

# Allies and Friends: The Trade Policy Review of the United States, 2006

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## 1. INTRODUCTION

IT'S a good thing the United States government believes that democracy, rule of law and economic development abroad are keys to its national security. For notwithstanding the occasional catastrophe accompanying US military actions in the name of democracy, this belief has fostered policies on the economic front that have contributed to the prosperity of billions of people throughout the world. The multilateral trading system is a product of this synergy of economic and security concerns. During the creation and critical early years of the GATT, the US helped sustain the system in large measure because of a heightened concern about its national security during the Cold War. With the collapse of Communism and subsequent absorption of many former adversaries into the WTO, the US looked poised for a return to civilian life, its trade policy focused on mundane commercial interests like everyone else. However, the events of 11 September, 2001, cut this respite short. With national security now back at the top of the US foreign policy agenda, it is an open question whether the WTO system will be better or worse off as a result. This question forms the subtext of the 2006 *WTO Trade Policy Review (TPR) of the United States*.

The 2006 TPR is the eighth review of the US since the TPR programme began on a provisional basis in 1989. *Trade Policy Reviews* are periodic status reports by the WTO on the trade-related economic circumstances and policies of its members. They are like audits of each member, evaluating its progress in implementing WTO rules, disciplines and commitments, highlighting compliance problems, and surveying the broader economic situation to presage trouble or opportunities ahead. The purpose is to increase transparency and understanding of each member's trade policies for the benefit of other members, which will hopefully facilitate compliance.

The United States, the European Union, Japan and Canada are reviewed every two years. Other countries are reviewed at either four- or six-year intervals depending on their relative size in world trade. The practice of reviewing larger

countries more often makes sense, if we consider that their policies are of greatest importance to other members and that they account for the bulk of the dispute settlement activity. It also makes sense that developing country governments would need more help in understanding the trade policy of developed countries than vice versa. The differential frequency of the reviews has its downside though. Very few alternative sources of information exist about many developing countries, whereas there is plenty of information already available about the US, much of it better than what can be found in the *Reviews*. Indeed, most of what is contained in the TPR of the US is drawn from these other sources. Still, the TPR of the US is useful in drawing it all together and airing the comments of various members.

Each TPR contains three main sections. The first and largest part is a report by the WTO Secretariat. It contains an overview, beginning with the macro-economic situation, trends in trade and investment, and developments in trade and investment policy, followed by a detailed description of trade policies by measure and sector. The report is intended to be thorough, factual and impartial. The second part is a report by the member being reviewed, in this case the United States. It is not intended to be thorough or impartial (though one hopes it is factually accurate). Instead it focuses on the country's goals, plans and accomplishments and on justifying its more controversial policies. The final section is a summary of the TPR meeting, which contains comments on the Secretariat's report by the United States, comments on the US by an assigned discussant (Ambassador Amina Chawahir Mohamed of Kenya, former Chair of the General Council), and comments by some 30 other members. The most vocal criticisms of US trade policy come from these member comments. However, because each has its own list of grievances, the overall critique lacks coherence and impact. One almost wishes that the discussant and member comments could be combined and distilled into a well-articulated 'dissenting opinion'.

If I were writing the dissent, I would argue that heightened US national security concerns have had both direct and indirect effects that are deleterious to the multilateral trading system. Security concerns have led to an embrace of bilateralism that bears little relation to US commercial interests and will arguably detract from ongoing efforts at multilateral trade liberalisation. Security concerns have also led to a substantial change in customs and inspection procedures for goods bound for the US, which could swamp tariffs in terms of their trade-inhibiting effect. Finally, the unpopularity at home of US military actions abroad has weakened the US President and opened the door for rising protectionism in Congress.

In what follows, I shall touch on only a few of the many issues raised in the TPR, leaving the interested reader to forage it for details on her own. I shall concentrate on areas where I see the most alarming trends and which best illustrate the thesis of my dissent.

