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REGIONAL AND MULTILATERAL TRADE AGREEMENTS

Are regional trade agreements compatible or incompatible with the multilateral trading system of the World Trade Organization (WTO)? Five articles below look at this question from different angles, and other articles look at looming issues for the WTO and regional trade arrangements: the Free Trade Area of the Americas (FTAA), the Asia-Pacific Economic Cooperation (APEC) forum, and the Middle East Economic Summit.

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❑ REGIONAL TRADE AGREEMENTS BOLSTER THE MULTILATERAL SYSTEM

An Interview with Stuart Eizenstat, Under Secretary of Commerce

Regional trade agreements should bolster the multilateral system, not threaten it, Stuart Eizenstat, under secretary of commerce, says in an interview. The greatest force at work now for trade liberalization, he says, is the participation of the private sector in making regional trade policy. This interview was conducted by a USIA economics writer.

Question: First, do you want to make a few general points about the Clinton administration's trade policy?

Eizenstat: Trade is no longer just an esoteric policy issue. It has a strong domestic resonance as American workers now, for the first time, understand that they are part of a global economy and that trade has a real impact on their daily lives.

And under the Clinton administration, trade has become an integral part of our foreign policy. The whole concept of commercial diplomacy is much more than just advocacy for U.S. companies in seeking export deals, although that is important. It is really the marshaling of private sector resources for investment, for trade, and for joint ventures abroad in support of foreign policy goals in three areas.

One area comprises the emerging democracies of Haiti, South Africa, Central Europe, and the Newly Independent States, where the success of democracy depends significantly on the perception by citizens that democracy equates to a better way of life. The second area is regions of the world going through a peace process — Bosnia, the Balkan area, the Middle East, Northern Ireland. The third area is countries like Egypt and Turkey, facing radical forces, where the power of private U.S. resources can create a better way of life and therefore take away the fertile ground of desperation, joblessness, and low living standards on which radicalism breeds.

Q: Do you see regional trade arrangements like the North American Free Trade Agreement (NAFTA) as helping or hurting the multilateral trading system?

Eizenstat: There is always going to be a certain tension between multilateralism and regionalism. The Clinton administration has been very strongly committed to the multilateral system, the World Trade Organization (WTO), as the preferred option for binding negotiations. But because of the number of countries involved, the multilateral system also has to be supplemented by regional trade agreements so long as those agreements are compatible with WTO rules, practicing what I call open regionalism; that is, they don't erect new barriers.

Q: By open regionalism do you mean continued exception to the most-favored-nation (MFN) principle that the WTO allows, or do you mean compliance with MFN?

Eizenstat: In many cases it will be with the MFN exemption. The WTO rules permit a regional free trade agreement so long as substantially all products are covered and it's not trade diversionary, and so long as you don't raise barriers to the outside world in the process.

The reason for not doing it on an MFN basis is that you get the free-rider problem — countries that take advantage of the reduction or elimination of tariffs and other barriers without themselves making contributions.

For a long time after World War II, we in the United States opened our markets to the products of the developing world without insisting on their opening their markets to our products. We wanted to give them time to build up their economies. We winked at cartels and monopolies and keiretsu arrangements. We still believe that for the poorest countries, that kind of special preference is justifiable.

But now a whole group of countries — the Asian tigers, India, some of the stronger countries in Latin America, South Korea — have reached or are approaching developed country status, and therefore it's no longer fair to our workers and to our industries to give these countries preferential treatment.

Regional trade agreements should sustain and buttress the multilateral system, not threaten it. If they comply with WTO rules, they can set higher standards for the multilateral system and therefore act as a stimulant for the multilateral system. For example, NAFTA acts as a stimulant because it not only eliminates tariffs but also reduces barriers to trade in services and to foreign investment, and it makes a genuine regional integration effort.

Another example is the OECD (Organization for Economic Cooperation and Development) talks on the Multilateral Agreement on Investment. Why did we start at the OECD rather than the WTO? At the WTO, if we had reached any agreement at all, it would have taken years, given the number of countries involved, and it would have had very low levels of protection. By doing it in the OECD, we will have set high standards for investment protection. Surely it needs to go to the WTO, but first get the basic principles set at a high level and then open it up at the WTO to countries that want to meet that level.

Q: Do you think the countries that are not participating in the OECD talks will be willing to sign on?

Eizenstat: There's obviously a need for a critical linkage between the OECD negotiations and the WTO. Nobody should present the rest of the world with a fait accompli, and there needs to be communication and transparency so that nonparticipants know what is happening. But at the same time, if nonparticipants are given a veto, then we'll end up with low-level protection.

Another example of using regional or more developed country negotiations as a stimulant to the world trading system is the information technology agreement (ITA) negotiations. First we tried to negotiate an agreement with the EU (European Union) and then with the Quad partners (the United States, EU, Japan, and Canada). We've gotten Quad endorsement for the concept of going to zero tariffs by the year 2000 on all information technology products except consumer electronics. But the Quad partners aren't going to sign an ITA even if we can agree on the negotiations — and I believe we will be able to agree — until we get a critical mass of non-Quad partners at the WTO to sign on.

Again, we have established a high standard. We will take this to the WTO ministerial meeting in December and try to get a critical mass of countries to sign on. And, again, it's not a fait accompli. Even now, before there is an agreement — it's just a concept now — we're trying to sell the ITA to a number of Asian countries.

Q: Look at the Canadian softwood lumber subsidy case and the Mexican tomato dumping case, which had to be resolved at the political level despite the dispute-resolution mechanisms in NAFTA. Do they show that there are shortcomings in regional trade agreements?

Eizenstat: NAFTA is intended to create an environment in which these kinds of things can be resolved. But there are, as you say, limits in any regional or multilateral agreement. You can't cover everything, and there are always going to be contingencies. For example, the antidumping laws are not repealed by NAFTA, and if there had been an attempt to do so, NAFTA never would have passed.

Q: Do you think there is any risk that the Free Trade Area of the Americas (FTAA) and Asia-Pacific Economic Cooperation (APEC) trade initiatives will fizzle out?

Eizenstat: They need more momentum, but it's not accurate to say that they are in peril or that they are stalled. Let's take APEC first. All 18 member countries are working toward individual action plans — that is, their own blueprints for liberalization. We're pushing them to be as comprehensive as possible, and we're having a lot of luck. In addition, APEC members are undertaking joint collective actions to harmonize and simplify customs procedures and to recognize each other's standards. President Clinton also wants APEC to develop a cooperative work program to achieve sustainable development in the region.

Another important development in APEC is the integration of the private sector. By including the private sector, we can make sure that governments keep moving forward. For the first time this year, at APEC's annual meetings, the business advisory council will present its recommendations to the government leaders.

So all of these steps taken together do represent progress. More needs to be made, and I think more will be made in this month's ministerial and leaders meetings in the Philippines.

With respect to the FTAA, much has been accomplished since the 1994 Miami Summit of the Americas. Working groups established in 11 industrial sectors are developing action items in line with the pledge of the ministers to achieve concrete progress by the end of this century toward attainment of the FTAA by 2005. And business facilitation measures have also been agreed to. These include publishing a hemispheric customs procedures manual and developing proposals on mutual accreditation of product standards.

The May ministerial meeting in Belo Horizonte, Brazil, will be critical for continuing momentum in the FTAA. What we think is essential is developing a concrete timetable of how one achieves the year 2000 goal — that is, a concrete negotiating timetable so that we formally know what our benchmarks are when we start negotiations — and then the way in which the modalities of that negotiation should be managed. Is it all 34 countries? Is it some subgroup? Is it MERCOSUR and NAFTA?

Of critical importance again is the involvement of the private sector. As we found with the Transatlantic Business Dialogue (TABD) for U.S. and EU businessmen, the private sector is the greatest force for liberalization.

Q: How long before the lack of fast-track authority from Congress to negotiate trade agreements starts to hurt U.S. objectives in the FTAA?

Eizenstat: That's a good question. We're going to work very hard to get fast-track authority, and I'm hopeful that in a new Congress we'll be able to do so. But it's not necessary to initiate the FTAA negotiations. It's important to remember that we began the Uruguay Round negotiations in the mid-1980s without fast-track authority and negotiated for years without it. Since our efforts now in the FTAA are gathering information and recommendations rather than making formal exchanges of concessions, no one should use the lack of fast-track authority as an excuse for not moving forward rapidly. Fast track becomes relevant at the end of negotiations, when other countries have to know that when they put their last offer down, the U.S. Congress won't amend it.

Q: How does the administration see the FTAA, APEC, and the New Transatlantic Agenda interacting with each other and with the WTO?

Eizenstat: They're all different: The regions are different; the countries are in different stages of development; we have different relationships. For example, APEC is not a free trade agreement, although it has free trade as one of its goals. NAFTA is a very integrated system, and the FTAA would create a hemisphere-wide free trade area that eliminates all barriers to trade and investment, not just tariffs. In the transatlantic area, our average tariffs are already only 3 percent, and there's enormous cross-investment in European and U.S. business.

But while they're all different, they're all pursuing the same objective: a more open global marketplace. The thread is the same in each: It is open regionalism, it is more trade liberalization, it is trying to act as a stimulant within the particular region and to the world trading system. And in each of those, there are no new barriers that countries outside have to be worried about.

The other thread that's common to APEC, FTAA/NAFTA, and the New Transatlantic Agenda is that in each we have found a way of integrating the private sector. At the very beginning of the TABD concept, it was almost a pipe dream that European and U.S. businesses could actually reach consensus. We thought perhaps there would be separate recommendations. The genius of the TABD and what we find now with these other fora is that when you put businesses together, even though they come from different economies, their interests have a great deal of commonality. Their recommendations, too, have a great deal of commonality, and they carry greater weight because they are joint recommendations. That's what I think will happen with the FTAA, with the Americas Business Forum, with the APEC forum — what is already happening with the TABD. ❑

❑ MULTILATERALISM AND REGIONALISM IN TRADE

By Renato Ruggiero, Director-General, World Trade Organization

Assuring that regional and multilateral trade arrangements grow together and not apart is the greatest challenge for trade policy-makers today, says Renato Ruggiero. He is director-general of the World Trade Organization.

