises; and as a means to project power in Asia. Singapore also supported the Iraq mission by training police and transporting supplies. Despite raising concerns over its own security, it openly supports U.S. policy in the region, angering Singapore's Muslim neighbors. Hegemony is benevolent in this instance because Singapore is too important strategically not to reward and shower favor. However, its benevolence may also derive from its waning status. The administration may have calculated it necessary to reward Singapore for its support in order to ensure it continues to do so in the future. If the U.S. is hegemonic in security affairs with Singapore, seeking insurance through rewards should not be necessary. The rewards inherent by submitting to U.S. hegemony ought to be powerful enough to expect compliance.

The absence of U.S. hegemony has failed to produce a non-hegemonic regime, challenging the expectations of regime theory.

Finally, in the absence of U.S. hegemony, the regime's non-hegemonic members have failed to rescue the Doha round. This challenges the expectations of the regime theory thesis promoted by Keohane (1984), Snidal (1985) and others (Krasner, 1982). Regime theorists argued that cooperation among states is a rational outcome to the loss of hegemony. Therefore, HST's argument that regimes dissolve because of hegemonic decline may require reevaluation. As chapter 3 indicates, discord among the WTO's non-hegemonic states has overcome the regime.

In the aftermath of U.S. hegemony, the failure of non-hegemonic regime formation gives empirical support to Kindleberger's (1973) assumption that only a single hegemonic state can coordinate international trade. However, there are other reasons preventing non-hegemonic cooperation at the multilateral level. States are responding to the benefits a unilateral trade policy renders. Negotiating in a bilateral setting reduces complexity and facilitates a wider range of issues. These agreements also solve political problems, allowing trade to be used to reward and give favor. Like U.S. preferential agreements, these settings also facilitate environments in which power politics still matters. Therefore, states with asymmetrical bargaining leverage can reasonably expect to reap gains unobtainable multilaterally. However, as economists argue, the most desired outcome, producing the best aggregate economic benefits, is a global system of barrier free trade. Preferential agreements undermine efforts towards creating such a system. By their nature, preferential agreements entail discrimination, thereby causing trade diversion and distorting true costs and markets. Multilateralism has proven the most expedient method towards eradicating global trade barriers. Therefore, non-hegemonic members face choosing between a multilateral-only strategy and one in which preferential trading is an important component. Multilateralism appears impossible in the absence of U.S. hegemony; yet it promises to produce the greatest gains for WTO members. Preferential agreements are suboptimal; yet states are proliferating them because of their ease and other benefits.

Keohane suggests non-hegemonic states will reorient egoistic behavior to rescue regimes *so long as there is an overwhelming interest do so*. Whether Keohane's theory is

right or not depends on how we assess the interests non-hegemonic states are selecting to respond to by negotiating preferential agreements. The benefits described above for pursuing preferential agreements are suboptimal to those promised through multilateralism. Nevertheless, Keohane's expectation seems to be met, as states offer a strong case for why they are abandoning multilateralism for preferential agreements. However, the failure to move the world towards multilateral free trade entails an enormous loss that must be considered against the reasons supporting preferential trade. The abandonment of the regime, therefore, questions Keohane's meaning of *overwhelming interest*, as the benefits of multilateralism are greater than preferentialism; yet not immediate.

Unanswered Questions

Important questions remain unanswered concerning U.S. hierarchy in its FTAs and the future of the global trading order. First, it remains uncertain why the U.S. exercised economic coercion over Australia. Similar to Singapore, Australia has backed the U.S. militarily in nearly all its modern wars. It risked its international image to openly support the U.S. War on Terror, and contributed troops to the theaters in Iraq and Afghanistan. The evidence only allows conjecture, but points to the influence the U.S. business lobby possesses over the USTR. Their constituencies, ranging from farmers to drug makers to manufacturers, lobbied for years against Australia's perceived unfair trade practices. When it was announced the two nations would negotiate an FTA, the USTR's office was inundated with business groups seeking to *level the playing field*. Representing

their grievances, the USTR made a stiff offer to the Australians, who reluctantly accepted.

The experience of the U.S.-Australia deal raises questions about other FTAs the U.S. sought primarily for economic purposes. Like the FTA with Australia, we can differentiate the yet ratified U.S.-Korea FTA from Morocco, Singapore and others due to its economic nature. In fact, the FTA represents the largest U.S. trade agreement since NAFTA. First the Bush, and now Obama, administrations claim the FTA will help American farmers by reducing or eliminating Korean tariffs. Bush's fast track negotiating authority expired in 2007 and the Democrats won back Congress a year later, thwarting his effort to finalize the agreement. Congressional democrats protested the FTA, claiming it did not go far enough to protect American workers and imposed unfair restrictions on U.S. beef exports. In a compromise negotiated in December 2010, President Obama and President Lee Myung-Bak agreed to keep U.S. tariffs on Korean autos in place for five years, a move applauded by both the Ford motor company and the United Auto Workers.

