PROJECT MUSE®

Trade Policy: What Next?

W. Bowman Cutter, Richard Haass, Daniel Tarullo

Brookings Trade Forum, 2000, pp. 295-311 (Article)

Published by Brookings Institution Press

DOI: <https://doi.org/10.1353/btf.2000.0005>

➔ *For additional information about this article*

<https://muse.jhu.edu/article/5249>

W. BOWMAN CUTTER

Warburg, Pincus

RICHARD HAASS

Brookings Institution

DANIEL TARULLO

Georgetown University

Trade Policy: What Next?

W. Bowman Cutter: My inclination is to address the question that this panel's title poses narrowly, directly, and completely by saying, "Not much in the near term." The following remarks expand on that otherwise complete presentation. I talk about the narrow question and its implications and conclude with some thoughts about a possible way forward.

Let me begin by explaining my "not much" response. My key point is that I see absolutely no visible support—either deep or superficial—for ongoing innovation and creativity in trade policy. This lack of support persists despite the fact that the United States is in the middle of what appears to be a profound transformation in growth and productivity that has made irrelevant most of the standard arguments against continued trade policy liberalization. Part of the left has launched itself into a campaign against the whole idea. American labor has reversed its historic pattern of support. American business, and particularly business linked to the new economy, has not emerged as a meaningful force on trade, probably cannot do so, and certainly does not want to. Furthermore, both political parties are deeply ambivalent. Where a force for liberalization of trade policy is going to emerge from is unclear to me.

This assessment raises the question, why? Let me offer some of the reasons I have thought about over the past few years. First, the nature of trade and trade issues has changed. (Agriculture may be an exception, as an area that will never be resolved but instead managed from day to day.) As many other participants in this conference have already discussed, trade policy is no longer about tariffs. Neither is it really about arm's-length transactions that are clearly across borders. Instead, it is about nontariff barriers. Often this means that trade policy today is about an underlying set of transactions that occur between affiliated groups, and that are therefore by no means arm's length,

and in which borders are not the most relevant aspects of the transaction. However, solutions to and policies regarding these kinds of issues are likely to be perceived as inherently intrusive by somebody. Therefore, they almost always pose issues of sovereignty. I believe that this dimension makes it much harder to proceed.

Second, the participants have changed, and the relevant ones today are a lot easier to demonize. Years ago, the club was essentially Europe. It then expanded to Japan. But now some of the central protagonists are countries such as China, where local political constituencies find it easy to sharpen differences with the United States, and with whom some in the United States find it easy to sharpen their own differences.

Third, the central trade policy institution—the World Trade Organization (WTO)—and its procedures have themselves become part of the debate. Given a process that involves many participants, as well as the kinds of non-tariff trade barriers discussed above, controversial decisions and difficult issues of enforcement that seem to infringe on sovereignty may be inevitable. Not surprisingly, the institution itself has been brought into question.

And finally, the trade round, which is the central mechanism of trade policy, no longer seems to work very well. While it worked fine with the small number of similar kinds of country participants for which it was designed (at the start all developed, Western, democratic societies), it is not particularly well suited for negotiations involving upward of 172 participants who are quite different from one another.

In my view, what has to be developed is an agenda of much more specific discussions and negotiations. As I discuss further below, the basic services agreement in telecommunications offers one model for this approach. Here I agree with points made by Richard Baldwin in his paper in this volume. Perhaps one could multilateralize at the end of a trade round process rather than at the beginning.

Thus I find it very unlikely that any profound breakthrough in trade policy is going to emerge. I can see no momentum that would make this happen. Any president is going to see this as an issue requiring enormous expenditures of political capital in order to do something that is a considerable break with the status quo but may not move the matter very far forward.

I then ask, “Does this matter?” My answer to this question is both no and yes. I will start with the “no.” That U.S.-driven trade policy breakthroughs are unlikely does not matter in the sense that the momentum for continued *ad hoc* trade and investment liberalization is enormous. It is going to occur anyway.

