"The United States and Globalization: Struggles with Hegemony"

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Introduction

Most nations can only react to globalization, but the United States, as the system's dominant economic and political actor, is also able to affect the speed and character of the globalization process itself. By promoting the institutions that integrated national economies after World War II, it appears that the U.S. acted as predicted by hegemonic stability theory (HST).[1] As American economic dominance later faded, the global system drifted away from the coherence of its original Bretton Woods design. The result is a chaotic patchwork of inadequate governance at the system level, while the management of trade relations has fallen increasingly to the regional level. Both patterns lend credence to HST explanations centered on the relative decline of the hegemonic power, but they tell only part of the story. America's distinctive foreign policy tradition and peculiar political, economic, and social structure offer a further explanation for the character of the globalization that has emerged. The idiosyncratic vision and reluctant hegemony of the United States also explains why globalization's core institutions lie in crisis while the negotiations to rescue them stagger on the verge of collapse.

At the end of World War II, the United States exhibited the two most important characteristics required of a candidate to champion global liberalism.[2] First, it possessed the dominance that affords a hegemon both the greatest incentive and the greatest capacity to advance globalization. As the most productive economy, it was the most likely to benefit from open goods markets. As the largest source of both supply and demand for capital it was also the most likely to exploit open capital markets. Its power could be used to persuade or coopt a majority of nations, compel most of the remainder, and isolate the few dissenters. Second, the liberalism of the American domestic economy demonstrated that "its social purpose and domestic distribution of power was favorably disposed toward a liberal international order".[3] However, America's dominance is accompanied by a profound isolationism that induces episodic and inconsistent unilateralist impulses. Furthermore, American liberalism is colored by unique circumstances that make the U.S. commitment to it only skin-deep. The effects of these eccentricities were discernible in the Bretton Woods design but eventually became dominant in both American policy and the global regime it sponsored. Today they threaten the continued viability of the international architecture that has governed the process of globalization for more than half a century.

Hegemonic, but Isolationist

No account of American foreign policy can ignore the monumental shadow cast by the deep historical isolationism of the United States.[4] From its colonial period onward, the United States has displayed hostility to foreign pressures and an abiding antipathy toward multilateral policies and supra-national institutions.[5] This isolationism has been overcome only occasionally by extraordinary exigencies, most notably the combination of military, political, and economic challenges to the immediate postwar order in Europe. Even then, the American commitment to a global institutional order has been reluctant and sporadic. The much-criticized unilateralism of the George W. Bush administration is thus hardly new, but it does greatly accentuate one thread among several that make up the U.S. foreign policy tradition.

This profound disinterest in foreign affairs has been sustained by a frequently overlooked economic reality: until quite recently the American economy has been relatively unaffected by developments elsewhere in the global economy. The historic insulation of the American economy from the global one stems from the size and physical remoteness of the U.S. market, which relies less on trade than virtually any other in the world.[6] For most nations, of course, a small foreign sector would imply proportionately small external influence, but the overwhelming size of the U.S. market means that even a modest percentage of American GNP constitutes a sizable share of global economic activity. In the early 1950s, for example, the United States controlled about twenty percent of global trade, yet American exports constituted less than 5 percent of U.S. GNP. By contrast, a century earlier hegemonic Great Britain controlled a similar percentage of global trade, but that trade constituted about half of its total economy.

This odd pattern of dominance has crosscutting implications for the ability of the U.S. to embrace its theoretical role of global hegemon. It had the power to shape the international system's fundamental structure, but little need to do so in order to protect either the national economy or the interests of sub-national groups. This autonomy allowed the U.S. to be inattentive to systemic issues or to subordinate its economic interests to security concerns. When the U.S. *was* engaged with questions of system design, it could easily afford to indulge the interests of others – as expected of a hegemon – because that seldom required much sacrifice of its own modest stake. However, this left the system vulnerable to the reemergence of America's natural isolationism whenever the pressure to lead abated, as when the demise of the Cold War weakened the security motivations that sustained Bretton Woods. More recently, the U.S. invulnerability to the global economy has evaporated – and with it the last vestiges of the American commitment to sacrifice narrow national interest in favor of global leadership.