An important basis of the multilateral trading system as represented by the World Trade Organization (WTO) is nondiscrimination in the trade conducted among WTO members; this is embodied in WTO's most-favored-nation (MFN) principle. Preferential treatment granted in the context of regional agreements, however, is one — and the most important — exception to the MFN principle. This exception, included in Article XXIV of the General Agreement on Tariffs and Trade (GATT) — the predecessor of the WTO — was drafted in the late 1940s on the assumption that regional trade liberalization constituted an advanced implementation of tariff reductions on an MFN basis.

While the proliferation of regional trade agreements has raised concerns about the implications for the multilateral trading system, the shared assessment of the great majority of the international trade community has been that these two systems have not been contradictory. However, the relationship between regionalism and a multilateral system based on the MFN principle is nonetheless a complex one, and it is becoming more complex as the number and the scope of regional initiatives increase. Ensuring that regionalism and multilateralism grow together — and not apart — is perhaps the most urgent issue facing trade policy-makers today. Four possible elements could provide a response to that question.

THE ROLE OF THE CRTA

First is improving the institutional capacity of the WTO to deal with regional trade agreements. The increasing number of regional agreements, together with the relationship between regionalism and multilateralism and the impressive workload of the WTO on regional agreements, led the Council of the WTO to agree, on February 6, 1996, on the establishment of the Committee on Regional Trade Agreements (CRTA). While this may seem to be a procedural reply to an issue of substance, both the far-reaching terms of reference of, and the work already conducted in, the CRTA tend to demonstrate that WTO members are in a position to discuss the substance of the relationship between regionalism and multilateralism.

The terms of reference of the CRTA include, inter alia, the examination of regional trade agreements in light of WTO rules, the development of procedures to facilitate and improve the examination process, and, as a new task to members, the consideration of the systemic implications of regional trade agreements and initiatives for the multilateral trading system and the relationship between them.

From May to September 1996, the CRTA held four meetings that addressed all of the items of its term of reference. By the end of 1996, the committee will have taken up 21 agreements due for examination (out of a total of 32 regional agreements due for examination by WTO members) — including the North American Free Trade Agreement, the enlargement of the European Community to include Austria, Finland, and Sweden, and the Southern Common Market (MERCOSUR) Agreement. Progress has also been achieved on the facilitation and improvement of the examination process.

It is worth noting that the improvements being considered are mainly of a procedural nature. However, the committee's mandate to consider the systemic implications of regional trade agreements and initiatives for the multilateral trading system and the relationship between them provides members with an opportunity to address some issues of substance with respect to regionalism and multilateralism.

Debate under this item, which is not intended to have a legal character, aims at allowing WTO members to identify both the systemic implications and the relationship between the parallel moves toward regionalism and multilateralism. This analysis could help members in defining elements that would ensure that regionalism complements — and does not compete with — multilateralism. The committee is currently conducting a horizontal analysis of some of the elements found in regional agreements and initiatives that are relevant to the WTO — technical barriers to trade, sanitary and phytosanitary regulations, and rules of origin, among others — thus giving members a broader picture of what is happening in practice.

TIMING AND POLITICS

A second response to the need for ensuring that regionalism and multilateralism grow together relates to ensuring that multilateral liberalization initiatives proceed almost in tandem with regional ones. What countries are willing to do regionally they must then be willing to do multilaterally, so as to keep this parallelism between regional and multilateral commitments. In practice, this means pressing on vigorously with the WTO's built-in agenda and even accelerating it as much as possible; it also means keeping the WTO at the forefront of the new trade agenda.

A third response would involve enhancing the political dimension of the WTO. Member countries of the Asia-Pacific Economic Cooperation (APEC) forum meet annually at the head-of-government level and more frequently at the ministerial level. The same is true for other regional groups. On the other hand, WTO ministers are thus far scheduled to meet only every two years. Yet the multilateral system is becoming more and more a political issue. This is happening because its evolution increasingly concerns national regulatory policies rather than cross-border obstacles, which means that the challenges to the system increasingly are as much political as technical. Logic suggests that the active involvement of political leaders should become as regular a feature of the WTO as it is of many regional groupings.

OPEN REGIONALISM

Finally, some of the newer regional groupings (such as APEC and MERCOSUR) contain a commitment that is very important for the future of the multilateral system: This is "open regionalism." As for the meaning of open regionalism, two basic alternatives can be identified.

• The first would ensure that any preferential area, while being an exception to the basic principle of the WTO — the MFN clause — will be legally compatible with the WTO rules. While the possibility of making such an exception was conceived by the drafters of the GATT, the proliferation of regional groupings may result in the exception becoming the rule, thus risking a complete change in the nature of the system.

• The second interpretation of open regionalism foresees the gradual elimination of barriers to trade within a regional grouping being implemented at more or less the same rate and on the same timetable as the lowering of barriers toward nonmembers. This would mean that regional liberalization would be generally consistent not only with the rules of the WTO but also — and this is very important — with the MFN principle.

The choice between these alternatives is a critical one; they point to very different outcomes. In the first case, we would arrive at a division of the trading world into two or three intercontinental preferential areas, each with its own rules and with free trade inside the area, but with external barriers still existing among the blocs. The second alternative, on the other hand, points toward the gradual convergence on the basis of shared rules and principles of all the major regional groups. In this case, at the end we would have one global free market with rules and disciplines internationally agreed and applied to all, with the capacity to invoke the respect of the rights and obligations to which all had freely subscribed. ❑

❑ FINDING A HOME FOR THE NEW TRADE ISSUES

By Geza Feketekuty, Director, Center for Trade and Commercial Diplomacy

Trade negotiations on issues such as bribery should be handled at both a multilateral and a regional level; on environmental issues at a regional level; and on labor issues at whatever level is politically feasible, says Geza Feketekuty. A longtime adviser in the Office of the U.S. Trade Representative, Feketekuty is now director of the Center for Trade and Commercial Diplomacy, Monterey Institute of International Studies, Monterey, California.

In recent years, a variety of issues have been introduced into the trade agenda, encompassing such areas as investment, competition policy, regulatory reform, bribery, labor standards, and the environment. These issues have become entangled in bilateral trade disputes, have become injected into regional trade negotiations, and have been proposed for multilateral trade negotiations. The commercial and political reasons why these issues have become trade issues and the subject of trade negotiations provides some insights into the appropriate venue for pursuing them. Before delving into those reasons, however, it is useful to analyze in more general terms the relationship between regional and multilateral trade agreements.

REGIONAL AGREEMENTS: ADVANTAGES AND RISKS

Regional trade agreements have a number of advantages, but they also pose some risks. One advantage of a regional agreement is that it enables a small group of countries with a more coherent set of common interests than the global community to pursue those interests. Such agreements therefore permit greater progress in liberalizing trade and exploiting opportunities for cooperation in pursuit of policy objectives on a regional basis. Under the principle of subsidiarity, issues are best dealt with at the lowest level of governance consistent with the achievement of the public policy objective.

Regional agreements are good venues for developing modes of cooperation on new issues for several reasons. First, the smaller number of countries involved makes it easier to find consensus on how to tackle such issues. Where the ground has not been plowed thoroughly in previous negotiations, it is wise to concentrate on a smaller patch of ground. At the same time, regional agreements provide an opportunity for countries to experiment with different approaches, allowing multilateral negotiators to learn from the experiences of regional negotiators. Regional negotiations can also break the ice vis-à-vis entrenched domestic interests that stand to lose from wider competition or wider cooperation on an issue. Finally, international trade can be facilitated where regional negotiations lead to a harmonization of rules and to the elimination of barriers within the region, giving outside producers an opportunity to treat the region as a whole as a single market. It is obviously easier to adapt one's products or investment plans to one set of regional rules than to 14 or 15 very different national rules.

The risk of regional agreements is that they might introduce new differences in trade rules on a regional basis or introduce new elements of discrimination. The regional members might expend so much political capital in negotiating regional rules that they become less willing to accommodate differences vis-à-vis countries outside the region. This can lead to concerns about the creation of regional fortresses. A regional agreement also might not contribute a great deal to the solution of truly global issues and might complicate the negotiation of global solutions.

DOMESTIC VS. INTERNATIONAL ISSUES

Investment policy, competition policy, regulatory policies, and rules on bribery and corruption have become trade issues because, in a globalizing, increasingly integrated set of economies, it has become difficult to separate purely domestic issues from trade issues. International competition is less and less between products with a distinct national origin and more and more between products that contain inputs from many different countries. International competition is less and less between producers with a distinct nationality and more and more between producers that have facilities, employees, stockholders, and other stakeholders around the world.

In an increasingly globalized and economically integrated world, trade and investment are consequences of corporate decisions on an optimal production strategy, rather than alternative choices. In many industries, competition is inherently international in that globalized firms compete with global products in global markets. Where this is the case, national regulations, national competition laws, and national bribery laws centrally affect the terms of international competition and therefore become the concern of the wider global community. This is particularly true where such national laws give some firms an artificial, politically based advantage over other firms, whether that advantage is due to grandfather rights, national origin, or ethnic affiliation.

Developing common approaches to regulatory issues, laws on competition, laws on corporate governance, and criminal laws on bribery and corruption will be difficult, and one could argue that the wise course is for the countries that have become the most closely integrated to lead the way. This, in turn, would argue that initial efforts in these areas might best be carried out on a regional basis or a plurilateral basis among countries that have a strong economic rationale to achieve cooperation on a particular issue.

On the other hand, the integration of production is not a regional but a global phenomenon. It would be a mistake to stop the development of cooperation on a regional or plurilateral basis among a select group of countries. Such a course would not only reinforce the risk of creating competing regional blocs, but also create the risk of a class of "insiders" with a privileged position in the governance of the world economy and a more permanent class of "outsider" countries.