## 2. SOURCES OF RISING PROTECTION

### *a. The Twin Deficits and Other Economic Factors*

The Secretariat report begins with a thumbnail sketch of the macroeconomic situation facing the US, based on data up to the third quarter of 2005. On the whole the news is positive, as the US was in the midst of a recovery. The main concern is about fiscal and current account deficits. The federal government deficit reached \$412 billion in 2004 and was projected at \$333 billion for 2005 (it turned out to be \$319 billion), or 3.6 and 2.6 per cent of GDP, respectively. Careful to cite IMF and Congressional Budget Office sources, the report attributes part of the deficit to tax cuts and increased spending on defence and social security. The current account deficit continued to expand through 2004, reaching a record \$668 billion, or 5.7 per cent of GDP, and was projected to go higher, despite a depreciating dollar. Both the Federal Reserve and IMF are reported to have declared the inflow of capital supporting this deficit 'unsustainable'. The US's report defended its fiscal policy as an 'appropriate counter-cyclical' measure, and blamed excessive foreign saving for the current account deficit. Several countries, most notably Switzerland, expressed concern that a hard landing would be disruptive to the world economy.

Lacking from the Secretariat's report is any mention of how these economic trends have contributed to increased US protectionism. To my mind, this omission largely defeats the purpose of the economic survey. The current account deficit has unquestionably fuelled protectionism in the US Congress, especially against China. A Bill introduced into the Senate in 2005 by Charles Schumer of New York, on behalf of a bipartisan coalition of senators from manufacturing states (including Presidential hopeful Hillary Clinton), accused China of currency manipulation and called for negotiations aimed at revaluation of the yuan, which if not successful would be answered by a 27.5 per cent across-the-board tariff on Chinese imports. Of course, this Bill did not pass, but other protectionist measures against China, e.g. special safeguards on textiles and clothing, are on the rise.

Also missing is any mention of rising income inequality or loss of manufacturing jobs. While not specific to the 2004–2005 period, wages of unskilled workers have been in decline, both in real terms and in relation to skilled wages, for the past 25 years. This trend is widely acknowledged, even by the Bush administration, which is surprising considering that it is accused of contributing to the problem through tax cuts favouring the rich and other pro-business policies. The elimination of the steel safeguards in early 2004, following a WTO panel ruling, also contributed to Bush's reputation as an enemy of labour and has led to growing scepticism toward trade agreements in Congress.

At the time the TPR was written, participants could not have known that these developments, combined with voter dissatisfaction over the war in Iraq, would help the Democrats take control of Congress and put new constraints on the President's trade agenda. However, protectionist pressures from both parties were clearly present at the time, and the President had already compromised on many key issues to secure trade promotion authority (TPA), such as the inclusion of labour and environmental standards in bilateral trade deals and the expansion of Trade Adjustment Assistance. While these concessions are discussed in the TPR as part of the general trade policy landscape, a frank discussion of their underlying economic and political causes is sorely lacking.

*b. Agricultural Subsidies and Administered Protection*

Previous TPRs focused heavily on US agricultural subsidies and administered protection. These measures continue to be controversial in the present TPR, but the controversies are muted somewhat by the fact both subsidies and anti-dumping filings were down in 2004, thanks to high prices for crops and steel. However, the US lost several important WTO disputes in these areas. And while it appeared to be complying with most of the rulings, it had not yet repealed the Byrd Amendment at the time of the TPR (it has since).

Although the Secretariat report showed subsidies were down from 2002 to 2004, total government outlays to farmers were projected to shoot up again in 2005 to over US\$21 billion, rivalling their 2000 peak (the projection was roughly correct). The increase was driven mostly by a four-fold increase in counter-cyclical payments and a seven-fold increase in ad hoc emergency payments. The 2002 Farm Bill brought the counter-cyclical payments programme back into the US agricultural policy arsenal, after it had been eliminated in 1996. It is decidedly contrary to the goal of reducing trade distortions associated with agricultural support, but with the Doha Round now fading, it is questionable if a WTO agreement will be reached to eliminate them. Meanwhile, Brazil mounted a successful dispute-settlement challenge of the US subsidy programme for upland cotton.