Liberal, but myopic

Minimal external reliance also affected the character of American liberalism, even though theory identifies some groups that normally oppose free trade and, in most nations, would lobby for a compromise on globalization. The modern trade theory of Heckscher-Ohlin (H-O) implies that inefficient sectors of the economy will suffer losses from trade, but with such a small import-competing sector, protectionist pressures from business were modest. The Stolper-Samuelson theorem predicts that trade would harm unskilled labor, but that group is notoriously poorly

represented by structures of American political power.[7] Unlike the European working class, which has been championed economically by a strong trade union movement and defended politically by resultant social democratic parties, unskilled labor in the U.S. has been divided by ethnic identification, language, and region, leaving it politically impotent and economically vulnerable. Mobilization is especially difficult because American labor lacks even identification as the working class, preferring the moniker of middle class. As such, American workers have always been about as likely to be pulled to upper class as lower class views.[8] The vibrancy of the American economy and the flexibility of its labor markets also allowed the minor adjustments required by external competition to be shifted almost entirely to the unorganized working class. Thus, U.S. foreign economic policy had a built-in liberal inclination because its unusually small foreign sector was made up of elements which were either economically invulnerable to foreign competition or politically powerless to resist it.

Largely unchecked by contrary domestic forces, American liberalism has become theoretically rigid and ideologically extreme. Ever since Cordell Hull's influential plea for free trade as the key to international peace in the 1940s, U.S. rhetoric has associated free markets with material prosperity, stability, justice, democracy, human rights, international peace and more. As James Fallows puts it:

> The Anglo-American system of politics and economics, like any system, rests on certain principles and beliefs. But rather than acting as if these are the best principles, or the ones their societies prefer, Britons and Americans often act as if these were the *only possible* principles and no one, except in error, could choose any others. Political economics becomes an essentially religious question, subject to the standard drawback of any religion -- the failure to understand why people outside the faith might act as they do.[9]

Herein lies a contradiction. Though a passionate proselytizer, the United States maintains a more shallow commitment to liberalism than nations whose small market size makes trade openness inevitable or those for whom it represents a conscious acceptance of its mixed welfare implications. Nor is it as stable as in those nations where it has evolved as a strategic compromise among powerful political actors. As a result, American systemic designs are not as complex and attentive to side-effects as would be expected from a hegemon more deeply affected by the system it created.

As American supremacy has eroded since the 1970s, greater vulnerabilities have produced dislocations in scattered industries, most prominently in textiles, steel, and autos. But no ideological current or organized opposition exists to frame these as inevitable consequences of globalization requiring fundamental accommodation. Rather than instances of the trade-offs endemic to an open economy, they have been interpreted as reflections of "cheating" by other nations. They have thus triggered narrow sectoral responses of protectionism that have left intact the rhetorical commitment to liberalism, but the widely-perceived hypocrisy has sharply eroded the legitimacy of the American claim to benign hegemony.

Bretton Woods

Fifty years ago, the combination of American hegemonic credentials and fortuitous circumstances were sufficient to fashion a system to meet the delicate balance between national and systemic needs. The primary goal -- to rekindle economic growth by restoring trade to levels reached before the catastrophic decline of two-thirds during the Great Depression of the 1930s -- placed the GATT's multilateral liberalization through trade negotiations at the system's core. However, the key to the success of Bretton Woods -- and the sharpest contrast with the current system -- was the recognition that liberalization also brought problems and constraints that not only undermined its benefits but threatened the capacity of individual nations to embrace it.

Thus, the Bretton Woods design acknowledged the sacrifices required of nations in order to liberalize and contained various provisions for easing those burdens. GATT allowed nations to demand access to foreign markets for its exports as compensation for the dislocations of imports, thus providing political cover for shaky governments to withstand protectionist pressures and creating domestic constituencies to balance them. The negotiation process enabled nations to liberalize trade at a pace compatible with resolving the domestic political and economic problems it created and GATT itself contained a number of escape clauses that recognized the inherent tension between liberalization and other domestic economic goals. The IMF not only prescribed stable exchange rates but also offered resources to member states to facilitate their cooperation in maintaining them: its lending facilities provided an alternative to exchange rate devaluation and protectionism for nations feeling balance of payments pressures. Finally, the World Bank offered longer-term funding to rebuild war-torn economies that otherwise could not survive international competition, most notably from the United States. American unilateral and bilateral policy toward Europe, especially the Marshall Plan and the temporary tolerance of European protectionism, greatly augmented these arrangements, perhaps dwarfing them in effect.