Let me put on my venture capital investor hat for a moment and underline five changes that I see. They are all anecdotal, but instructive nevertheless.

First, basic attitudes of many governments have changed. Most of the countries that I deal with and invest in every day have moved significantly away from a basic orientation that was ideologically (although not in practice) socialist, protectionist, and state dominated.

Second, industry structures are evolving, incumbents are changing, and capital seems to be democratizing everywhere. In my business, we now invest with significant numbers of genuine entrepreneurs who are challenging incumbents in their domestic economies. This is a striking contrast with a typical deal just a few years ago, when the choice was whether to be a passive minority investor with an incumbent family group.

Third, battles over harmonization of standards are waged not just against domestic producers by potential foreign importers who see them as protectionist barriers. Such standardization is also a well-known tactic used by incumbents (especially monopolists and industry lobbies) to exclude non-incumbent domestic firms (insurgents). Thus in many countries I have seen battles against standards waged between *domestic* insurgents and incumbents. In this sense I take issue with some of the concerns about product regulation leading to escalation of trade protection that Richard Baldwin raised in his paper.

Fourth, I see the rise of capital markets and direct finance as a profound development that is also creating real momentum in trade and investment. Five years ago, the United States was the only capital market that really mattered. Today there are three: the United States, Japan, and Europe. There are also about five new listings markets that are enormously important and growing in importance. On all of these markets, one can finance, take companies public, and raise equity. I believe that these developments have made it harder and harder for incumbents to sustain a monopoly and block domestic competitive change.

Last but not least, the fifth change is the effect of the Internet. I am not Pollyanna-ish about this and I am too old to be starry-eyed. But clearly the Internet is creating profound cross-border changes in the nature of industry alliances, of trade arrangements, and of debates over things like standards.

These are the reasons why I do not believe that the temporary loss of the United States as a strong leader in trade and investment will change the direction or momentum of world trade. But there are also forgone opportunities. This is the sense in which I answer, "Yes, it does matter." Let me list some of the main losses.

First, the multilateral environment for trade and investment appears to be becoming less and less rules driven.

Second, I see little or no opportunity to build toward more substantial economic integration. I believe that the North American Free Trade Agreement (NAFTA) is going to be seen as enormously important because it eventually and inevitably forced a much broader economic integration among a group of nations. I think there are other opportunities of that kind, but that they are not going to happen, given the lack of U.S. leadership in the current environment.

Third, in the absence of this momentum, a fundamental pillar of what is the next stable “world arrangement” is lacking. (I use that phrase because the typical alternative, “world order,” has fallen into disfavor and is, in any case, inaccurate.) This is part of a longer argument of mine about the basic task of American foreign policy: to play a leading role in creating the next stable world arrangement. Economic issues will be central to such an arrangement. But the next stable “world arrangement” will not be about American exports per se. It will be about the *nature* of the economic arrangements we put together and *how* they work.

Fourth, the existing arrangements are largely accidental and, because of U.S. influence in the world, they are inevitably very much to our advantage. However, the absence of momentum toward further economic integration creates a status quo of structures and processes that is not in the interests of the poorer countries in the world. Fifth, the absence of this momentum means that the crucial task of building the context, the rules, and the understandings of the new economy—or what might be called the global networked economy—is being ignored.

I see these costs as large and very much to the long-run disadvantage of the United States. The issues I have listed above are where the real battles are. Even if the concern on the surface is one particular set of bilateral flows, the battles are really about these underlying issues. I think that the political opponents to the continuation of a more liberal and open trade policy—both in the United States and elsewhere—would agree with the five costs I have identified and say that those are exactly what they are trying to stop.

Let me end my comments by asking, “Is there a way forward?” I don’t know. But it does seem that the current level of partisanship—of actual dislike—between the executive branch and the legislature is higher than I have ever experienced. There appears to be an absence of any real back channels between the executive and Congress. So, again, it is hard for me to see how any momen-

tum starts. A very strong case could be made for doing nothing except simply trying to prevent profound backsliding.