Anti-dumping filings in the US continued to drop throughout the period. There were 39 filings in 2004 and only 12 in 2005, compared with 116 in 2001. As the steel industry accounts for the majority of filings in a typical year, this trend was probably driven by strong demand for steel worldwide. The US steel industry is profitable again, despite the repeal of the 2002 safeguards. Nevertheless, as of June 2005, 274 anti-dumping duties were still in force. On the more systemic level, WTO disputes continue to pummel US administered protection laws. The Anti-dumping Act of 1916, which allowed for civil and criminal penalties against dumpers, and the Byrd Amendment, which distributed revenue from anti-dumping and countervailing duties to successful petitioners, were both found in violation

of the WTO anti-dumping agreement. Although it took a long time and numerous retaliatory threats, both laws were eventually repealed. The practice of ‘zeroing’, which amounts to throwing out all negative dumping margins when computing an average dumping margin, was also challenged in a series of disputes involving Canada, Japan and the EU.

Many in Congress and the administration regard the WTO rulings on US anti-dumping laws, along with earlier rulings to safeguard actions and tax provisions for Foreign Sales Corporations, as rank judicial activism. The Secretariat report cites the House Ways and Means Committee, which oversees the US-administered protection apparatus, as complaining of ‘the “gap filling” by panels that read more exacting, and sometimes impractical, requirements into the WTO agreements, particularly with respect to trade remedy laws’. This sentiment has produced a number of effects. First, as a condition for granting TPA, Congress demanded that a principal negotiating objective be to preserve the ability of the United States to vigorously enforce its trade remedy laws.<sup>1</sup> Second, the US built special safeguards for ‘sensitive’ products, with relaxed requirements on material injury, into its accession agreement with China and its bilateral FTAs. Third, it has created FTA-specific dispute settlement bodies, which give members the option of resolving disputes outside the jurisdiction of WTO panels.<sup>2</sup>

### *c. New Customs Procedures and Technical Barriers*

There are many non-tariff trade barriers mentioned in the TPR. What is new is the proliferation of regulations designed to incorporate security considerations into its import procedures. There are three main programmes. First, under the Trade Act of 2002, all importers are required to transmit information to the Customs and Border Protection agency (CBP) pertaining to US-bound cargo from all modes of transportation prior to departure. CBP uses this information to identify and stop high-risk cargo before it leaves a foreign port. According to the CBP, the costs of meeting the requirements of the Trade Act regulations will be ‘substantial’ for air carriers (US and foreign) flying cargo into the United States but less so for sea and rail carriers as they make use of electronic filing already. Second, the Container Security Initiative (CSI) of 2002 requires screening and inspection of all US-bound, high-risk containers at the port of departure and the use of tamper-evident seals. The US authorises a limited number of foreign ports

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<sup>1</sup> The Senate passed a version of TPA containing the so-called Dayton-Craig amendment, which would have excluded from fast-track procedures any provision that would change any US trade remedy law. This provision was ultimately stripped from the final legislation in favour of the language about priorities.

<sup>2</sup> See Busch (2007) for a discussion of these overlapping jurisdictional issues.

to conduct inspections, and the costs to the foreign ports are high.<sup>3</sup> Third, the Bioterrorism Act requires importers to notify the Food and Drug Administration of all US-bound food consignments, and all food manufacturing and handling facilities have to be registered to export to the United States.

These are sweeping changes, and while they may well be necessary, their impact on trade is as yet unknown. Anyone who has been through US airport security lately will appreciate how costly these kinds of regulations can be. The Secretariat's report suggests that, 'an assessment of the economic impact of the new regulations would be valuable to ascertain their actual costs and benefits'. Numerous countries in the TPR meeting echoed that call.