On balance, the most appropriate course is to take up these issues on both a regional and multilateral basis but to recognize the need for different levels of cooperation and different speeds for achieving such cooperation. The ultimate objective of advancing international cooperation on these issues, at whatever level of governance, should be the same — namely, to create the conditions for economically efficient competition at the global level. In line with this objective, Organization for Economic Cooperation and Development ministers, at their 1995 annual meeting, recommended that future multilateral negotiations be aimed at assuring the openness of national economies to global competition or, using economic jargon, at assuring the global contestability of national markets.

ENVIRONMENTAL AND LABOR ISSUES

The injection of environmental issues into trade negotiations is driven by two factors — a recognition that pollution or other environmental risks often do not stop at the border, and the increasing tendency of environmental officials to use trade measures to enforce environmental measures and agreements. The existing rules embedded in the General Agreement on Tariffs and Trade were written before increased knowledge created a greater environmental consciousness among citizens of most nations. There is a need to clarify these rules at a global level. At the same time, the need for cooperation on such environmental issues as water and air pollution is strongest among neighboring countries. This argues that substantive cooperation on many environmental issues should principally occur at the regional level.

There are two reasons why labor standards issues are being raised as trade issues — first, because technological change and increased international competition are creating a loss of jobs and a decline in wages for the least-skilled workers in the advanced economies, and, second, because the internationalization of television news is creating an increased public consciousness about working conditions in other countries. At the same time, this is not a new trade issue. One of the principal reasons for the creation of the International Labor Organization was a political concern that increased trade would undermine national labor standards. Also, the draft charter for an International Trade Organization, which was put together in the aftermath of World War II, contained a chapter on labor standards.

The arguments for the establishment of cooperation on labor standards and a link with trade are largely political and relate to the need to maintain a domestic political consensus in support of open trade policies in democratic countries. Whether this issue should be tackled regionally or multilaterally depends largely on what is politically feasible to negotiate on the one hand, and politically necessary to maintain support for either regional or multilateral trade agreements on the other. ❑

❏ A PHARMACEUTICAL QUEST FOR CURES TO TRADE AILMENTS

By Harvey E. Bale, Jr, Senior Vice President, Pharmaceutical Research and Manufacturers of America

For now, the pharmaceutical industry seeks to remove remaining trade barriers through bilateral and regional agreements, not through the WTO, says Harvey E. Bale, Jr., senior vice president at the Pharmaceutical Research and Manufacturers of America, a trade association in Washington. The pharmacentical industry faces trade barriers common to many industries.

American industry has supported efforts to liberalize world trade and investment rules in the post-World War II period. With few exceptions, leading and globally competitive U.S. industries, especially research-intensive pharmaceutical firms, have provided America's most consistent core of support for liberalized trade rules. They have not limited their petitioning for trade liberalization to political authorities in the United States, but have joined with like-minded companies and officials abroad to advance trade rules that would open markets worldwide. Without this energetic U.S. business pressure, there would have been no chance that a new World Trade Organization (WTO) or North American Free Trade Agreement (NAFTA) could have been approved by the U.S. Congress and implemented by the United States.

A major question for industry is where most future progress is expected to be made among the possible forums to negotiate unresolved trade, investment, and intellectual property issues. For example, should a major new multilateral trade round be launched in the WTO? Should existing regional arrangements, such as NAFTA, be expanded? Or should the newer, and larger, regional forums of Asia-Pacific Economic Cooperation (APEC) and Free Trade Area of the Americas (FTAA) be invested with most of the business community's attention? Finally, what priority should be given to the Transatlantic Business Dialogue (TABD) launched by the European Union and the United States, where business and governments uniquely sit together to discuss and try to resolve bilateral trade and regulatory issues?

The research-intensive pharmaceutical industry, like other high-technology and internationally competitive industries, has a vital interest in expanded global trade. The industry is highly innovative in the health care field, spending almost 20 percent of its prescription drug sales on research and development. Many pharmaceutical companies have overseas sales in excess of 50 percent, and those firms that do not sell as much overseas realize the future opportunity costs of not accelerating expansion into the international marketplace. Expanded markets provide additional revenues that will be devoted to doing additional research and development into new therapeutic cures for old and new diseases. (It is interesting to note that more than a dozen new infectious diseases have been encountered and identified since 1975.) Industry discovers over 90 percent of new pharmaceutical and vaccine therapies, and critical research in such areas as AIDS, heart disease, and cancer are improving the length and quality of life and saving on the overall social costs of health care.

A LOOK AT THE ISSUES

International rules have been sought that would eliminate barriers to sales of new pharmaceutical compounds, especially the piracy of pharmaceutical patents and trademarks; furthermore, the elimination of tariff obstacles has been an important goal. Some of the worst problems encountered have been in some of the most promising growth markets. The best long-term growth prospects for pharmaceuticals (as well as for many other sectors) are in the emerging markets of Asia and Latin America, where economic growth rates are double those of developed countries. In these regions, intellectual property problems are among the most serious barriers to trade, along with transparency and business practice issues. (Since Brazil reformed its legislation in 1996, the greatest volume of patent piracy now occurs in Argentina and India.) It makes sense to utilize bilateral and regional forums such as APEC and the FTAA to seek to resolve outstanding issues, including the accelerated implementation and refinement of sound intellectual property protection.

In this regard, the extension of the U.S.-Mexico-Canada North American Free Trade Agreement could be a parallel and welcome development.

In Europe the pharmaceutical issues are different, with weaknesses existing in trade- and production-distorting price controls, parallel trade, and uncertain biotechnology protection. The TABD could be productive in bringing these issues before responsible leaders of industry and government. Also, the TABD or other U.S.-EU forums may lead to the establishment of the goal of a transatlantic free trade area, or TAFTA. Establishing such a goal would mirror pledges made to achieve free trade under the APEC and FTAA early in the next century.

FURTHER LIBERALIZATION

With respect to the WTO, the completion of the Uruguay Round has created the very important task of implementing and enforcing a range of important agreements. The trade-related intellectual property (or TRIPS) and zero-tariff agreements developed in the last round are important if, in the case of the TRIPS transition provisions, seriously flawed. But the early indications are that agreements such as TRIPS are not being implemented smoothly — far from it. And this problem underscores the priority that must be assigned to the WTO in ensuring that agreements are adhered to through the new consultation and dispute-settlement mechanisms. Thus, new negotiations on further liberalization at this time in the WTO would be premature.

Rather, the impetus for further liberalization is more likely to come via negotiations between countries that share a common desire to privatize publicly owned enterprises, open their markets, and stimulate new investment, without discrimination between domestic and foreign investment. Latin American countries have shown a general shift away from dirigiste and protectionist policies, and a number of them have successfully tackled local patent piracy for the sake of their own long-term economic benefit — Brazil being the latest outstanding example. In Asia, growing participation in the international economy has been under way for a longer period of time, although protectionism is still a strong force. In these two regions, with some national exceptions such as India, countries are prepared to bargain on meaningful liberalization measures.

In Europe and Japan in the health care sector, there still remain systems based on outmoded socialist principles (e.g., notions of cost-free care, price controls). But there is today the ability to discuss and negotiate with governments on the liberalization of regulatory policies in many sectors, and hopefully this will soon prevail in health care. Thus, it is important to bring these issues into bilateral trade dialogues where the various facets of government controls can be discussed. The WTO membership is too diverse to discuss many of the issues now being handled in the TABD and other bilateral EU-U.S. forums. The Multilateral Agreement on Investment being negotiated in the Organization for Economic Cooperation and Development is a further example of the use of consensus-building among a limited group of countries involving the United States and the European Union.

Besides bilateral, regional, and multilateral trade institutions, there is an important issue of using U.S. unfair-trade legislation, which has been successfully used in the recent past to open markets and improve intellectual property protection. Unilateral U.S. actions under Section 301 of U.S. trade law and the Special 301 trade law have been unpopular internationally and are discouraged under WTO rules. But 301 provisions are still part of U.S. law, and they need to be considered in any future U.S. trade strategy either to help enforce existing agreements or to advance additional agreements.

The next administration and Congress must first resolve a problem that currently precludes meaningful negotiations in any forum. This is the lack of current "fast track" negotiating authority that would be essential in order for U.S. trade partners to enter into meaningful agreements. The lamentable lack of this authority has thwarted negotiations with potential additional NAFTA partners. Before any negotiating process can proceed very far, the next Congress and administration will have to pass legislation granting the U.S. Trade Representative such authority. The pharmaceutical and many other industries would support such legislation. Without it, the world risks a reversal of direction on the various available paths toward a more open global marketplace. ❑

❑ REGIONAL TRADE AGREEMENTS: A HELP OR HINDRANCE TO GLOBAL LIBERALIZATION?

A USIA Staff-Written Article

Three experts interviewed for this article examine the dynamic relations between regional trade agreements and the multilateral trade system.

The growing prominence of regional trade arrangements raises a question: Is freer trade among regional partners consistent with the goal of free trade among all nations?

In part, the question arises from the vigor with which governments have pursued regional free trade since the 1980s. It was then that the United States broke with longstanding policy by negotiating free trade agreements with Israel and Canada and setting the stage for the U.S.-Canada-Mexico North American Free Trade Agreement (NAFTA). In that same period, the European Community extended membership to new countries and deepened political ties among all members to become the European Union (EU).

More recently, the Asia-Pacific Economic Cooperation (APEC) forum announced plans for a regional free trade area, with a target date of 2010 for the industrial countries and 2020 for the rest. And the success of NAFTA has led to talks for a Free Trade Area of the Americas (FTAA) covering every democracy in the Western Hemisphere.

For some experts interviewed recently by *Economic Perspectives,* these and other regional trade groupings constitute the leading edge of liberalization and are a healthy sign of governments' willingness to experiment with their neighbors — even as they continue to push for freer trade at the multilateral level.