If there is a case for a more positive and sort of constructive approach I think it would proceed along the following lines:

First, trade, investment, and finance would have to be put forward squarely as a central aspect of U.S. geopolitical policy. I see these three as one piece—there is no longer any such thing as trade policy *per se*. This piece has really always been given second rank in U.S. policy, regarded in the way the British upper class used to regard business—as the equivalent of mere “trade.” It is “low” policy as opposed to “high” policy—which is invariably about defense or diplomacy.

Second, and to be much more specific, there should be a movement immediately in the next administration toward achieving fast-track authorization from Congress. I would tie fast track to negotiations for a free trade agreement (FTA) with Chile, because Chile is the most clear-cut case for an FTA. I would be willing to compromise on what future nations were parts of the FTA, perhaps making that part of future debates.

Third, I would explore the controversial notion of a developed country trade discussion. There is a lot of work to be done in creating movement between the United States, Japan, and Europe.

And, fourth, I would define and push for a round of multilateral trade negotiations focused on the “new economy.” As I have already discussed, I believe these are issues on which it is important to focus.

Let me conclude by saying that a positive congressional vote for permanent normalized trade relations with China offers a shot at progress.

Richard Haass: Bo Cutter’s answer to the question of what’s next in trade policy is, “Not much.” My answer is, “Hard to be less than what it has been.” Let me begin by saying that I don’t think it had to be this way. Indeed, one of the unfortunate realities of the Clinton administration is that trade ought to have been Bill Clinton’s positive foreign policy legacy and didn’t turn out to be.

It began very well, in part because of what President Clinton inherited with GATT and NAFTA. I actually thought trade was going to be his legacy to the extent that people in the administration saw economic policy as having become in some ways the new main track of geopolitical competition. I concluded the Clinton administration was going to sustain trade policy and economic policy as the centerpiece of its national security policy. But it didn’t happen.

And though, at the time, I was relieved that it didn't happen because I thought all sorts of other things should have been more important, in retrospect I am sad because nothing positive took its place. So I really do think it was a lost opportunity. And this happened for two reasons. Both are important because they are going to affect the next administration.

One is simply the nature of trade. Those who benefit from trade feel this gain much less acutely than those who suffer from it. The losers essentially feel the pain a lot more than the much larger number of beneficiaries feel the gain, which is a structural problem.

Second, however, is the reality that there has been a lack of public debate. This is odd. It is hard to imagine too many other areas of public policy in which the elites are prepared to make such a strong case about how we have benefited from something. Yet the public debate has moved away from that, which seems to me to have something to do with the politics and a lack of effort.

I believe the November elections matter at two levels. One is at the presidential level. There *is* a difference between Al Gore and George Bush—not so much in their own thinking about trade as in their political bases. Vice President Gore's base is much more constraining than is Governor Bush's. The idea that Gore could win an election with the support of the AFL-CIO and others and then turn on them on these issues is possible but unlikely.

The evenly divided House and Senate will also pose obstacles to open trade, especially if Democrats in Congress see this issue as central to their ambitions for gaining majority status in the 2002 midterm elections. Such political calculations married to a philosophical bias against open trade would certainly complicate and possibly frustrate any efforts by a Bush administration in this area. Indeed, when it comes to trade, I am prepared to argue that the 2000 congressional vote might prove as, if not more, important than the presidential vote.

Even with the China vote, whoever takes office in January 2001 will inherit, if this were a share of stock, a trade stock at a much lower price than President Clinton did. The new president will have much less momentum and a much tougher political context for building support for future agreements.

He should then do a couple of things—and here I agree with quite a lot of what Bo said. First, I do not think we should go for fast-track authority in the abstract. Fast-track authority ought to be linked, particularly in the first instance, to something fairly popular, such as getting Chile into NAFTA. I would put together a specific popular package in order to get fast track approved. But it should not be a philosophical vote; it has to be very practical. And that way

the pro-trade people are brought together with people who might actually benefit from whatever particular package you put together. That should be enough to put you over the top.