### 3. THE 'FTA RUSH'

Without question the most notable aspect of US trade policy in recent years has been its embrace of bilateral and regional free trade agreements, or what Japan referred to as an 'FTA Rush'. Besides NAFTA (involving Canada and Mexico, which went into force in 1994) and its FTA with Israel (1985), the US has implemented FTAs with Jordan (2001), Chile (2004), Singapore (2004), Australia (2005), Morocco (2006) and Bahrain (2006). By the time of the TPR meeting, agreements had been signed with Colombia, Peru, Oman and the six countries forming CAFTA-DR (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic); negotiations were ongoing with Ecuador, Panama, Korea, Malaysia, Thailand, United Arab Emirates and the Southern African Customs Union (South Africa, Botswana, Lesotho, Namibia and Swaziland). Thus, from 2001 to 2006, the number of US FTA partners or imminent partners went from three to 29.

Concerns about the effect of this trend on the multilateral trading system are expressed throughout the TPR. The arguments are familiar. First, there is the argument that bilateralism is a 'stumbling block' to further multilateral liberalisation. In the TPR, this argument can be found in two different versions. One is that bilateral agreements might divert the administrative resources of their members away from multilateral negotiations. The other, made by the EU (speaking from experience one presumes), is that bilateral agreements might compromise domestic political support for further multilateral liberalisation. Second, there is the argument that bilateral agreements harm third countries through trade diversion.

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<sup>3</sup> Although CBP pays for the expenses of CBP officers stationed in foreign ports, host country officers have to inspect the containers using non-intrusive inspection equipment, physical inspection, or both. Seaports must have gamma- or X-ray imaging equipment, and radiation detection equipment. In addition, ports must establish an automated risk management system, share data with CBP, resolve the security vulnerabilities of their infrastructure, and maintain personnel integrity programmes.

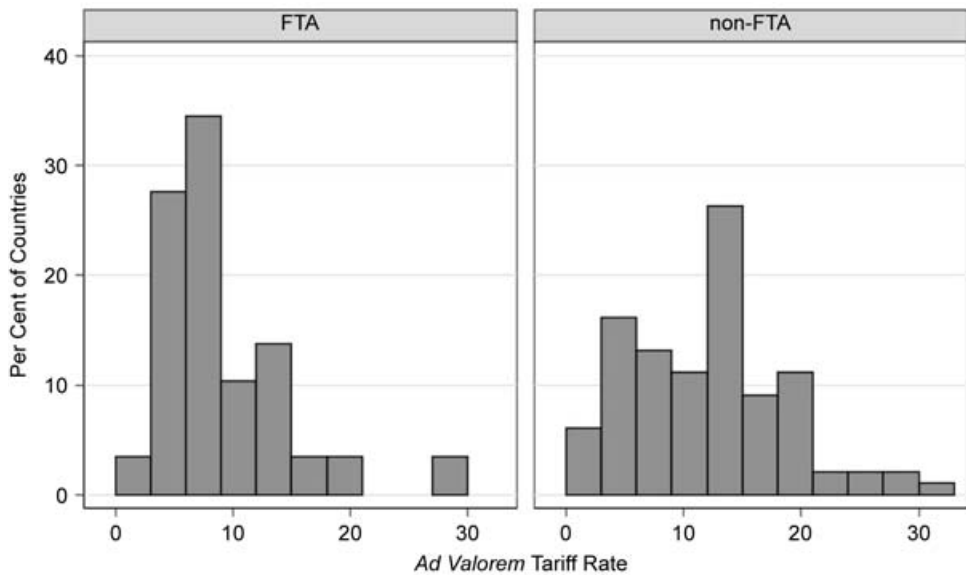
The discussant lamented that discrimination against developing countries is contrary to the goals of the Doha Development Agenda. Finally, there is the 'Spaghetti Bowl' problem, also raised by the discussant, which is the idea that the complexity of preferential tariff rates and rules of origin poses a barrier to trade in its own right.