The system as a whole was coherent and realistic, allowing nations to move toward free capital and goods markets at their own pace. They fashioned arrangements that were consonant with their own priorities and circumstances but generally reflected "the compromise of embedded liberalism"[10]. That is, trade was relatively free in order to gain the benefits associated with the theory of comparative advantage, whereas the dislocations produced by that trade were mitigated by domestic welfare policies and labor market regulations that would distort the economy less than protectionist alternatives. The challenge "to devise a form of multilateralism compatible with the requirements of domestic stability"[11] was not seen as a lofty aspiration, but rather as an absolutely essential requirement to achieve any kind of workable system at all. Without the flexibility it provided, nations would neither have agreed to the obligations implicit in acceptance of Bretton Woods initially nor would they have been capable of meeting them subsequently. At stake was the very political legitimacy of the state itself, which had to achieve economic prosperity but also maintain enough control over the domestic political economy that its claim to being responsive to the citizenry is seen as plausible.

Still, Bretton Woods, whose sparse institutional component contained no permanent trade organization, a monetary authority with sharply limited enforcement capacity, and an

underfinanced development bank, represented as minimal a core as could be squared with the label of "system." If the profound threats of the 1940s made *some* institutional structure absolutely imperative, the American influence was responsible for its minimalist character. Proposals for an IMF and World Bank with a broader charge and expanded powers fell victim to American antipathy toward intrusive supranational institutions that would challenge U.S. policy autonomy. During heated negotiations over the charter for the International Trade Organization, the U.S. blocked provisions that would give the organization greater authority over domestic economic policies and a larger role in adjudicating trade policy disputes, yet permit nations greater freedom to adopt protectionist measures. Even so, the American Congress refused ratification, the result of a coalition of free trade purists who thought the agreement too illiberal and isolationists who thought it too internationalist. Thus, the tariff reduction negotiations of the skeletal GATT became the only instrument for regulating global trade. Subsequently, the system was to drift further from the compromises necessary for its founding and closer to the American vision of proper (that is, minimal) economic management.

The American vision

Even in the face of increasing evidence of its flaws, the U.S. remains committed to a global system in line with its unique ideological vision -- liberalism without support from institutions that mitigate the adverse consequences of the globalization it produces. The dilemma, faced squarely at Bretton Woods but neglected since, is put most plainly by a leading *proponent* of globalization: "the most serious challenge for the world economy in the years ahead lies in making globalization compatible with domestic social and political stability -- or to put it even more directly, in ensuring that international economic integration does not contribute to domestic social *dis*integration."[12] The threat arises from the significant distributional consequences that attend massive trade and capital flows. Immediate dislocations [13] create tensions and contribute strongly to the politically and socially divisive income inequality that has been well documented in recent years.[14] Furthermore, "globalization engenders conflict within and between nations over domestic norms and the social institutions that embody them."[15] The most obvious issues concern the potential for a "race to the bottom" in labor standards, the environment, competition policy, and child labor.

None of these problems need undermine the case for global liberalization, however, because most admit of governmental amelioration. Indeed, that is precisely the direction taken by "the compromise of embedded liberalism" in the Bretton Woods era: "societies were asked to embrace the change and dislocation attending international liberalization. In turn, liberalization and its effects were cushioned by the newly acquired domestic economic and social policy roles of governments".[16] Over the longer term, however, the unencumbered capital mobility of contemporary globalization affords an exit option to capital owners that gives them unprecedented bargaining leverage over nation-bound actors. Workers face declines in wages, benefits, and working conditions and suffer the costs of increasing insecurity. Meanwhile, the difficulty of taxing footloose capital severely undermines the capacity of governments to provide social insurance or, indeed, to raise the revenues required to address *any* of the problems exacerbated by globalization. Further, regulation to advance environmental or other social goals

becomes increasingly infeasible.

When the capacities of national governments to cope with such problems have been sharply reduced, one option is to augment national capacities with international ones. Another is to free governments to balance these pressures as they see fit and even to facilitate their creative choices. For example, the proposed Tobin Tax on foreign exchange transactions would raise funds to support international efforts while reducing the destabilizing short-term capital flows that have been implicated in economic crises in East Asia and Latin America. The capital controls that have been used successfully in otherwise liberal economies like Chile could be countenanced. Instead, the contemporary system has bound nations even more tightly to liberal orthodoxy and contributed further to the crisis of political legitimacy unleashed when governments are unable to insulate their citizens from the effects of global markets.[17]