Second, trade has to be promoted at every conceivable level. By that I mean national, regional, and global. Trade policy needs to be comprehensive. The national level is going to involve looking for either new free trade agreements or, more modestly, some sectoral agreements with individual countries, for example, India. President Clinton's spring 2000 trip laid the foundation for a more institutionalized U.S.-Indian bilateral relationship. If there is one area where this relationship can and should grow it is trade. And, while going to a free trade agreement in one big step is unrealistic, one of the things the United States ought to be doing is trying to build a serious agenda for the opening up of U.S.-Indian trade. Current totals are now between \$12 billion and \$13 billion a year in total two-way trade. This is much smaller than it should be. We should be trying to expand this number.

Regionally, the idea—whether in the European context or in the Americas—should be to advance trade on a sectoral basis. American-Pacific Economic Cooperation (APEC) is essentially adrift. Trying to once again make APEC something that's serious and worth its while ought to be a major goal. And I am comfortable with the idea of sectoral approaches ultimately adding up to something more on a global scale.

One of the things we have to do is change the way we make trade policy. I hope that the new administration will look at the internal decisionmaking process and reduce the role of the Office of the U.S. Trade Representative (USTR). At the risk of betraying my own bias, I would increase the National Security Council's (NSC) role. If trade policy is going to be approached seriously as an important part of American national security policy, then it can't be done by people sitting in the USTR. Trade policy has to be more fully integrated into the mainstream of American national security policy, which means bringing the NSC into it more centrally. I have doubts about the current arrangement between the NSC and the National Economic Council, although I think this relationship is secondary. But, since a Department of Trade will not be created any time soon, I do think the NSC apparatus has to be brought into the trade policy realm much more than is now the case.

The idea of trying to get marginal improvements in the WTO is fine. The idea of giving nongovernmental organizations a slightly greater role is fine. But regardless of who wins, what I hope will develop is an approach that keeps environmental and labor concerns separate. There are other mechanisms for

dealing with those issues. Winning a battle for open trade is going to be tough enough without encumbering it.

There is some precedent for dealing with environmental issues separately. There are, to some extent, institutions for dealing with labor issues separately. That said, it is going to be politically necessary to show that by disaggregating these issues they are not being ignored but only separated. What is needed is a greater emphasis on developing norms, institutions, and arrangements in these other areas. The danger is that if labor and environmental regulation are pushed in the WTO, not only will the WTO not be able to do these additional functions, but its ability to do the things it does relatively well will be destroyed.

The key will be domestic politics. The trade debate, like any other debate, can be won. There are some positive changes in who is willing to support open trade in the Republican Party. The emergence of Chuck Hagel and others in the Senate represents a new constituency. The building of a serious bipartisan coalition has got to be a priority. My problem with the Clinton administration is that it has catered to and bought into what might be called the "Seattle syndrome." I am not saying it would be easy to fight that tide. On the other hand, if and when unemployment starts going up, public opinion is only going to get worse. If there was ever a time to institutionalize progress in this area, it is now. The politics of trade can only get more difficult as the economic environment deteriorates.

The president is central to all of this. One of the interesting things in President Clinton's speech at Davos was that he publicly defended imports. He made the case for why imports aren't bad rather than simply defending an open trade policy on the basis of exports. But that was only one speech, and it was to the wrong audience.

What is needed is a president who regularly and repeatedly goes out and makes the case for trade with audiences that are not filled with open-trade advocates and that he make this issue a priority with Congress.

I would end by saying that I believe the stakes are enormous for two reasons. The first are the obvious economic ones. But the stakes are also important in terms of world order. The WTO represents a model, a certain conceptual approach to organizing or regulating international relations in this period. For all of its problems and all of the controversy, the WTO is much more advanced than any body in any other critical sphere of international relations.