The US report addresses only the first of these concerns, arguing that rather than being a stumbling block, bilateral and regional agreements serve as 'an incubator and catalyst for multilateral liberalization'. As evidence for this, it cites the many bilateral agreements the US signed in the 1930s and 1940s, which foreshadowed the clauses that ultimately were included in GATT. It goes on to name various provisions contained in its current rash of FTAs, such as tariff-free and quota-free market access, labour and environmental standards, stronger IPR protection, special safeguards and trade facilitation measures, that go beyond current WTO provisions and which 'appear to be adding momentum to global trade liberalization, fostering trade and growth, and stimulating our FTA partners to greater participation in the WTO' (p. 148). Finally, the US flatly rejects the administrative version of the stumbling-block argument, saying that it has found no such tendency among its FTA partners. In fact, it claims to have selected its FTA partners for their 'clear, consistent commitment to WTO-based trade liberalization' (p. 187).

These claims are worth more careful examination. It is certainly true that many of the provisions of the Reciprocal Trade Agreements Act of 1934 (RTAA), under which the US negotiated its pre-GATT bilateral agreements, did profoundly influence the GATT. However, it is difficult to see how this point supports the US case in the current debate. First, at the time of the old US bilaterals, there was no multilateral system to detract from. Second, the bilateral agreements themselves contained the MFN clause, precisely because the US recognised the costs and dangers associated with discrimination. Third, the GATT was created to replace the bilateral agreements, because they were regarded as inadequate and too shaky a foundation for the global trading system. Finally, not all of the provisions that made the jump from the RTAA to the GATT were necessarily helpful to the cause of multilateral liberalisation. Anti-dumping and safeguards provisions come to mind. Likewise, it can be argued that the labour and environmental standards, special safeguards (and perhaps even the stronger IPR protections) contained in current FTAs are not directions the WTO should go (see, e.g., Bhawati, 2005).

Does the US really select its FTA partners on the basis of their commitment to WTO-based trade liberalisation? Answering this question is difficult, because it is hard to measure commitment. However, we might expect commitment to be reflected in a country's record of multilateral trade liberalisation prior to entering FTA negotiations. Though not ideal, a commonly used measure of protection is a country's simple average of applied MFN tariffs over all tariff lines. Figure 1

FIGURE 1  
Distributions of Average Applied MFN Tariffs by Country, 2001  
(US FTA partners vs non-FTA WTO members)



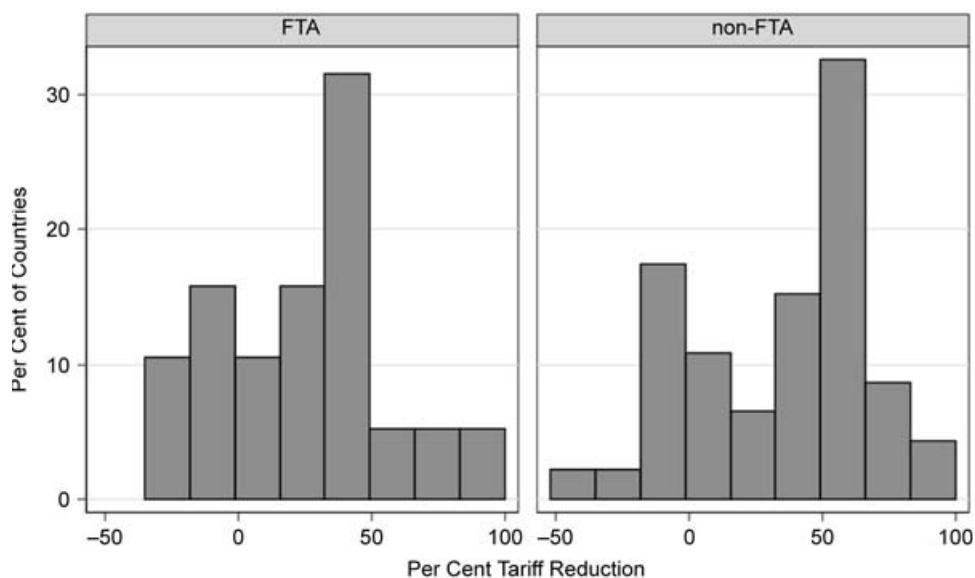
Source: Trends in Applied Average Tariffs: World Bank.