For others, they represent a dangerous trend toward a "tri-polar" world dominated by rigid trading blocs in Europe, the Americas, and East Asia. Far from being the "building blocks" of global trade, regional groupings are potential "stumbling blocks" that can divert attention from the multilateral agenda and are fundamentally at odds with its goals, these critics say.

"Free trade areas are two-faced," economist Jagdish Bhagwati of Columbia University said. "They involve free trade for members, but by definition they imply discrimination against nonmembers .... One has to be conceptually clear on this."
But the question of exclusivity, according to Robert Lawrence of Harvard University, will be answered by the extent to which regional groups admit new members. "If history is any guide, these blocs will expand," he said.

The European Union grew out of the three-nation Benelux arrangement (between Belgium, the Netherlands, and Luxembourg), just as NAFTA grew out of the U.S.-Canada Free Trade Agreement, expanded to include Mexico, and will, Lawrence believes, soon admit Chile.

LOOK AT THE MOTIVES

"The key thing is to look at the motives of countries that join these trading groups," Lawrence said. "Why do they want these agreements? Do they want to withdraw from trade and commerce, or do they see it more as a stepping-stone toward greater trade relations with their neighbors ... and with the rest of the world? I think it's the latter."

Lawrence credits NAFTA with spurring the rest of the Western Hemisphere democracies to commit themselves to open trade by the year 2005 and with stimulating the APEC countries to announce their own free trade agenda. "I think you can argue against these (regional agreements) on the grounds that they may isolate, but I think you would be ignoring the fact that they create a competitive dynamic for inclusion," he said.

He counts about 10 countries that do not belong to any regional trade grouping (with India being the most significant) and argues that even these are not truly isolated. "They can try to join a particular current regional trading area, but they don't have to because there is also a world trading system," Lawrence said. Bhagwati views the enthusiasm for regional blocs as unfortunate precisely because conclusion of the arduous Uruguay Round negotiations produced the World Trade Organization (WTO) — a truly inclusive forum in which all members can work toward the "maximum division of labor and the maximum benefits of trade."

In contrast, regional arrangements detract from the multilateral track by offering governments the "cozier" prospect of negotiations among neighbors, Bhagwati said. That coziness also threatens to produce rules and preferences that harm the interests of nonmembers, he believes.

"The danger is always there," scholar Gary Hufbauer of the Institute for International Economics said in agreement, "although it has not yet materialized."

Identifying what he views as the five "most vital" regional groupings — EU, NAFTA, APEC, MERCOSUR (Argentina, Brazil, Paraguay, and Uruguay), and ASEAN (the Association of Southeast Asian Nations) — Hufbauer says evidence is scant that trade blocs disregard the needs of nonmembers.

Two notable exceptions, he says, are the EU's protection of agricultural interests and the "rules of origin" adopted under NAFTA to prevent certain goods from being imported by one low-tariff member for ultimate destination to another member.

"In the case of Europe, the conspicuous area is agriculture, which has been a battleground for three decades but may be less so in the future," Hufbauer said. "In the case of NAFTA, other countries have complained and continue to complain about the very detailed and so-called 'tight' rules of origin in a couple of sectors — particularly textiles and apparel and autos — as being possibly injurious to their interests."

Overall, however, Hufbauer believes that the regional groupings have not only furthered liberalization between the members — which was to be expected — but also liberalization toward the rest of the world.

NEED FOR OVERSIGHT

He also suggests that a more active WTO should monitor regional blocs more effectively to prevent any abuses. "We have a system of good behavior, but no external review of the good behavior," Hufbauer said.

Lawrence, another proponent of greater oversight, says the WTO does little more than rubber stamp new bilateral and regional trading arrangements.

"Currently, regional and bilateral trade agreements can go into effect if no member of the WTO objects," he said. "I think it would help if the WTO actually had to make a positive determination — to give a seal of approval."

The WTO could impose additional discipline by demanding, for example, that the rule of origin be the same for all products traded within a regional bloc. "Choose any rule of origin you like," he said, "because the monkey business only starts when [negotiators] begin to tailor the rules of origin to specific products."

Bhagwati argues that regional differences on rules of origin or competition and investment policy can only complicate efforts to bring about global free trade.

Literally hundreds of bilateral and regional trade arrangements are in effect, he said, and when the time comes to agree on multilateral standards, "what you have is a spaghetti bowl" with hundreds of different rules, "criss-crossing preferences," and a "maze of discriminations."

These are not only difficult to sort out and understand, but they also represent "embedded interests" that will fight hard to keep existing rules in place, Bhagwati said.

Hufbauer calls that objection "theoretical" but not necessarily wrong. "Time will tell if [Bhagwati] is right or not," he said.

Hufbauer points out that the European Free Trade Association (EFTA) still exists even though its principal members have joined the European Union. "The fact of EFTA existence and its own set of rules wasn't a major impediment — I don't think it was even a minor impediment — to the decision by the important members to join the EU," he said. "It was just a much bigger game."

More recently, Andean Pact members Bolivia, Colombia, and Venezuela have been negotiating to join

MERCOSUR, even though the two sets of trade rules differ substantially, Hufbauer says.
"Having said that," he added, "you can certainly cite other examples of other embedded political interests and certain arrangements making it very hard to move forward. So it's a legitimate concern."

Lawrence suggests that the process of trade liberalization can itself resolve some of the problems cited by Bhagwati.

"Rules of origin can be changed," Lawrence said. "In fact, once you're talking about world free trade, you don't need any rules of origin. The only reason for a rule of origin in the first place is that two countries [in a given bloc] have different levels of trade barriers with respect to the outside world. If they both agree to go to full free trade, they don't even need rules of origin."

Lawrence also contends that the multilateral system benefits when it feels pressure from parallel regional tracks.

Following the APEC pledge to have free and open trade by 2020, some economists began suggesting that the WTO itself set a goal to have world free trade by the year 2020, or at least by some date certain, he says. "Having seen that it's possible for a very diverse group of countries in the Asia-Pacific — some developing and some already developed — to make this pledge, the way is opened for the global trading system to do likewise," Lawrence said.

Moreover, some of the far-reaching moves that are possible among smaller groupings might never be realized if countries are limited to multilateral negotiations. Lawrence cites the NAFTA undertaking to liberalize foreign investment rules as something that could not have taken place in the Uruguay Round because many countries simply were not ready.

"So if you believe in free investment, what's your choice? You can either have it on a regional basis, or you can have nothing at the moment," he said.

"The fact that regional agreements are doing more than the World Trade Organization — going further — is really their great strength," Lawrence said. And if the WTO feels challenged by regional trading groups, that's all to the good, he said, "because choice and competition are what give us better results." ❑

❑ COOPERATION OR CONFRONTATION: WTO FACES MAJOR TEST IN SINGAPORE

A USIA Staff-Written Article

Over the next two months, trade officials from 123 nations will try to bridge what some analysts see as a widening gulf between industrial and developing countries over the pace of future reforms.

Trade officials will gather in Singapore from December 9 to 13 for a meeting of the World Trade Organization (WTO), charged with laying out a roadmap for global trade liberalization over the next several years.

If some developing countries have their wish, the meeting will take stock of progress on implementing the 1994 Uruguay Round global trade agreement and possibly give new impetus to completing outstanding negotiations in telecommunications and financial services — but not much more.

A number of industrial countries, however, want the WTO to begin exploring emerging issues such as bribery and corruption in government procurement, labor standards, investment, and competition policy. Some developing countries worry such work will lead to new trade rules undermining their sovereignty and eroding their competitive edge.

Ambassador Jeffrey Lang, deputy U.S. trade representative says the United States has no intention of using the Singapore meeting to negotiate reforms in the new areas.

The Singapore meeting "is not going to start a new round, and it shouldn't," Lang said in an interview. "What the United States hopes to achieve, in the main, is to carry off the first meeting of WTO ministers in a business-like manner. Under the WTO, our hope is that the ministers can meet on a regular basis, as they do in the International Monetary Fund and World Bank, to deal with the regular business of the world trading system."

IMPLEMENTATION AND BUILT-IN AGENDA

At Singapore, the trade ministers will discuss how implementation is progressing on the commitments made in the 1994 Uruguay Round package. Lang said the United States has been particularly disappointed by the failure of some countries to meet commitments in several key agreements, such as agriculture, intellectual property, and trade-related investment.

Developing countries have their own complaints, especially about the pace of implementing the textile and apparel agreement through the phasing out of importing-country quotas. They say the list of products for early phaseout have produced few benefits for their exporters.

The ministers will also discuss what is called the "built-in agenda" of commitments to begin negotiations on government procurement in 1997, agriculture in 1999, and services in 2000. Lang said, however, that a number of industrial countries, including many in the European Union (EU), show continued reluctance to talk about agriculture reforms.

Former Deputy U.S. Trade Representative Julius Katz is pessimistic that the ministers at Singapore will even start a working group to review issues for the 1999 agriculture negotiations. "The French have already put thumbs down on that," said Katz, who now works in a Washington trade consulting firm.

The outlook for restarting and completing negotiations on financial services and basic telecommunications services seems more positive. U.S. and EU officials have said they would submit improved offers on telecommunications access.

If the telecommunications negotiations are to succeed, a number of countries, including some in Asia, will have to make better offers, Bob Vastine, president of the Coalition of Service Industries, said in an interview.

Negotiations on telecommunications have been extended until February 15, 1997; those on financial services are expected to resume in the first half of

1997. Those on maritime services have been suspended until 2000, when all service sectors are subject to further negotiations.
The Singapore meeting will also receive the first report of the WTO committee on trade and the environment, one that the United States hopes will provide specific recommendations in clarifying the relationship between multilateral environmental agreements and the WTO.

Some industrial countries want the right to ban imports they consider environmentally unfriendly, while some developing countries want to deny such a right, arguing they are too poor to meet standards set in rich countries.

"I think the developing countries, certainly the Asian and Latin American countries, are going to be chary about doing very much there," said Claude Barfield, resident scholar at the American Enterprise Institute (AEI).

TARIFF REDUCTIONS

One achievement considered possible in Singapore is a modest package of tariff reductions, building on the Uruguay Round reductions, sometimes to zero, in thousands of agricultural and industrial products over 10 years.