What worries me if the WTO fails is that it will be a setback not only for the immediate issue of trade; it will actually be a broader setback for international relations and American foreign policy. So, while the economic stakes

are enormous, so too are the stakes in the political and even national security realms.

Daniel Tarullo: Let me begin by suggesting where we have been on trade policy in the last fifty years, as a prelude to stating where we are today and where we might be headed. I have three points to make about the past.

First, the postwar trading system embodied in GATT was enormously successful. In fact, it was arguably the most successful of the major post–World War II institutions. The United Nations cannot claim to have maintained world peace. The International Monetary Fund was unable to achieve its original purpose of stable exchange rates. The World Bank cannot claim much success in reducing world poverty. But tariffs are remarkably low, and tariff reduction was the animating purpose of GATT. It is true that one can find in the Articles of GATT adumbrations of just about everything that has been negotiated or considered for trade negotiations in recent years. But the emphasis of GATT at its inception, and in each round of negotiations through the Kennedy Round in the 1960s, was upon tariff reduction. Tariff reduction may not have been so grand an ambition as the aims of the other institutions, but unlike those other aims, it has been largely realized.

Second, while these tariff reductions have surely helped fuel world growth for the reasons economists repeatedly explain, the reductions themselves were not achieved because the economists' rationale convinced negotiators, legislators, and the public; comparative advantage arguments have not by and large won the day. Explanations of GATT's success lie elsewhere.

One important factor was the happy paradox of the trade negotiating process. National negotiators entered trade rounds with essentially mercantilist aims—that is, with the incentive to open up foreign markets for their own exporters but with a resistance to opening up their own markets to imports. In the course of the negotiations, however, they had to make reciprocal concessions (that is, reductions in their own tariffs) in order to induce other countries to lower the tariff walls blocking exporters from selling more abroad. The result was a consumer-friendly outcome by which every country reduced its tariffs. Thus the paradox of the trade negotiating process is that it harnessed a set of non-altruistic and economically questionable aims to produce an economically desirable result.

Another important factor in explaining GATT's success is found in foreign policy and strategic policy. GATT began almost at the same time as the Iron Curtain fell across Eastern Europe and the cold war began. Almost immedi-

ately the world realized that World War II had not ended the balance-of-power system. Instead, that system had been transformed into a bipolar system that would be characterized for over forty years by an intense, focused struggle in nearly all fields of human endeavor—from missile and space technology to basketball. The United States and Europe, the backbone of the anti-Soviet world, saw trade policy—like all other policies—as relevant to that struggle. We shared an interest in fashioning a world trading system that was based on liberal economic norms and that offered palpable benefits to those parts of the world where the United States and the Soviet Union were locked in a struggle for influence. Of course, commercial aims and disputes—even among the closest allies—were always part of the picture. The United States had the chicken war at the height of the cold war. Yet each polity was willing to sacrifice some commercial gain for the maintenance and expansion of a system that was decidedly a strategic, as well as an economic, phenomenon.

My third, and final, point about the past is that GATT's success in reducing tariffs was in strong contrast to the relative lack of success of specialized international economic arrangements. The Havana Charter for an International Trade Organization (ITO) had contemplated international action under, or compatible with, the ITO in many nontrade areas, including competition, labor, commodities agreements, and natural resource management. The ITO never came into being, of course, and other organizations never really filled the void. The inefficacy of the International Labor Organization is everyone's favorite example. Yet the World Intellectual Property Organization, the Codex Alimentarius, and other groups have been found wanting as well. As a result, GATT and then the WTO have been asked to deal with labor, intellectual property, and food safety issues. And, of course, many of the most volatile controversies over the modern trading system have arisen at the intersection of trade with these nontrade areas. In a very real sense, the GATT/WTO system has fallen victim to its own success. The increasingly legalistic character of the WTO has arguably highlighted, rather than mediated, the resulting conflicts.