compares the distribution of this measure across US FTA partners to that of other WTO members for 2001.<sup>4</sup> We see that the preponderance of FTA partners had average tariffs between five and 15 per cent. The mean is actually 8.9 per cent. Outliers are Singapore with zero tariffs and Morocco, with an average tariff of 29.2 per cent. For non-FTA countries the picture is similar but with a higher variance and a mean of 11.7 per cent. About half of the difference in means between the two groups is due to the presence of least developed countries (LDCs) in the non-FTA category, which tend to have very high tariffs and also have free access to the US market through other programmes. Lesotho is the only US FTA partner classified as an LDC. Taking out LDCs, one cannot reject the hypothesis that these two samples were drawn from the same distribution.<sup>5</sup> Thus, despite the lower tariffs of US FTA partners relative to other WTO countries overall, it seems quite unlikely that the US was selecting partners on this basis. If it were, it must have applied a very coarse filter, for it chose a number of countries with tariffs well in excess of the WTO average.

<sup>4</sup> Data are from 'Trends in Average Applied Tariff Rates in Developing and Industrial Countries, 1981–2005' by Francis Ng at the World Bank (<http://siteresources.worldbank.org/INTRES/Resources/tar2005.xls>). Tariff levels were available for all 29 FTA partners and 101 non-FTA WTO countries.

<sup>5</sup> This conclusion is based on two non-parametric tests for equality of distributions, namely the Kolmogorov-Smirnov and Mann-Whitney two-sample tests, with a 10 per cent significance threshold.

FIGURE 2  
Distributions of MFN Tariff Cuts by Country, 1994–2001  
(US FTA partners vs non-FTA WTO members)

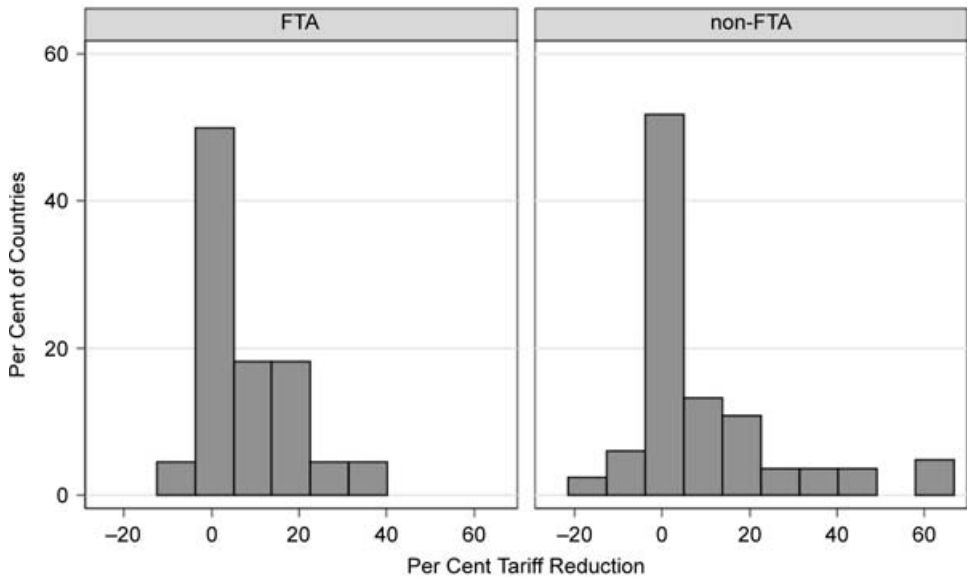


Source: Trends in Applied Average Tariffs: World Bank.