On a related issue, the on-and-off support from the EU for an information technology agreement (ITA) is on again. If the United States and the EU could agree in time on an ITA package of staged reductions in duties on information superhighway products such as computers, software, and related telecommunications goods, then they could offer it at Singapore for inclusion by other WTO members.

An ITA also could serve as the basis for a broader package that might include cutting tariffs to zero for oilseeds, wood products, and 300 to 400 more pharmaceuticals, as well as accelerating tariff reductions for scientific equipment, certain chemicals, paper, and fish and fish products.

NEW ISSUES

Clearly, discussions about new trade issues have the greatest potential to disrupt the Singapore meeting. Europe and the United States want to talk about labor standards, competition policy, investment, government procurement, and corruption and bribery. Most Latin American and Asian countries, particularly India and China, do not.

Even within the United States and the EU, there are many opponents to any trade agreement on labor standards (and considerable opposition to any agreement on environment, although the WTO has already started working on one).

— **Labor**: The United States wants to create a WTO working party to explore whether countries with poor labor records have an unfair competitive advantage in global markets. It would tackle issues such as child and forced labor, the right to organize and bargain collectively, freedom of association, and nondiscrimination in employment.

Members of the Association of Southeast Asian Nations, however, are already on record as opposing inclusion of the labor issue in Singapore, arguing that the International Labor Organization already has jurisdiction for it.

"I think the United States and Europe will run up against a stone wall on labor" at the WTO, AEI's Barfield said. Scholar Gary Hufbauer of the Institute for International Economics says progress on labor and environmental issues is more likely to be achieved in regional trade agreements.

— **Investment**: Given resistance by developing countries to discussing rules for open investment in the WTO, Deputy Trade Representative Lang says the United States is going to concentrate first on negotiations already under way in the Organization for Economic Cooperation and Development (OECD) for a multilateral agreement on investment. A completed OECD agreement then could be offered to more parties in the WTO.

Some trade analysts, however, worry that the OECD approach will polarize industrial and developing countries rather than move the process forward. "There is a strategic problem," Katz said. "Having negotiated it in the OECD, countries that are not in the OECD are somewhat resentful of that, and they are not going to sign on to something they didn't negotiate."

— **Competition policy**: The EU wants stronger WTO rules for challenging government-mandated or -supported cartels and other anti-competitive practices that erect barriers to foreign markets.

The United States might agree to "a limited, educational program within the WTO" on the broad issue of competition, Acting U.S. Trade Representative Charlene Barshefsky has testified. She said the issue "is not ripe" for negotiation of comprehensive new rules. "In no such work would we alter our antitrust or our antidumping laws," she added.

— **Government procurement**: The United States, the European Union, Japan, and Canada — all parties to a strict 1979 agreement — want negotiation of a less-strict interim agreement committing other WTO members at least to make all procurement transactions more open to scrutiny.

U.S. officials say that such an agreement should discourage bribery and corruption in international procurement.

"This would address our concern over bribery and corruption and would begin the process of multilateralizing the government procurement agreement, which currently is applicable only to those countries that sign up," Lang said.

LEADERSHIP

Critics predict the Singapore WTO trade ministers' meeting will accomplish little, in part because the United States has forsaken its traditional leadership role in light of the November presidential election and the Clinton administration's lack of trade-negotiating authority. But Deputy Trade Representative Lang takes the opposite view.

"I think our potential at this meeting, if we have the cooperation of major industrial countries, is quite substantial," he said. "If we could endorse the built-in agenda and create some momentum for success in telecommunications and financial services negotiations, that will pay a big dividend. If we can get the European Union to remove its precondition on the discussion of tariff cuts in information technology, we can move forward quite substantially.

"It is not the big breakthroughs we need," Lang added. "What we need is better implementation of existing agreements and moving into those areas where we know we have or are likely to obtain substantial consensus." ❏

❑ INTEGRATING THE ECONOMIES OF THE AMERICAS

By Charlene Barshefsky, Acting U.S. Trade Representative

The United States is looking toward the ministerial meeting scheduled for Belo Horizonte, Brazil, in May to give form, substance, and direction to negotiations for a Free Trade Area of the Americas by 2005, says Charlene Barshefsky. Ambassador Barshefsky is acting U.S. trade representative.

The economic integration of the Americas is a cornerstone of U.S. trade policy as we head into the 21st century.

Latin America has the second-fastest growth among all the regions in the world. By the year 2010, exports from the United States to Latin America are projected to be about $240 billion — an amount equal to U.S. exports to Europe and Japan combined.

Latin Americans appreciate these economic truths from the opposite perspective. The United States is the market for nearly half of all the goods exported by Latin American countries. Exports will spark the region's economic growth and diversification in the decades to come.

After years mired in protectionism, economies in Latin America are on the right track. A decade ago, average tariff levels in Latin American countries were about 30 percent. Now they are half that.

The opening of their economies has improved their own competitiveness, which is stimulating trade throughout the region. Last year, the value of merchandise exports from Latin America rose by 23 percent — there hasn't been an increase that big since 1980. And last year, the Andean Group saw a 42 percent increase in the trade among its members. Over the last four years, trade among the MERCOSUR nations (Argentina, Brazil, Paraguay, and Uruguay) doubled.

Businesses see in these trends opportunities for growth and prosperity. Governments see forces for stability, prosperity, and security. That is why President Clinton, starting with the North American Free Trade Agreement (NAFTA) and then with the Free Trade Area of the Americas (FTAA), has placed the United States at the center of the economic reform and integration efforts in this hemisphere.

THE IMPACT OF NAFTA

The initial years of NAFTA demonstrated the wisdom in President Clinton's vision. Before NAFTA, Mexico's tariffs were higher, trade was lower, businesses had fewer protections in international transactions, and there were fewer venues for industry, labor, and nongovernmental groups to have their concerns addressed.

NAFTA's passage immediately brightened prospects. From the last quarter of 1993 — just before NAFTA implementation — to the last quarter of 1994, U.S. merchandise exports to Mexico increased by 24 percent.

Until the peso crisis intervened, our early experience under NAFTA suggested that Mexico would replace Japan as the number two trading partner of the United States. By the end of the first four quarters of NAFTA implementation, U.S. exports to Mexico had risen to 97 percent of the level of U.S. exports to Japan.

In December 1994, of course, Mexico's international liquidity difficulties led to a sharp decline of the peso, a balance-of-payments crisis, and, in 1995, a severe recession.

NAFTA did not cause the peso crisis. To the contrary, NAFTA dampened substantially the negative impact of that recessionary crisis on U.S. exports — a sharp contrast to U.S. export performance in 1981-82, when deep recession last hit Mexico.

In 1982, tariffs shot up, and U.S. exports fell by 50 percent, they required seven years to recover. By contrast, in 1995, U.S. exports fell by 9 percent. NAFTA clearly acted to undergird U.S. export performance. At the same time, Mexico continued to honor all its NAFTA market-opening obligations, and barriers to U.S. and Canadian exports continued to fall.

Mexico's economy is improving. U.S. exports are running at an annual rate of $55.7 billion — a record level that is be more than one-third higher than the pre-NAFTA level.

In addition, NAFTA stands as the centerpiece of trade liberalization in the hemisphere, and it has created standards and tools that can be adapted to expand trade in the future and over wider areas. Through the leadership of President Clinton, that expansion has already begun.

At the Miami Summit of the Americas in 1994, the president brought together 34 nations -- from the wealthy, developed nations like the United States to the poorest of nations, like Haiti -- and was able to build a consensus to create a hemisphere-wide free trade area by 2005, the FTAA.

STATUS OF THE FTAA

In less than two years, the FTAA nations have forged an agreement on the core principles for this endeavor. The FTAA will be a "single undertaking" — every participant accepts all the obligations. No free riders. There will be compatibility with the World Trade Organization (WTO). And member countries must agree not to raise trade barriers against nonmember countries.

Five steps are being taken to give these principles form, substance, and direction, and we look to the Brazil ministerial in Belo Horizonte next May as a venue for achieving tangible outcomes in all.

First, the member nations have created working groups of senior officials from all governments to prepare for the negotiation in each of the substantive areas to be covered as the FTAA is developed; that means everything from market access to customs procedures to phytosanitary procedures to intellectual property protection.

Second, we want to address the structure and management of future FTAA work, explore how existing obligations -- both in the WTO and in subregional arrangements such as NAFTA, MERCOSUR, and the Andean Union -- will fit into such a framework, and have a full airing of the issues involved in launching formal FTAA negotiations.

Third, even as we prepare for negotiations, participating countries have identified several areas for immediate action, such as accession to existing multinational arbitral conventions and development of proposals to promote mutual accreditation of product testing facilities.

Fourth, we will consider further how best to promote worker rights and environmental protection as the FTAA process moves forward.

Last, a series of private-sector working groups has been participating in the FTAA process by giving input, helping to identify priority areas, and finding opportunities where we can act immediately to facilitate business on a hemisphere-wide basis. These initiatives should be implemented expeditiously.

These are ambitious steps, but they have wide support in the hemisphere and are achievable with cooperation, hard work, and political will.

Much like the very streets of Belo Horizonte, the underlying pattern is from Washington, but only the bustling growth, character, and vitality of Latin America can make a community of promise. ❑

❑ THE CAIRO ECONOMIC SUMMIT: TOWARD PROSPERITY AND PEACE

By Stuart Eizenstat, U.S. Under Secretary of Commerce

The economic summit scheduled this month in Cairo will give the world's business community a chance to see economic reforms at work in the Middle East and North Africa, says Stuart Eizenstat, under secretary of commerce.

There is an absolutely critical axiom between trade and investment and peace and stability. All over the world, but particularly in the Middle East, this connection is key to the future. Trade and investment are the essential foundation to undergird the peace process and upon which a more prosperous, stable, and peaceful Middle East can be built. This will be demonstrated by the level of commitment and interest in the Middle East/North Africa Economic Summit in Cairo in November 1996. Peace and stability are intrinsically tied to jobs and prosperity.