However, separating this economically driven FTA and the one with Australia is the absence of coercion. The negotiations, though certainly tough, reflect compromise and a balance in concessions between the two states. As economic gains are the grounds for both FTAs, understanding why coercion characterized U.S. behavior towards Australia, though not Korea, is important to understand. More succinctly, how was it possible the U.S. compelled Australia to accept such bad terms; yet a more equitable deal was reached with the Koreans? Again, the evidence only allows conjecture. Perhaps the administration calculated the South Koreans would be more difficult to coerce into

accepting highly asymmetrical terms? The size and importance of South Korea's economy (the fourth largest in Asia) may have tempered the Bush administration's goals, knowing that its leverage was not large enough to achieve similar gains as the Australian deal. Other factors may also account for the different approach towards South Korea. For instance, the administration may have worried about the U.S.'s image in East Asia as it attempted to retain American influence over the region. The administration may have been sensitive to the importance of demonstrating solidarity with South Korea and circumspect about pushing too hard for big concessions.

A much more significant question concerns the trajectory of the multilateral order. The current state of the Doha Round presents a problem never dealt with in the regime's history. As argued throughout, the U.S. bore the responsibility to successfully forge consensus and move rounds to close. As the last decade has shown, it can no longer accomplish this, and no other state (or contingency of states) seem capable either. The possibilities for the future of global trade include the Spaghetti Bowl phenomenon Bhagwati (1993) warns of, as well as the further fracturing of global trade into regional hubs. Bhagwati (1993) warns the further proliferation of preferential agreements will produce a confusing web of crisscrossing rights and responsibilities that could actually stifle world trade due to its complexity. However, as the world continues to become more multipolar, trade could also devolve into a world characterized by regional blocs. One possibility is that blocs form around regional hegemons, creating a kind of hub-and-spoke configuration. Critics charge that Bush sought to forge such a bloc in the Free Trade Areas of the Americas (FTAA). The recent upswing in preferential negotiations by the

Chinese suggest they are attempting the same in East Asia. Of course, as the European experience shows, regionalism does not have to emerge this way.

Last, how significant are the Bush era FTAs now that his administration is over? The agreements that came into force under Bush still coordinate trade between the U.S. and its preferential partners. On the whole, global trade has shrunk because of the worldwide recession; yet the advantageous terms the USTR instituted over Australia remain in place, as do the more generous terms afforded Morocco and Singapore. More importantly, as multilateral talks are virtually dead, and the U.S. can no longer accomplish its goals in that forum any longer, these FTAs will become models for future preferential agreements.

Indeed, Obama's trade strategy has not moved far from that of the Bush administration. This partially makes sense, as Obama faces a similar configuration of foreign policy issues that Bush faced. As I write, the U.S. is fighting wars in three Muslim countries (Iraq, Afghanistan and Libya) and the War on Terror still occupies a significant amount of resources spent by the U.S. government. Alas, America's global geostrategic interests remain focused on tempering Islamic extremism in vital regions. Diplomatic gestures, including preferential agreements, would seem to be an obvious component to the President's foreign policy repertoire. Unfortunately, he does not enjoy the fast track negotiating authority Congress bequeathed his predecessor.

Like Bush, Obama is eager to expand the U.S.'s number of preferential trade agreements. However, unlike the motivations behind the *benevolent* FTAs (Morocco and Singapore), his agenda is focused much more on creating economic gains for American

firms. Obama has called for a strong, unilateral approach to create American jobs and fight trade discrimination. In addition to jobs, the President wants to increase opportunities for small and medium sized businesses to gain market share abroad.

Notably absent from the President's agenda are any plans to revive the stalled Doha negotiations. After its release last March, trade expert Kevin Gallagher commented, "Rather than bringing a breath of fresh air into the world trading system in a time of crisis, the administration's agenda has elicited gasps across the world—especially in developing countries" (2010). The fundamental concerns Obama is pursuing in his trade policy closely reflect the goals of the U.S.-Australia FTA. Eschewing any type of free riding, the President has called on the USTR and Congress to promote an export oriented trade agenda, and to curtail imports where possible. Eager for Congress to ratify the FTA with Korea, Obama traveled to Asia in December to renegotiate terms to favor American automakers and service suppliers. The current administration, it seems, has moved away from using FTAs as rewards and instead as actual means of economic statecraft. As Gallagher (2010) characterizes, "Obama's agenda frames trade as a zero-sum game. Exports rule, imports are to be avoided. Indeed, the cornerstone is a pledge to double U.S. exports in five years." To meet this goal, Obama created an Export Promotion Cabinet, headed by the CEOs of Boeing and Xerox. The administration will also divert \$2 billion in export credits for small- and medium-sized U.S. enterprises. Pressing American economic interests also involves reviving the Bush-era trade deals with Colombia and Panama.

This shift in focus signals a reorientation of U.S. policy as its hegemony further declines. It also supports the expectations of the coercive variant of HST described in the literature review. The benevolent variant expects declining hegemony to attempt saving the free trade system. The scant attention given to the multilateral order in Obama's trade agenda suggests the U.S. has little intention to do so. Instead, the administration is navigating a unilateral trade strategy to stave off further economic decline, while the current state of the American economy teeters on the edge. Obama has explicitly articulated an export driven trade agenda prioritizing American economic interests. Toward this end, his administration renegotiated the FTA with Korea to gain better terms for U.S. auto producers, beef exporters and manufacturers. The left over agreements with Panama and Colombia are being reframed to highlight their economic components. In contrast, under Bush, the Colombia FTA was touted for its promise to counter the causes of terrorism and abate the flow of illegal drugs entering the U.S.

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