Considering that countries may have reasons for maintaining high initial levels of protection that are unrelated to the WTO process, perhaps a better way to measure commitment to multilateralism would be to look at the percentage tariff reductions countries made following the Uruguay Round. Figure 2 compares the distributions of average applied MFN tariff reductions between 1994 and 2001 for US FTA partners against other WTO members.<sup>6</sup> We see a surprisingly large variance in both groups: some countries actually raised their tariffs by as much as 50 per cent during this period, while others, such as Singapore and Hong Kong, eliminated tariffs entirely. Overall, the FTA group cut tariffs by an average of 26 per cent, while the non-FTA group cut tariffs by 34 per cent. Again this difference in group means is cut in half when LDCs are excluded. Moreover, with or without LDCs, one cannot reject that these two samples come from the same distribution. The same conclusion emerges from Figure 3, which compares more recent cross-country distributions in tariff reductions, 2001–2003. In other words,

<sup>6</sup> Post-Uruguay changes were available for 19 FTA partners and 46 non-FTA countries. To increase coverage, changes were computed on the basis of an average of 1993 and 1994 tariffs. Tariff changes between 2001 and 2003 were available for 22 FTA partners and 83 non-FTA countries. The year 2003 was used because it is the last year for which at least 75 per cent of the countries are represented.

FIGURE 3  
Distributions of MFN Tariff Cuts by Country, 2001–2003  
(US FTA partners vs non-FTA WTO members)



Source: Trends in Applied Average Tariffs: World Bank.

it seems very unlikely that the US FTA selection criterion is based on either post-Uruguay tariff reductions or tariff reductions occurring during the FTA recruitment period.

To be fair, commitment to multilateralism probably involves many factors that are not readily observable *a priori*. Thus, one cannot know for sure if US FTA partners are committed until we witness their liberalisation, or lack thereof, at the completion of the current round of WTO talks. Alternatively, we might be able to infer something from previous cases of countries that implemented FTAs or other preferential arrangements between WTO agreements. Limão (2006) has done this for the US. He looks at changes in US MFN tariffs between the Tokyo and Uruguay Rounds for goods imported from members of US preferential arrangements as compared to goods imported only from non-members. He finds that MFN tariff reductions were significantly smaller on goods in the former category, suggesting a stumbling-block effect of PTAs. Ironically, the focus of debate in the TPR is on whether the commitment to multilateralism of US FTA partners will wane after they join a US FTA, when in fact the best evidence to date suggests it is the US commitment we should be concerned about!

So why is it that US commitment to multilateralism goes unquestioned in the TPR, despite the rash of FTAs? I can think of three reasons: the US reiterates its commitment again and again throughout the TPR, the US has historically been

the anchor for the multilateral system and the administrative stumbling-block argument does not fit the US, because the US has more than enough negotiators to conduct both multilateral and bilateral talks. The EU's alternative stumbling-block argument (that bilateral agreements might compromise domestic political support for multilateral liberalisation) fits better, but there is no reason offered for why domestic political support shouldn't just as easily turn in favour of multilateral liberalisation.

But here is where I would like to return to the national security theme. Limão (2006) also makes the argument that FTAs are likely to be stumbling blocks when entered into with small countries for non-economic reasons. The reason is that, if the US grants a small country preferential access to its market in order to obtain something non-economic in exchange – e.g. an ally in its wars against terror or drugs, a stable democratic presence in a troubled region, a strategically important location for military bases, etc. – then neither the US nor its partner will want to see that preferential access eroded by US MFN tariff reductions, as this would defeat the purpose of the deal. Thus, the US will limit its MFN tariff reductions to preserve these preferences. If this argument is correct, then I see a problem.

It would be difficult to argue that the post-2001 US FTAs have been motivated primarily by economic benefits to the United States. While certainly Canada and Mexico are large US trading partners, only three of the more recent US FTA partners individually account for more than one per cent of US total trade. Not including Israel, all of the Middle Eastern FTA partners combined account for less than one per cent. Without Canada and Mexico, the correlation between US FTA membership and volume of trade is virtually zero, which is remarkable because trade volume is endogenous.