Currency crises in Mexico, Russia, Thailand, Malaysia, Indonesia, Korea, and Argentina demonstrate what may be the most significant weakness of the current system's devotion to capital mobility -- the monetary pressures that arise from the Mundell-Fleming constraint that a nation cannot simultaneously achieve the three goals of capital mobility, exchange rate stability, and monetary policy autonomy. Fidelity to the first of these is enforced by both the Washington Consensus that governs World Bank/IMF policy and the power of capital markets themselves to demand the freedom to engage in capital flight as a condition for not exercising that right. States forced to choose between the remaining two goals must hope that domestic economic and political needs do not require the exercise of real autonomy and that exchange rate volatility does not escalate beyond the tolerable. The foreign exchange reserves of even the largest economies are now inadequate to appreciably move the exchange rate, and the absence of a central institution to perform that role leaves domestic economies to adjust very painfully to rapid movements of capital.

In the face of accumulating evidence that excessive capital flows have become injurious to global welfare, a more attentive hegemon might try to rein in global finance. The U.S. has instead pushed hard for *further* liberalization of capital markets. In trade negotiations, American initiatives have emphasized the financial services sector, where U.S. comparative advantage remains dominant. It has insisted upon removal of national barriers to foreign investment that would constrain the expansion of American-based multinational corporations, one of the few powerful American actors that relies heavily on the global economy.

In discussions of system architecture, the U.S. has favored the weakening of international institutions that challenge private sector operations with public oversight. For example, while the global financial system appeared poised on the brink of collapse in the fall of 1998, disappointment with the IMF's management of the Asian crisis led the isolationist American Congress to seek the demise of the IMF rather than to alter its policies.[18] The Meltzer Commission appointed by Congress subsequently recommended a greatly reduced role for both the World Bank and the IMF in crisis-lending and a virtual end to their funding of long-term development outside Africa.[19] Congress refused to fund an extension of the IMF and also refused

to make good on more than $1 billion in back dues owed to the UN. Worse yet for the image of a benign hegemon, they offered to meet financial obligations to the UN only in return for veto power over the reproductive health agendas of UN agencies (e.g. to bar any mention of abortion). As Diana Tussie notes, "The United States has often interpreted a rule-based order to mean the extension of American rules and procedures to the rest of the world."[20]

It is arguable whether the unresponsiveness of American policy to the costs implicit in accelerating globalization results more from design or neglect. Two sets of explanations – one centered on isolationism and the other on a striking narrowness of strategic vision -- converge. Certainly, the American image of a successful international economic system is decidedly less regulated and institutionalized than others. In line with standard liberal theory, it seeks to decrease governmental control of cross-border transactions, confident that the resulting increase in flows will advance prosperity. When problems arise (as in Mexico, Southeast Asia, and Russia), it is content with *ad hoc* responses that maintain hegemonic autonomy rather than rely upon global institutional authority.

It is also true that the U.S. is poorly positioned to design ways of resolving or coping with costs of globalization it does not itself feel. The U.S. has little experience with ameliorating trade-induced dislocations, unlike Europe, where generous welfare provisions have long complimented protectionism to afford security to the working class. Indeed, the division of authority between levels of government makes it difficult for the U.S. to integrate trade policy, which is enacted by the Federal government, with welfare and education policy, which are largely functions of state and local government.

On the finance side, the U.S. is even less familiar with the challenges of coping with volatile and uncomfortable capital flows that plague developing countries. The U.S. cannot appreciate the complex effects of exchange rate movements on other nations because its own small foreign sector transmits so few impacts on price levels or output. It is ironic that the financial imbalances that most threaten the global economy of the twenty-first century stem from the twin deficits of the only nation that seems blind to them. Massive capital flows to fund the U.S. budget deficit and the U.S. trade deficit rob the rest of the world of investment funds while American officials seem intent on appropriating the slogan of MAD magazine's Alfred E. Neumann, "What, me worry?"

Rising vulnerability, declining hegemony

Since the 1970s, when the United States began to experience a changing pattern of comparative advantage, the uniqueness of the American experience with globalization has eroded. In 1970, trade was a smaller share of GDP in the U.S. than in any other developed country. Indeed, by one measure it was barely half that in the second most insulated nation, Japan. Since then, trade has grown rapidly in the U.S., though the U.S. economy remains very much less exposed to foreign trade than most, with an export share about a third of the average European level.