This last point leads to a somewhat broader observation about the past of the trading system, one that takes us up to the present. At the risk of some oversimplification, one can say that law serves three ends in a liberal market economy. One is to provide property rights in a broad sense—to place limits on the authority of governments to take things that belong to you and to protect you against other private individuals who may try to take your possessions away. The second is to provide a stable framework of private law rules for market transactions, such as contracts, secured transactions, and the like. The

third is to regulate private economic actors at least putatively in the public interest through public law systems such as antitrust, banking supervision, and environmental regulation. In the international economic system that evolved following World War II, only the first of these ends has been served to any considerable degree. The IMF and other institutions have from time to time made modest efforts to address the others. But the trading system in particular has emphasized—largely to the exclusion of other ends—a form of property right in restraining governments from interfering with international trade flows, particularly at the border.

The parts of the international economic system that might have served the other two ends have not been well developed. And so we have an asymmetrical outcome in which enormous weight has been placed upon the trading system, whose tools to leverage this weight are very limited. Without some changes, the system is in grave danger of cracking under this weight. The problem is most apparent in the pressure applied to the dispute settlement system. While I would agree with those who commend the Appellate Body in particular for doing a good job, I would qualify that compliment with the prepositional phrase “under extraordinarily trying circumstances.” The Appellate Body has done the best it could with the hand dealt it, but the hand may ultimately be a losing one unless a couple of awfully good cards are drawn from the deck.

Where, then, are we today? Again I have three points.

First, notwithstanding the fact that the United States is enjoying a remarkably high and sustained level of economic performance, support for further trade negotiations is at a low ebb in this country. The coexistence of the lowest unemployment in memory with at best a lack of support for trade liberalization would not be predicted by conventional understandings in the political economy of trade. Economic performance has not been as strong elsewhere, and public support for further trade liberalization is fragile.

President Clinton’s critics have placed this circumstance squarely at his doorstep. Their view, apparently, is that the lack of public support for trade results principally from his failure to make the case for trade. I think this is just plain wrong. In the first place, it ignores his fights for NAFTA and the Uruguay Round, trade agreements that have probably themselves contributed to trade skepticism. But quite apart from the merits and mistakes of this administration, I believe the president’s critics have missed a basic change in public attitudes toward trade and the WTO, which in many respects have become symbols of globalization. The closest analogy I can conjure up is the Ameri-

can situation of the late nineteenth and early twentieth centuries, when a large swath of the public became convinced that the changing economic system was out of control, that it had eluded democratic processes, that it was not serving them. We saw similar, sometimes misconceived, views manifested in the Seattle demonstrators. It is also manifest in the growing public concerns about genetically modified organisms and other food safety issues, and in anxieties about job displacement at a time when unemployment is 4 percent.

No doubt many of the charges and fears associated with trade today are exaggerated or unfounded. But a lot of the charges and fears of Populists in the 1890s were equally exaggerated or unfounded. *Some* of what they said and felt was well grounded. Today, *some* of what people say and feel about a globalized economy is well grounded. Just as Populism and the ill-advised policies associated with it did not fade until Progressive reforms responded to legitimate concerns, so the current anxieties and protests will not abate until sensible and responsive policies are adopted to complement trade liberalization.

Incidentally, the popular anxieties to which I just referred have more political salience in an environment in which business lacks a strongly motivated, coherent trade liberalization program. Other than China, I don't sense much of an internally generated business agenda on trade. On the contrary, I have been struck by the number of business executives who, in private conversation, have questioned the continued utility of trade negotiations to work fundamental changes in domestic economic policies of other countries. The adversarial nature of trade negotiations and dispute settlement sits uneasily with the aim of many businesses to develop comfortable working relationships with foreign governments.