On the other hand, the Secretariat's report notes that the US sees open markets as part of a broader global security objective. Numerous countries in the TPR meeting echoed this characterisation. Only the US itself took issue with it, but it is unclear why. The 2002 National Security Strategy (NSS) of the United States makes the point abundantly clear. Indeed, press reports issued by the Office of the US Trade Representative touting the FTAs are quite explicit that they are part of a strategy to bolster moderate regimes in high-risk parts of the world, particularly those in the Middle East and Malaysia.<sup>7</sup> I submit that a good undergraduate research project would be to estimate the probability of membership in a post-2001 US FTA as a function of just two variables: the distance of a country to the nearest al-Qaeda attack, 'rogue state' or narcotics producer, and a dummy

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<sup>7</sup> 'By solidifying our economic relationship, an FTA with Malaysia will advance other important policy goals, including supporting our partnership on security. Malaysia is a moderate Muslim country in a critical part of the world and has been an important partner in the war on terror', (USTR Fact Sheet on US-Malaysia FTA, March 2006).

variable indicating whether or not the country deployed troops to Iraq in 2003 (that would include Australia, Korea, Singapore, Thailand, El Salvador, Honduras, Nicaragua and the Dominican Republic). I conjecture that these two variables would leave little left to explain.

However, even if I am wrong and US FTAs are being signed utterly at random, there is still the problem that in order to push these agreements through an increasingly protectionist Congress conditions must be attached, particularly labour and (domestic) environmental standards that are unrelated to trade. Bhagwati (2005) summarises the problem as follows:

But when the United States takes the developing countries, one by one, in a bilateral Free Trade Agreement negotiation, it can exercise hegemonic pressure to get the immensely less powerful partner country to accept almost any 'fair trade' agenda in exchange for a preferential access to its gigantic market. So, the various lobbies in the United States have now shifted from multilateral trade negotiations to bilateral FTAs because they expect a much richer harvest for their own agendas. Thus, every FTA by the U.S. in recent years, while trivial in trade terms, is a milestone for the lobbies who force what are euphemistically called 'WTO plus' obligations as if they represented progress relative to a deficient WTO (p. 11).

This suggests that not only are bilateral deals creating preferences that need to be preserved in order to keep pressure on our partners to live up to the conditions imposed. It also suggests that the bilateral deals are being created precisely because the US is unable to impose these conditions on the WTO more generally.

#### 4. CONCLUSION

The only agreements the US has signed under its trade promotion authority since 2001 have been bilateral and regional deals. There is no evidence that the partners to these deals are any more committed to multilateralism than any other WTO country or that these agreements substantially benefit the US economically. There is ample evidence that the administration's security strategy drives the selection of the partners and that to get these deals past a protectionist Congress further trade-unrelated conditions need to be imposed. Indeed, from this perspective, the US resort to bilateralism appears more as an escape from multilateral disciplines than a 'catalyst to multilateral liberalisation'.

Nonetheless, the US's heightened concern about national security is a fact of life. Indeed, it is a completely appropriate response to the events of 11 September and the continuing threats to its security and that of its allies. The question here is whether an erosion of the multilateral trading system is a necessary consequence. As far as security-related customs procedures and food safety regulations are concerned, additional trade costs are inevitable. The only question for the WTO is whether these measures will mutate into disguised protectionism, which is a problem for sure but one the WTO is capable of addressing. But with

respect to bilateralism versus multilateralism, the US has a choice. It is unclear whether the administration has decided that bilateralism is the best way to address its security concerns or simply the only practical way to do so, given the Congressional 'fair trade' agenda. In any event, it strikes me that the threat of terrorism is a global threat, just like the threats faced in WWII and the Cold War. As such, there is no reason why the US should want to support its allies at the expense of its friends. As in earlier days, US trade policy should be directed towards supporting democracy, rule of law and economic development in *all* countries, and the multilateral system is the best tool it has.

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