A critical priority of the Clinton administration is to foster prosperity and economic growth in the region through peace. Simply put, we cannot have one without the other.

THE LONGSTANDING IMPORTANCE OF TRADE

It is easy to forget that trade has traditionally been the rule and not the exception in the Middle East. For thousands of years, the Fertile Crescent was the hub of economic activity between Arabs and Jews to Europe, Asia, and India. Through continued commercial integration, increased investment, and additional economic reforms, the countries of the Middle East have the potential of becoming emerging markets and economies much in the same way as the Asian Tigers and Latin America are realizing their economic potential.

Despite recent troubles, which are very serious, the peace process has proven durable. We can't make the mistake of forgetting the progress made and the foundations established to create favorable economic conditions. Palestinians are governing themselves in parts of the West Bank and Gaza. Israel and Jordan are establishing cooperative relations across the full range of political, economic, and security issues. Tens of thousands of Israeli and Jordanian tourists have visited each others' countries. Israel's relations with the broader Arab world have also expanded.

President Clinton believes that it is critical that we remain focused on preserving the achievements of peace and maintaining the momentum necessary to make new gains. It is also critical that we extend our commitment to building the economic foundations necessary for a lasting peace. Growing opportunity can ease the conflicts that have held back the Middle East region for the last half-century. Rising prosperity can help the Middle East move forward to a new millennium of reconciliation, cooperation, and full integration with the global economy.

The nexus between peace and prosperity has concrete manifestations beyond reductions in military spending. It opens countries to major projects, including power generation and water management. It leads to greater exchanges of the peoples of the region through tourism, thereby exporting understanding and mutual acceptance.

We have seen the fruits of the peace process with projects between Israel and Egypt and Israel and Jordan. The proposed Egypt-Israel gas pipeline is one of the most important regional economic projects of the decade. In addition to providing Israel with natural gas and Egypt with a hard currency source, this pipeline would forge a tangible economic link between Israel and Egypt. The project involves hundreds of millions of dollars and will serve as a critical power source into the next century. We hope the Israeli portion will be privately financed and developed. This summer, an Egyptian-Israeli consortium announced the signing of a contract to build a $1.2 billion oil refinery in Alexandria. This represents the largest private venture between Israel and the Arab world and will yield benefits to both countries.

In Jordan, we are anticipating further plans for the joint development of the Jordan Rift Valley, for which the World Bank has developed a master plan laying out the specifics. We are also aware of developments within the private sector — for example, an Israeli company and an American company are jointly pursuing power projects in Jordan. The Trilateral Industrial Development Initiative, funded by the U.S. government, Jordan, and Israel, will promote further private sector cooperation.

Commercial progress and economic accomplishments may be overshadowed by uprisings and skirmishes, but they must not be overlooked. Clearly, future progress depends on a proper and safe economic climate.

During the Clinton administration, the Commerce Department has been deeply involved in fostering economic growth and in supporting the peace process through the creation and implementation of regional commercial and trade programs.

In February 1995, former Commerce Secretary Ron Brown met with his counterparts from Egypt, Israel, Jerusalem, and the Palestinian Authority and launched the Taba Trade Leaders Program. In the Taba Declaration, for the first time, the trade ministers provided broad-based support for the peace process, including agreement to support all efforts to end the boycott of Israel. They also conducted a market access study to identify small barriers and committed to actively eliminate the obstacles to trade and to promote a Middle East Information Highway — known as the Peace Net — on the Internet.

Since the ministers' last meeting a year ago, a series of meetings have been held in the region and in Washington to implement several of the 14 market-access study recommendations. We are committed to continuing this excellent program.

A framework for regional economic cooperation, a showcase for progress, and an opportunity for business matchmaking has been established through the annual Middle East/North Africa Summit process, which began about three years ago in Casablanca. There, the meeting was the message. Last year in Amman, where the summit process was formalized into an annual event, the message was that the Middle East is open for business. In fact, at least 10 major industrial projects in the region were either initiated, advanced, or signed at the Amman Summit, worth billions of dollars. These are tangible benefits to the economic approach to the peace process.

Now with the Cairo Summit fast approaching, we intend to encourage this process to move a step further. We can return the momentum to the peace process by focusing on the very positive benefits of what can be achieved in Cairo. Through the summit, even more private sector opportunities can be identified, and, more importantly, these opportunities can be linked to specific steps by governments to reform and liberalize their economies and trade regimes.

THE U.S. COMMITMENT

The United States attaches a very high priority to this summit. The conference will provide the region with a unique opportunity to focus the eyes of the world's business community on economic reforms. It is an opportunity for the international business community to see first hand the tremendous accomplishments that have taken place, to witness the transformation of the region into a business-friendly environment, and to be assured that the governments in the region are committed and understand the importance of economic reforms that welcome foreign investment.

The Cairo Summit will be an important contribution to sustaining momentum behind the Middle East peace process. We will assist in that momentum with a strong and diverse delegation of business and government leaders. Through this public-private commitment, the United States can send a clear signal to the Middle East that our support is firm, that our interest is genuine, and that our understanding of the opportunities is significant. Our participation can go a long way toward communicating our recognition of the tremendous changes and opportunities available in that region. ❑

❑ APEC IN 1996 AND BEYOND: SUSTAINING CREDIBILITY AT SUBIC

By C. Fred Bergsten, Director, Institute for International Economics

Unless APEC leaders demonstrate leadership at their 1996 meeting the way they did in 1993 and 1994, the credibility of their initiative for freer trade could suffer, says C. Fred Bergsten. Bergsten is director of the Institute for International Economics in Washington and was chairman of the APEC Eminent Persons Group thoughout its existence from 1993 to 1995.

At their initial meeting in Seattle in 1993, the leaders of the Asia-Pacific Economic Cooperation (APEC) forum decided to create "a community of Asia-Pacific economies" and, spurred the successful conclusion of the Uruguay Round multilateral trade agreement. In Indonesia in 1994, the APEC leaders agreed via their Bogor Declaration "to achieve free and open trade and investment in the region" by firm dates — 2010 for the industrial economies that make up 85 percent of APEC trade, and 2020 for the rest. This is potentially the most sweeping trade agreement in history, committing half the world economy to eliminate all barriers to exchange among them. In addition, APEC has consistently pledged to promote further liberalization of the global trading system under its doctrine of "open regionalism."

These bold initiatives provide APEC with a clear vision and policy goal. The next step is implementation. The Osaka leaders meeting in 1995 began the process by adopting an action agenda that sets out the principles, the menu of issues, and the timetables through which APEC's political commitments will be translated into tangible results. The leaders at Osaka pledged to commence APEC liberalization in January 1997.

CHALLENGES FACING APEC

The APEC leaders meeting in Subic, the Philippines, this month will be a crucial milestone in the evolution of APEC. It will be the first real test of whether APEC's member economies mean what they have said. The leaders at Osaka directed their ministers and officials to prepare individual action plans (IAPs) through which each economy is to specify by Subic how it intends to move toward free trade by 2010/2020. The officials are also to develop collective action plans (CAPs) through which the group will move together to facilitate trade and investment in the region. A chief goal of the Subic meeting is to approve and implement both.

APEC faces another important challenge in late 1996. Shortly after the Subic meeting, the new World Trade Organization (WTO) will hold its first ministerial conference in nearby Singapore to chart the course for the global trading system into the early 21st century. APEC's commitment to continue playing a leadership role in the multilateral system, as well as to effectively carry out its own regional program, will thus be tested almost immediately.

RESULTS TO DATE

Under the chairmanship of the Philippines, the APEC members have spent most of 1996 preparing their IAPs and CAPs. The tasks are complex, both intellectually and politically. They are necessarily laborious and time consuming. It would be too much to expect comprehensive liberalization programs to emerge in a single year.

Nevertheless, the results to date are disappointing. The United States and Japan, the two largest economies in APEC (and the world), faced nationwide elections and have thus resisted significant new liberalization. Indonesia, whose leadership was pivotal in forging the Bogor Declaration in 1994, adopted illiberal policies in several key sectors. A few of the smaller economies have taken constructive first steps. But the IAPs seem unlikely to provide convincing evidence that APEC is moving ahead, and they could instead trigger widespread skepticism about the seriousness of the exercise.

The CAPs are likewise proceeding slowly. Useful progress will be made toward harmonizing and modernizing customs practices throughout the region. Some APEC member economies may adopt a "business visa" to speed commercial travel, and there is a start toward forging mutual recognition agreements (MRAs) to reduce the adverse trade impact of differing national product standards. But little tangible progress can be reported.

Nor has APEC yet coalesced around a leadership position for the WTO ministerial in Singapore. Its trade ministers met in July but produced only vague generalizations. The European Union and others continue to ask whether APEC will actually do what it says it intends to do.

There is thus a serious risk of failure at Subic. On present reading, the members will have very little to implement in January 1997. As noted, last year's outcome at Osaka was largely procedural; its intention of producing "down payments" on tangible liberalization to complement the action agenda elicited little response. A second year of inaction will raise serious doubts both within APEC economies and around the world.

NEXT STEPS

The obvious remedy is for the APEC leaders to again lead, as they did at Seattle and Bogor. They must reach beyond the limited menu handed them by their ministers and officials, as they did on both those occasions, to revive the momentum and credibility of the APEC process.

Several ways to do this have been proposed. The members of the Association of Southeast Asian Nations (ASEAN) could galvanize APEC's own liberalization by extending to all of APEC the move to free trade by 2003 already worked out in their own subregional arrangement (the ASEAN Free Trade Arrangement, or AFTA). The Philippines chair and Indonesia have already moved substantially in this direction on their own and should be able to win agreement from their partners to do so in light of ASEAN's desire to maintain its central position in APEC. Such a challenge from APEC's developing economies would surely stimulate its more industrialized members to fulfill their liberalization pledges as well.