My second point about the present is that we have come close to exhausting the happy paradox of the trade negotiating process. As you recall, I described that paradox as the emergence of a consumer-friendly outcome from mercantilist inputs. The desirable effects of the paradox depend on a basic unity of interests between foreign exporters and domestic consumers. Reduced tariffs presumptively satisfy that condition. But there is no necessary unity of interests where the subjects of negotiation have broadened to include banking law, food safety rules, competition law, and the many other policies that are now labeled impediments to trade. There is no a priori reason to believe, for example, that the specific intellectual property rules sought by developed country exporters are optimal for consumers in developing countries. They might be, or they might not. The same can be said of almost any of the "new trade issues." Exporters may be interested in maintaining the mar-

ket power they have in a market vis-à-vis exporters from a third country and may seek rules that effectively preserve their position. When you lower tariffs, you almost always increase price competition. When you negotiate conditions of entry you may or may not be increasing competition. When you negotiate rules governing food safety on the basis of exporters' preferences, you may well not be providing optimal levels of protection for the public.

This less-than-happy prospect for trade negotiations is enhanced by the direction in which the USTR and trade ministries throughout the world have evolved. They have largely internalized the interests of their exporters. Exporters are an important constituency, to be sure, and it is wholly legitimate for governments to attack protectionist barriers to exports. But it's not the only role, and exporters are not the only relevant constituency. As the trading system takes up more and more domestic economic and regulatory issues, the relative narrowness of trade ministry perspectives has become increasingly problematic.

My third, and final, point about the present is that the geopolitical context within which trade relationships sit is still quite uncertain a decade after the end of the cold war. An important part, though by no means all, of this story is the unsettled nature of the U.S.-European relationship. As I indicated earlier, nearly every important postwar trade initiative had its roots in a basic convergence of U.S. and European aims. While such a convergence is no longer a sufficient condition for trade or other international economic initiatives, it may still be a necessary one. In recent years, most obviously in Seattle, the United States and Europe have not been able to reconstruct a shared agenda. In the past, we would quibble endlessly with one another and, in the end, launch an initiative together. Today we just quibble endlessly.

There is more in play here than a single bad relationship between Ambassador Charlene Barshefsky and Sir Leon Brittan. Certainly it is true that they did not work well together. But the current U.S.-European rivalry is, I believe, structural rather than contingent. The collapse of a common foe and the continuation of European integration have significantly changed the U.S.-European relationship across the board. We do not yet know what the mix of rivalry and partnership in our relationship will be for the next ten years or even, perhaps, determined on either side of the Atlantic what we *want* it to be.

This leads to my first point about the future of trade policy. I do not have the temerity to predict how the U.S.-European relationship will evolve in some *nouveau* balance-of-power regime in the post-cold war world. What I will predict is that, just as the close alliance of the United States and Europe against

communism affected trade policy from 1948 to 1989, so the evolution of the relationship will affect trade policy in the future. In turn, trade and economic relations can affect the nature of the overall relationship.

A second point about the future is that there is not, contrary to so much popular writing today, an inexorable movement toward globalization. Neither the fact nor the nature of globalization is inevitable. There have been times in the past when the march toward global integration seemed unstoppable but when this movement was slowed or halted or even reversed. The outbreak of World War I is perhaps the clearest example. Something similarly calamitous could happen in the near future, perhaps because of the outbreak of hostilities across the Taiwan Straits. There is little that trade policy can do to prepare for, or react to, such a horrible development. But the choice of policies *will* affect how successfully the trading system absorbs the stresses that will come if unemployment in the United States is at seven percent, rather than four percent. And the choice of policies will affect the confidence of even an employed public that their basic interests are being protected in a system of liberal trade.

As a practical matter, it is not likely that a far-reaching round of multilateral trade negotiations will soon begin or, if it is unwisely launched, that it will reach a successful conclusion. Preparations will and should continue in Geneva, either for discrete initiatives or for the longer term. In the meantime, however, redressing the asymmetries in international economic arrangements that I described earlier may increase the chances of significant trade liberalization in the future.