The expansion in trade volume has been dramatic, but it is its unbalanced character that has most changed the political dynamic of policy discussions. Greater opportunities in the export realm certainly have benefitted high technology goods and financial service sectors, among others. However, the U.S. has lost competitiveness in basic manufacturing, especially in industries whose well-paying blue-collar jobs have provided much of the vaunted social mobility that remains central to America's self-image, such as autos and steel. Moreover, with the widely publicized outsourcing of white collar jobs, the impact of declining competitiveness is no longer restricted to odd corners of the economy or to the margins of the political system. A $500 billion annual trade deficit in recent years is testimony to how wide-spread is the vulnerability of American firms and American workers to the foreign competition unleashed by globalization.[21]

Public opinion surveys reveal the effect: reduced enthusiasm for globalization and a decline in uncritical acceptance of its benefits. Most telling is that in a 2002 poll only 14% of the American public thought that the U.S. should "actively promote" further globalization, whereas 15% favored "trying to reverse it", 24% "trying to slow it down" and 12% "not sure". While such attitudes hardly seem indicative of a hegemon committed to liberalization, overall attitudes toward globalization do remain mildly positive, with 35% favoring "allow it to continue".[22] Other surveys reinforce this picture of ambivalence, with marked increases in caution evident even since the late 1990s. A 2004 PIPA survey reveals that 40% thought globalization was mostly positive, 19% mostly negative, and 39% equally positive and negative. In a broad survey of nineteen countries, eleven displayed a more positive attitude toward globalization than did the American public.[23]

It is not hard to see the source of such mixed feelings. By a 55% to 30% margin, globalization is thought to be good for American companies, but by a 51% to 32% margin bad for the job security of American workers.[24] Nor does the American public share the attitudes of a hegemon willing to sacrifice the national interest for global welfare. When asked if "rich countries have a moral responsibility to help poor countries develop", a vast majority of Americans agreed, but the percentage was lower than in fourteen of nineteen countries. Perhaps most telling in light of the stalled global negotiations over protectionism in agriculture is the response in the same survey to this scenario: "Rich countries could reduce poverty in developing countries by allowing them to sell more food and clothing products to rich countries. In rich countries this would lower prices for food and clothing but would also mean significant job losses in these industries. Would you support or oppose rich countries allowing more food and clothing imports from developing countries even if it meant significant job losses in rich countries?" Support for this position in the United States was dead last among nineteen nations.

Such public attitudes have had effects on policy. The U.S. has become less attentive to matters of system structure, allowing the World Trade Organization (WTO) negotiations to founder since the 1999 ministerial conference in Seattle that heralded the emergence of anti-globalization forces. Instead, the United States has pursued its increasingly narrow self-interested goals through aggressive unilateralism and regional arrangements.

The multilateral agenda

As its dominance has eroded, the U.S. has continued to promote liberalism, but it is now less likely to champion initiatives justified by global welfare considerations, particularly if they require sacrifice of national goals or ideological purity. Its agenda has narrowed to those areas in which American economic interests are directly involved. With its advantages on the capital side of the ledger intact, the U.S. has been most active in promoting liberalization on investment issues. Indicative was the abortive effort to enact a Multilateral Agreement on Investment (MAI), the centerpiece of which was the quintessential American position that foreign investors should be guaranteed national treatment -- that is, virtually all national restrictions on foreign direct investment should be prohibited.

At the same time, the most prominent negotiations over the terms of globalization have been stalled and rudderless. The 1999 Seattle meeting was meant to launch the "millennial round" of trade negotiations, the first since the formation of the WTO in 1994, but public protests turned it into the "Battle of Seattle". The "tear-gas ministerial" ended prematurely and in embarrassing chaos, not least because of tepid American leadership in response to the opposition of trade unions, environmental activists and development advocates. Rather than seek a reasoned accommodation within the framework of acknowledged costs and benefits of globalization, the WTO instead avoided controversy by holding the 2001 ministerial in Doha, Qatar, where public protests are banned.