APEC could also adopt an information technology agreement (ITA) to eliminate by 2000 all tariffs on goods in this critical sector, ranging from semiconductors to computer hardware and software. This has been the Clinton administration's main trade initiative in 1996, utilizing most of its existing congressional authority. Such an agreement would be of great benefit to every APEC member, most of which export such products and all of which would gain from cutting the cost of such critical inputs to their own economies.

Because a successful ITA would need to include the European Union and a few other countries, however, APEC should condition its adoption on their full participation. APEC could agree on such a strategy at Subic and take the proposal into the WTO at Singapore, simultaneously indicating its readiness to enact tangible liberalization in a sizable sector and its willingness to globalize its initiatives.

With its credibility established through such a concrete proposal, APEC could broaden its challenge to the world trading community by inviting the WTO as a whole to emulate APEC's own commitment to achieve free trade by 2010/2020. Over 60 percent of world trade is already free or en route to complete liberalization through regional trading arrangements ranging from the European Union through the North American Free Trade Agreement and AFTA to the Free Trade Area of the Americas and APEC itself. There is a strong case for moving now to globalize the free trade approach to avoid the inconsistencies that will otherwise increasingly occur across the regional arrangements and to avoid the risk of conflict among them. APEC could also propose the early launch of a comprehensive new WTO negotiation, which would inevitably be called the "APEC Round," to begin moving toward this ultimate objective. President Clinton could clearly signal a return to active U.S. leadership by announcing his intention to seek new "fast-track" negotiating authority from the Congress in early 1997.

The combination of such free trade proposals and an ITA would have a dramatic impact on both APEC and the WTO. APEC would decisively demonstrate its fidelity to "open regionalism" and assert its leadership of the global trading system. More importantly, it would silence the skeptics who doubt its willingness to act decisively as well as to set ambitious goals.

The APEC agenda, of course, ranges beyond trade and investment liberalization. It pursues trade facilitation as well. It seeks broader economic cooperation among its members in an attempt to build a true community in the region. It has held nine ministerial conferences in 1996, across a wide range of topics, and nine more are scheduled for 1997.

But APEC has captured the imagination of its own members and the rest of the world by its bold liberalization initiatives. The Subic meeting inevitably will be judged by APEC's ability to sustain and reinforce the momentum from those earlier breakthroughs. The proposed initiatives are well within the grasp of APEC leaders. Their adoption would install APEC definitively as a permanent bulwark of regional cooperation and a decisive force for world prosperity and stability. ❑

❑ GLOBAL AND REGIONAL TRADE ARRANGEMENTS

WORLD TRADE ORGANIZATION (WTO)

The WTO, established January 1, 1995, as the successor to the General Agreement on Tariffs and Trade (GATT), serves as the legal and institutional foundation of the multilateral trading system.

The Uruguay Round trade agreement that created the WTO also eliminated tariffs for some manufactured goods and reduced other tariffs; reduced barriers to trade in agriculture; expanded protection for copyrights, patents, and other intellectual property; and provided some reduction in barriers to services and foreign investment. It also reformed the multilateral trade process itself, including the introduction of a stronger dispute-settlement mechanism.

The WTO has 123 members, and the following 31 governments have applied to join: Albania, Algeria, Armenia, Belarus, Bulgaria, Cambodia, China, Croatia, Estonia, Georgia, Jordan, Kazakhstan, Kirgyz Republic, Latvia, Lithuania, Former Yugoslav Republic of Macedonia, Moldova, Mongolia, Nepal, Oman, Panama, Russia, Saudi Arabia, Seychelles, Sudan, Taiwan, Tonga, Ukraine, Uzbekistan, Vanuatu, and Vietnam.

Extended beyond their original deadlines, WTO negotiations continue now on reducing barriers to trade in basic telecommunications and financial services; a decision on whether to resume failed negotiations on maritime services has been deferred until 2000.

The first meeting of WTO trade ministers is scheduled for December 9 to 13 in Singapore. The Clinton administration priority for the meeting is to establish a precedent for continuous movement toward freer trade through regular ministerial meetings, instead of the sporadic movements negotiated in major rounds as in the past.

NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)

NAFTA, which built on the 1989 U.S.-Canada Free Trade Agreement, went into force January 1, 1994, phasing out tariffs on trade between the United States, Canada, and Mexico over 15 years. Side agreements require each country to enforce its own labor and environmental laws.

U.S. trade with Canada and Mexico increased 29 percent in the first two years of NAFTA. Nevertheless, trade disputes between the partners persist, mitigated somewhat by dispute-settlement mechanisms.

Failing for three years to get broad fast-track authority from Congress to negotiate any trade agreements, the Clinton administration is grappling with a strategic decision: whether to request fast-track authority solely for negotiating accession to NAFTA by Chile.

FREE TRADE AREA OF THE AMERICAS (FTAA)

At the December 1994 Summit of the Americas in Miami, Florida, 34 political leaders of the Western Hemisphere adopted a U.S. proposal to construct an FTAA by 2005, with substantial progress expected before 2000. Trade ministers held subsequent meetings in September 1995 in Denver, Colorado, and in March 1996 in Cartagena, Colombia, where they set up working groups; other meetings are planned for Belo Horizonte, Brazil, in 1997 and for Costa Rica in 1998. Cuba alone among hemisphere countries does not participate in the FTAA.

The working groups have begun moving toward the first concrete actions for an FTAA, which are likely to involve procedures dealing with mutual acceptance of product standards and electronic customs filing.

Lack of fast-track negotiating authority has hurt U.S. credibility with other FTAA participants. For the

Clinton administration, the strategic issue has become how to rebuild U.S. political consensus for FTAA negotiations while other Western Hemisphere countries continue to make trade agreements with each other — usually accepting lower standards on services, investment, and intellectual property protection than the United States is seeking in an FTAA.

ASIA-PACIFIC ECONOMIC COOPERATION (APEC)

Formed in 1989 as an informal dialogue group with limited participation, APEC has become a forum for negotiations to achieve the goal of freer trade and investment in the Asia-Pacific region — by 2010 for industrialized economies and by 2020 for developing economies.

Beginning in 1993, the annual APEC trade ministers meetings have been followed by meetings of the heads of state or government of member countries (Hong Kong and Taiwan send economic ministers). The next APEC ministers and leaders meetings are scheduled for November 22 to 25 in the Philippines.

APEC has 18 members: Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Philippines, Singapore, Taiwan, Thailand, and the United States.

For the November meetings, the Clinton administration is pressing its APEC partners to improve their "individual action plans," identifying what concrete actions they will take to eliminate trade barriers, with a timetable for implementation.

NEW TRANSATLANTIC AGENDA

Part of the New Transatlantic Agenda agreed to at the U.S.-European Union (EU) summit in December 1995 in Madrid was an initiative to expand trade between the two sides called the New Transatlantic Marketplace, assisted by meetings of businessmen called collectively the Transatlantic Business Dialogue.

Among a number of agreed goals were tariff cuts, including elimination of tariffs on information technology products (an information technology agreement), and negotiation of mutual recognition agreements to harmonize product standards and testing. Progress has been slow.

Meanwhile, U.S.-EU relations have been disturbed in 1996 by a number of irritants, especially U.S. imposition of sanctions against third-country investments in Cuba, Iran, and Libya. ❏

Sources: World Trade Organization; Asia-Pacific Economic Cooperation; Office of the U.S. Trade Representative; U.S. State Department.

❑ U.S. GOODS EXPORTS, IMPORTS AND TRADE BALANCE JANUARY-AUGUST 1996

In millions of dollars, selected countries and regions

Country or region	Trade balance	U.S. exports	U.S. imports
Canada	-15,630.9	87,499.4	103,130.3
Mexico	-11,249.5	36,053.1	47,302.6
South/Central America	2,049.1	33,647.2	31,598.1
European Union	-9,368.4	84,379.4	93,747.8
Eastern Europe	534.8	4,738.0	4,203.2
Near East	1,500.7	13,015.0	11,514.3
South Asia	-3,796.0	2,984.0	6,780.0
Association of Southeast Asian Nations (ASEAN)	-14,207.1	28,588.9	42,796.0
China	-24,244.4	7,428.6	31,673.0
Hong Kong	2,638.3	8,990.3	6,352.0
Japan	-30,355.2	45,580.8	75,936.0
South Korea	2,296.9	17,604.6	15,307.7
Taiwan	-7,235.1	12,098.6	19,333.7

KEY CONTACTS AND INTERNET SITES

KEY GOVERNMENT CONTACTS ON U.S. TRADE POLICY

Office of the U.S. Trade Representative (USTR)
600 17th Street, N.W.
Washington, D.C. 20508 U.S.A.
Telephone: (202) 395-3230

U.S. Department of Commerce
International Trade Administration
14th and Constitution Avenue, N.W.
Washington, D.C. 20230 U.S.A.
Telephone: (202) 482-3809

U.S. Department of State
Economic and Business Affairs
2201 C Street, N.W.
Washington, D.C. 20520 U.S.A.
Telephone: (202) 647-7951

U.S. International Trade Commission
500 E Street, S.W.
Washington, D.C. 20436 U.S.A.
Telephone: (202) 205-1806

KEY INTERNET SITES

U.S. TRADE POLICY

Office of the U.S. Trade Representative
http://www.ustr.gov/

U.S. TRADE STATISTICS

Bureau of the Census, U.S. Department of Commerce
http://www.census.gov/foreign-trade/www/

WORLD TRADE ORGANIZATION (WTO)

World Trade Organization
http://www.unicc.org/wto/

WTO Ministerial Conference 1996
http://www.wto96.org/

NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)

Office of the U.S. Trade Representative
http://www.ustr.gov/agreements/nafta/information/index.html

FREE TRADE AREA OF THE AMERICAS (FTAA)

Organization of American States (OAS)
http://www.sice.oas.org/

U.S. Department of Commerce
http://www.ita.doc.gov/ftaa2005/

ASIA-PACIFIC ECONOMIC COOPERATION (APEC)

Asia-Pacific Economic Cooperation Secretariat
http://www.apecsec.org.sg/

APEC Philippines 1996 Home Page
http://www.mailstation.net/~apecphil/

United States Information Agency (USIA)
http://www.usia.gov/regional/ea/apec/apec.htm

NEW TRANSATLANTIC AGENDA

U.S. Department of State
http://dosfan.lib.uic.edu/www/regions/eur/europe_home.html

European Union
http://europa.eu.int/en/agenda/tr01.html

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Lawrence, Robert Z. *Regionalism, Multilateralism, and Deeper Integration*. Washington, D.C.: The Brookings Institution, November 1995.