Virtually no progress was made in Doha or in the following ministerial at Cancun in 2003. At issue was the unwillingness of both the U.S. and the EU to liberalize trade in the agricultural goods that sustain the livelihoods of a majority of the globe's population. Even while traditional trade issues of major interest to less developed nations remain unresolved, the U.S. has shifted increasingly to auxiliary issues such as trade-related investment measures (TRIMs), the protection of intellectual property rights, and trade in services (especially financial). Rather than grant the legitimacy of the concerns of developing countries, the American representative preferred to attribute the collapse of the Cancun talks to "a culture of protest."[25]

If the hesitancy of the U.S. to compromise on agriculture was damaging, it was its inability to persuade the EU to do so either that finally doomed Cancun. It could not exert the leadership expected of a hegemon in part because security issues now cut differently than they did during the Cold War. Once, the U.S. provided security guarantees to Europe that earned it favorable considerations in economic negotiations. Now, the Bush Administration's "war on terror" demands that other nations contribute to American security, which reverses the leverage of the parties. Furthermore, America's global leadership had always been sustained by the Cold War image that international architecture was required to maintain national security. The end of the Cold War allowed the U.S. to return to its historic propensity to seek a naive combination of economic benefits but political disengagement, best exemplified by George Washington in his Farewell Address: "The great rule of conduct for us in regard to foreign nations is, in extending our commercial relations to have with them [the nations of Europe] as little political connection as possible."

Aggressive unilateralism

As the U.S. stake in the global economy has grown, American policy has followed a dual strategy. Efforts to promote opportunities for American exporters and foreign investors remain concentrated in its multilateral drive to remove the barriers of others, while its unilateral and bilateral policies have increasingly *erected* such barriers to protect American firms that compete with imports. While other nations have criticized this pattern as hypocritical, the U.S. justifies its unilateral actions as consistent with its systemic philosophy because they are designed to compensate for the unfair trade practices of others.[26]

Indeed, while the tariff rates that apply to most favored nations have remained quite low, non-tariff barriers (NTBs) targeted against particular nations have risen. They have taken several forms, some fully in accord with GATT rules and even consistent with liberal principles. Section 201 of the Trade Reform Act of 1974 implemented GATT's Article 19 escape clause, which permits nations to suspend tariff reductions in industries suffering from sudden increases in imports, regardless of cause. This escape clause has not been frequently used, no doubt because it undermines the American case for systemic liberalism. After all, it permits a nation to protect its own industries through a so-called "safeguard action" even when no wrong-doing by foreign competitors is even alleged. Article 19 also requires that competitors be compensated for the suspension of tariff benefits. The U.S. has felt more free to employ Section 301 (and its extension in the 1988 Trade Act dubbed "Super 301") because it is designed to target particular countries found to be engaging in "unjustifiable, unreasonable or discriminatory" trading practices. It authorizes countervailing duties to offset illegal dumping by foreign manufacturers or to compensate for unlawful subsidies by foreign governments. As such, these actions can be squared with the idea of "fair trade" even if their consistency with "free trade" is more dubious.

Competitors object to these actions for many reasons. They contend that these provisions are often invoked not in pursuit of any defensible principles, but for protectionist or even outright political purposes. They cite the Bush administration's imposition of 30% tariff rates on steel imports from selected countries in the spring of 2002. They were narrowly targeted on certain categories of steel products in order to generate electoral support in key steel-producing states. Even though the tariffs were imposed pursuant to Section 201, many of the public justifications for it were couched in the accusatory language of Section 301. The action itself was based on such flimsy legal ground that its eventual rejection by a WTO dispute resolution panel was regarded as a foregone conclusion by almost all experts. The subsequent withdrawal of the tariffs was accompanied by political rhetoric that again implied that foreign cheating was involved.

Critics allege that such actions are invoked unpredictably and in bad faith, hoping to deter completely proper competition by threatening successful competitors with the rigors of the U.S. legal process and potential retaliation. It has become common for the U.S. to threaten use of such "fair trade" actions in order to require competitors to reduce exports through "voluntary" export restraints (VERs), the most prominent of which was the 1980s agreement that restricted the import of Japanese autos.[27] This has led some to conclude that "the greatest potential for the erosion of multilateralism lies in the ability of the powerful to heavy-ride rather than in the small

and weak to free-ride."[28] By playing on the ambiguity of "free trade" and "fair trade", these policies have enabled the U.S. to champion free trade and deny its disruptive impact, yet simultaneously protect its most vulnerable industries.

The rise of regionalism

Another dimension of recent U.S. trade policy can be seen in a similarly ambivalent light. In a departure from the expectation that a hegemon would support a global trade regime, the United States has displayed a tolerance and, recently, even a *preference* for regional trade systems. The clearest example is the Canada-United States Free Trade Area, which evolved into the North America Free Trade Agreement (NAFTA) during the 1990s. Many liberal critics saw this as a rejection of multilateralism and a dangerous step toward regional trade blocs eventually bound to compete along mercantilist lines. In contrast, the U.S. claimed that NAFTA affirmed its commitment to a hegemonic role of cajoling and bullying others to support multilateral liberalism -- because NAFTA was a bargaining ploy to counter regionalism in Europe and thus re-energize the then-languishing Uruguay Round of GATT talks.