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Organization for Economic Cooperation and Development. *Regionalism and Its Place in the Multilateral Trading System*. Paris: OECD, May 1996.

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Preeg, Ernest H. "The Post-Uruguay Round Free Trade Debate." *The Washington Quarterly*, Winter 1996.

Sampson, Gary P. "Compatibility of Regional and Multilateral Trading Agreements: Reforming the WTO Process." *The American Economic Review*, May 1996.

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ECONOMIC TRENDS

The U.S. economy has slowed since the second quarter largely because of a decline in consumer spending, but not because of any fundamental weaknesses.

U.S. gross domestic product (GDP) grew at a 4.7 percent annual rate in the second quarter. In the third quarter, growth dropped to a 2.4 percent rate, according to the Blue Chip Economic Indicators, a private economic analysis service. In the first quarter, GDP grew at a 2.0 percent rate.

"What happened in the third quarter is that people's incomes grew well, consumption slowed, and savings rose," Lee Price, recently appointed chief economist at the U.S. Department of Commerce, said in an October 21 interview. Also, lenders, particularly those that issue credit cards, slowed the extension of credit because of an increase in defaults, he said.

Because consumer spending accounts for two-thirds of GDP, shifts in it have a significant impact. "Consumers are also fickle quarter to quarter," Price added, explaining that a rise or fall in consumer spending need not indicate fundamental changes in the economy.

During the Christmas shopping season in the fourth quarter, Price predicted, consumers will spend some of what they've saved. Blue Chip Economic Indicators predicts a 2.4 percent growth for all of 1996, which is a level most economists see as the current sustainable potential for the U.S. economy.

The economy also continues to have the lowest levels of unemployment and inflation in years.

In September, the unemployment rate edged up to 5.2 percent from 5.1 percent in August, still a seven-year low. Payroll employment, however, dropped by 40,000 in September. This was in sharp contrast to the average increase of jobs of more than 200,000 a month since the beginning of 1996. The drop was a result of a "statistical aberration," Price said, but added that the number of jobs being created had dropped considerably compared to recent months.

"A one-month change is not necessarily a harbinger of anything but a rebound in the next month or the next quarter," he cautioned.

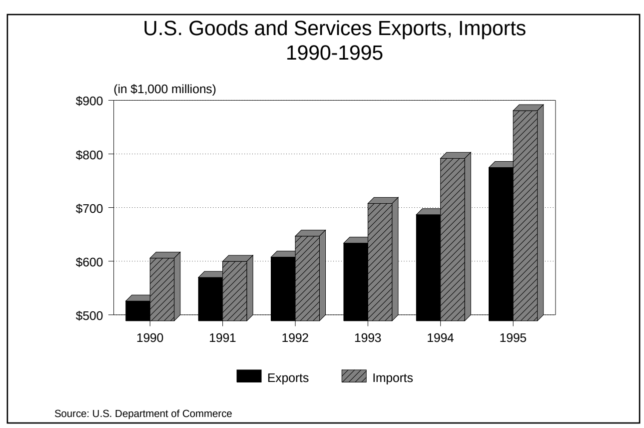
Inflation, as measured by the Consumer Price Index (CPI), also remains at very low levels. In September the CPI rose just 0.3 percent. The CPI increase for the year should be below 3 percent for the fifth straight year, Price said.

Industrial production rose only 0.2 percent in September, well below the average for the previous five months. In September, total industry capacity utilization was 83.7 percent. Available capacity at U.S. industrial plants increased by more than 4 percent during the past year as a result of investments, Price said.

The current economic expansion does not seem to be ending, Price said. "We've had a 5-1/2-year expansion, and usually by this point in the business cycle you see more imbalances", he said, "but there don't really seem to be serious imbalances developing.

"We're still trying to find out what this economy is capable of," Price said, adding that productivity is improving and the labor force is growing — two elements needed for higher incomes and continued growth. ❑

-Warner Rose



CALENDAR OF ECONOMIC EVENTS

Nov. 5-11 ..... Asia-Pacific Economic Cooperation (APEC) Sixth Asia-Pacific International Trade Fair, Manila, Philippines

Nov. 6-8 .... Organization for Economic Cooperation and Development (OECD) Working Group on Bribery, Paris, France

Nov. 8-9 .... Transatlantic Business Dialogue Conference on solving remaining barriers to transatlantic trade, Chicago, Illinois

Nov. 11-15 ... World Trade Organization (WTO) basic telecommunications negotiations, Geneva, Switzerland

Nov. 12-14 ... Middle East/North Africa Economic Summit, Cairo, Egypt

Nov. 13-15 ... Ministerial meetings, World Food Summit, Rome, Italy

Nov. 16-17 ... Heads of state and government, World Food Summit, Rome

Nov. 18-22 ... Paris Club negotiations, Paris

Nov. 20-21 ... Free Trade Area of the Americas (FTAA) Working Group on Investment, San Jose, Costa Rica

Nov. 20-23 .. APEC informal senior officials meeting, Manila

Nov. 22-23 .. APEC ministerial meeting, Manila

Nov. 25 .... APEC leaders meeting, Subic, Philippines

Dec. 2-20 ... World Intellectual Property Organization, Diplomatic Conference on Certain Copyright and Neighboring Rights Questions, Geneva

Dec. 6-8 ...... Summit of the Americas Follow-up Sustainable Development Summit, Santa Cruz de la Sierra, Bolivia

Dec. 9-13 .... WTO ministerial, Singapore

Dec. 8-11 .... Conference on the Caribbean and Latin America, Miami

Dec. 11-15 ...United Nations Trade and Development Board, Special Session, Geneva

Dec. 16-20 .. Paris Club negotiations, Paris

Jan. 4-6 .... American Economics Association annual meeting, New Orleans, Louisiana ❑

WHAT'S NEW IN ECONOMICS: ARTICLE ALERT

Dornbusch, Rudi. EURO FANTASIES (Foreign Affairs, vol. 75, no. 5, September/October 1996, pp. 110-124)

A future European Monetary Union (EMU) will aggravate existing mass unemployment produced in part by conditions for its emergence that are too rigidly focused on low deficits and inflation. MIT professor Rudi Dornbush terms the EMU a "bad idea" and notes that its fixed exchange rates require flexible wages and functioning labor markets, neither of which Europe has. The demanding nature of the Maastricht criteria for admission to EMU "is adding to an already mismanaged Europe," according to Dornbush; he foresees that a political push in Germany and France will bring the EMU into being at the cost of economic slowdown and public disenchantment.

Soros, George. CAN EUROPE WORK? A PLAN TO RESCUE THE UNION (Foreign Affairs, vol. 75, no. 5, September/October 1996, pp. 8-14)

"The economy is too important to leave to central bankers." With that assertion, philanthropist-financier George Soros charges that the economic convergence criteria of Maastricht are forcing member governments to accept 18 million unemployed in order to launch the monetary union in 1997. This rigid bureaucratic emphasis could result in a common European currency so resented that member peoples reject it and other aspects of the European Union. Decisions must now be entrusted to the people's voice via a constitutional assembly and taken away from the Inter-Governmental Conference backed by bankers and bureaucrats intent on the Maastricht terms, Soros asserts.

Ross, Robert S.; Mastel, Greg. DEBATE: CHINA AND THE WTO — ENTER THE DRAGON and CHINA AT BAY (Foreign Policy, no. 104, Fall 1996, pp. 18-35)

In back-to-back articles, Robert S. Ross, professor of political science at Boston College, and Greg Mastel, vice president of the Economic Strategy Institute, agree that China should be incorporated into the World Trade Organization "so that its behavior reinforces the contemporary trend toward trade liberalization." They disagree, however, on whether the United States should press for immediate Chinese entry. Ross argues that it is in the U.S. interest for the WTO to negotiate Chinese admission even though it maintains "the protectionist measures that Indonesia, Japan, South Korea, and Taiwan employed to assist their nascent industrial systems prior to liberalization." Ross believes China will be more susceptible to international pressure for liberalization once inside the WTO. Mastel, on the other hand, calls for a three-part transitional arrangement, similar to the approach used with Poland and more recently as part of the effort to open agricultural markets worldwide, in which China agrees to accept WTO discipline by a fixed date, WTO members retain the right to unilaterally retaliate against China during the transition, and China permits an increasing percentage of imports each year.

Gordon, Bernard K. TRADE BLOCKED (The National Interest, no. 45, Fall 1996, pp. 71-79)

Bernard K. Gordon of the University of New Hampshire argues that the U.S. push to create a hemisphere-wide Free Trade Area of the Americas is "fundamentally incompatible" with U.S. economic and security interests. This push for "regionalism" ignores the fact that the United States is a "uniquely tripolar exporter," splitting its exports about evenly between Europe, the Pacific, and Canada and Mexico. South and Central America play a small role in U.S. exports. Economic regionalism is likely to create "a world America never wanted," Gordon says.

Edmunds, John C. SECURITIES: THE NEW WORLD WEALTH MACHINE (Foreign Policy, no. 104, Fall 1996, pp. 118-133)

Securitization launches a new economic age in which a state can increase wealth directly by increasing the market value of its stock of productive assets. The issuance of high-quality bonds and stocks limits a government's ability to run deficits, tolerate inflation, or overvalue its currency. Rather, there is an immediate and huge payoff for cutting inflation if a significant portion of the capital stock is securitized and global market liberalization is enhanced. ❑