Such arguments remain prominent a decade later. As the chief U.S. negotiator, Robert Zoellick, put it in the fall of 2003, "the key division at Cancun was between the can-do and the won't-do. For over two years, the US has pushed to open markets globally, in our hemisphere, and with sub-regions or individual countries. As WTO members ponder the future, the US will not wait: we will move towards free trade with can-do countries."[29] The results have been dramatic. At the time, the United States had only four partners in free trade agreements (FTAs): Israel and Jordan in bilateral arrangements in addition to Canada and Mexico through NAFTA. By 1 January 2004 two more FTAs had entered into force - with Chile and Singapore - and, in the first six months of 2004, negotiations were completed with nine more countries: Australia, Morocco, Bahrain, the Dominican Republic, and the five nations of the Central America Free Trade Area. New and pending FTA partners, taken together, would constitute America's third largest export market and the sixth largest economy in the world. FTA negotiations began in the same period with Colombia, Ecuador, Bolivia, Panama, Peru, Thailand, and the five nations of the Southern African Customs Union. Negotiations continued on a Free Trade Area of the Americas that would bind together the entire hemisphere.

Clearly, the U.S. is far more satisfied with regional schemes than the mythical hegemon of HST. Frustration with the pace of global negotiations may be one factor, but the themes of this essay suggest another interpretation -- that regional agreements create liberalization structured along the lines favored by the American vision but blocked by competing perspectives, especially in Europe. NAFTA, which lacks not only a secretariat but even an identifiable physical location, embodies the American ideal of a regime without institutions. It contrasts dramatically with the rich tapestry woven of the EU's multiple agencies, which are meant to mitigate the effects of liberalization and thus facilitate its extension and deepening.[30] In fact, America's bilateral initiatives with weaker states constitute a divide and conquer strategy not available in multilateral global settings. As nation after nation signs on, the pressure builds on others not to be left out of the lucrative U.S. market. Thus, they accept provisions – such as those that open markets to

foreign investment under highly favorable terms – that would not have been approved within the WTO, where nations can bargain as a unit.[31]

Contemporary globalization: a patchwork of inadequate governance

A regime committed to a neo-liberal brand of globalization has severe limitations. It is less stable than one built to withstand such economic forces as destabilizing capital flows. It is less resilient than one that accommodated predictable political forces like dissenting nations and sub-national interests. In this sense, the American position is dangerous even to those it supports. It has been said that the America's "multilateral agenda is increasingly the MNCs' agenda: intellectual property rights, standards, and, in the future, competition policy."[32] However, globalization's downside effects could produce a political backlash that would undermine the system itself.

Instead of exploring alternatives, the U.S. has hoped to silence dissenters by portraying globalism as natural, inevitable, and irreversible. To the contrary, the 1920s demonstrate that when globalization is seen as a source of problems by citizens not convinced of its benefits, it can be reversed with breathtaking speed. Or, as Rodrik notes, "social disintegration is not a spectator sport -- those on the sidelines also get splashed with mud from the field."[33]

In short, the explanation for recent evolution of the system lies in the peculiar character of American hegemony. Only an ideological hegemon would fail to see the need for more aggressive action and only an isolationist one would fail to act on it. As a result, it appears that America's peculiar vision of its hegemonic role is as grave a threat to globalization as its diminished hegemony.

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3. Ruggie, p. 382. For the generally unregulated character of "Anglo-Saxon" capitalism, see James Fallows, "How the World Works," *The Atlantic Monthly*, December 1993, pp. 61-87.

4. Cecil V. Crabb, Jr, *Policy-makers and critics: conflicting theories of American foreign policy*, 2nd edition (New York: Praeger, 1986).

5. Evidence that the United States eschewed global leadership for half a century after its economic dominance entitled it to such a role includes the refusal to join the League of Nations and to cooperate at the World Economic Conference in London in 1933. The persistence of this attitude was demonstrated in the 1970s when President Nixon unilaterally dissolved the fixed-rate monetary order that threatened American policy autonomy.

6. Exports account for slightly over 10% of U.S. GNP early in the twenty-first century, roughly a third of the European average. The U.S. has relied on foreign capital to balance perpetual trade deficits but it has not been forced to alter policy to attract it.

7. Because the United States is capital-abundant and labor-scarce, H-O anticipates that labor-intensive sectors would be harmed by trade. Stolper-Samuelson, an extension of H-O, expects free trade to harm unskilled labor regardless of the sector in which it is employed.

8. With the decline of manufacturing, a working class that could be mobilized to fashion a compromise between the benefits and costs of globalization has shrunk further. The rise of the white-collar service sector and high technology, together with the widespread distribution of equity issues through 401-K and mutual funds, has swollen the size of the self-identified capitalist class.

9. "How the World Works", p. 65. His inclusion of Britain seems misplaced, except during the Thatcher period.

10. For an elaboration, see John Ruggie, "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order," *International Organization* 36: 379-415.

11. Ruggie, p. 399.

12. Dani Rodrik, "Has Globalization Gone Too Far?" (Washington: Institute for International Economics, 1997), p. 2.

13. For example, "under typical parameters, lowering of a trade restriction will result in $5 or more of income being shuffled among different groups for every $1 of net gain." Rodrik, p. 30.

14. See William R. Cline, *Trade and Income Distribution* (Washington: Institute for International Economics, 1997) for a survey of the expansive literature on this effect.

15. Rodrik, p. 5.

16. John Ruggie, "At Home Abroad, Abroad at Home: International Liberalization and Domestic Stability in the New World Economy," *Millennium: Journal of International Studies* 24, 3: 508.

17. This is exacerbated when international financial institutions dictate policy, especially since the privatization urged as part of the Washington Consensus is widely seen as undemocratic, moving power from elected and accountable officials to unelected, unaccountable, foreign actors.

18. Designing a more humane globalization requires a combination of attributes not to be found in Congress where internationalists are almost exclusively liberal whereas opponents of the market are both protectionist and isolationist.

19. The International Financial Institution Advisory Commission (IFIAC) report, released in 2000, is available at http://www.house.gov/jec/imf/meltzer.htm.

20. Diana Tussie, "Multilateralism Revisited in a Globalizing World Economy," *Mershon International Studies Review* 42 (1998), p. 189.

21. The resulting piles of debt - government, corporate, and household - must someday require a staggering economic adjustment that is sure to generate an intense political backlash to globalization. But not yet.

22. Pew Research Center survey, August 19 - September 8, 2002 reported in "Americans and the World" by the Program on International Policy Attitudes (PIPA), a joint program of the Center on Policy Attitudes and the Center for International and Security Studies at the School of Public Affairs, University of Maryland.
http://www.americans-world.org/digest/global_issues/globalization/rawdata/GlobalizationNewDat

a.pdf

23. The poll by GlobeScan surveyed 18,797 people in Argentina, Brazil, Canada, Chile, China, France, Germany, Great Britain, India, Indonesia, Italy, Mexico, Nigeria, Russia, South Africa, Spain, Turkey, Uruguay, and the United States. http://www.pipa.org/OnlineReports/Global_Issues/globescan_qnnre_06_04.pdf

24. Chicago Council on Foreign Relations survey, August 19 - September 8, 2002. http://www.americans-world.org/digest/global_issues/globalization/rawdata/GlobalizationNewData.pdf

25. "America will not wait for the won't-do countries," *Financial Times*, September 22, 2003, London Edition 1 Pg. 23.

26. It is amazing that the "unfair competition" interpretation has survived in the face of overwhelming evidence that the American competitiveness problem is not confined to a few products or a few countries. U.S. imports are about 50% greater than its exports and its annual trade deficit has exceeded $500 billion in recent years.

27. Indeed, Canadian enthusiasm for CUSTA, the precursor to NAFTA, owed much to its binational trade dispute resolution panels, which could block arbitrary American actions.

28. Tussie, p. 190.

29. *Financial Times*, Pg. 23.

30. Without a class-based system of political representation, the best organized opposition has come from progressive organizations like environmental groups. They have joined with elements of the right to emphasize the potential threats to national autonomy represented by the WTO and NAFTA's binational dispute resolution panels rather than distributional consequences.

31. Mary Lou Malig, "War: Trade by other means: How the US is getting a free trade agreement minus the negotiations," *Focus on Trade* 101, July 2004, http://www.focusweb.org/pdf/fot101.pdf

32. Stephen Haggard, "Commentary," *Mershon International Studies Review* 42 (1998), p. 196.

33. Rodrik, p. 7.