How might this be done? We already find in many nontrade forums numerous efforts to establish some sensible parameters for international economic activity. From competition policy to banking supervision to international accounting standards, the competent national authorities are working together to forge compatible policies that provide the kinds of protections internationally that these authorities have been charged with providing at home. To the degree that these arrangements, largely autonomous from the WTO, make progress and establish agreed-on or permitted approaches to economic regulation, two purposes will have been served. First, some tangible evidence will have been provided to reassure the public that the legitimate protective role of government has not been abandoned in a globalized world. Second, the WTO itself will be relieved of some of the pressure to determine, either through negotiation or dispute settlement, which forms of regulation are legitimate and which are discriminatory or protectionist. In at least some cases, the dispute

settlement system will be able to apply WTO rules against the backdrop of the norms established by competent regulators themselves.

A similar effort might be made in some of the more politically volatile areas such as the environment and food safety. Here it will doubtless be harder, both because of the political charge attached to these issues and because national authorities in these areas seem not to have developed productive working relationships like those of competition, banking, and even securities authorities. But it is worth trying. There is going to be a pause in significant multilateral trade liberalizing efforts, and those who are truly committed to liberalization are best advised to put the time to good use.

General discussion: Several participants remarked on the pessimism of all three panelists about the near-term prospects for multilateral trade negotiations in the WTO. Some agreed with the efficacy of proceeding through smaller, more focused alternatives. Paula Stern, for example, advocated “pragmatic” initiatives that might focus on specific sectors—regionally or among small groups of countries. She suggested improvement in the WTO dispute settlement mechanism as one area in need of focus. Bert van Barlingen, in contrast, argued that a new trade round is necessary to “harness globalization.” The notion that governments should play a role in the process of globalization and should develop multilateral rules in order to do so, he noted, has strong sympathy among EU constituencies. Americans, however, appear to be much less supportive of such a role for government, preferring to deal with issues bilaterally or, at times, unilaterally.

Dani Rodrik took issue with the view that the political support for multilateral trade agreements has waned. He suggested that what has disappeared may in fact be political support for multilateral agreements in the form that they have taken in the past—led by a mercantilist process that leaves out many key interests. He noted that the more reasonable of the protesters do not argue about whether there should be more trade or less trade. Rather, their argument is about what kind of rules should govern the international economy.

In support of the argument for a different model of trade agreements Rodrik cited the protocol governing trade in genetically modified organisms of the Convention on Biological Diversity, negotiated in Montreal at the end of January 2000.¹ The fact that a major multilateral agreement was negotiated in

1. *Cartagena Protocol on Biosafety to the Convention on Biological Diversity*, Decision EM-I/1, signed January 29, 2000.

spite of an extremely controversial subject matter is a momentous achievement. According to Rodrik, this protocol is of particular interest because it represents a different mode of negotiating trade agreements. It had the elements of transparency and of participation by nongovernmental organizations (NGOs) from the outset. NGOs were in the meeting rooms instead of demonstrating outside. The protocol incorporated the principle of labeling products, and it treated national sovereignty seriously by allowing governments to impose restrictions in certain cases under the precautionary principle. The protocol was negotiated with the aim of consistency with existing WTO rules, in particular with respect to nondiscrimination and most favored nation status. The result was that environmentalists, U.S. business interests, the EU, and the developing countries all came out feeling reasonably positive at the end of the day. Rodrik concluded that on the basis of this example there is room for optimism about the future of trade agreements, provided that new and imaginative arrangements are considered.

Stern argued that the panelists did not adequately address how to deal with the critical issues of trade and labor and trade and the environment. In particular, she stressed that Richard Haass had called for leaving these issues out of the WTO but had not offered any alternative plan. Haass agreed that these issues are important, and that it will be incumbent on those who agree with his perspective to devise serious mechanisms outside the trade realm that address them.

Edith Wilson reiterated the point, expressed by several participants in the discussion of Richard Baldwin's paper, that high tariffs still exist in a few areas, causing significant problems for some countries. She also expressed the concern that the poorest countries will suffer the most from a hiatus in multilateral trade negotiations. Citing a recent report issued by the Development Committee of the World Bank and the IMF,² she divided countries into three groups: fast integrators, slow integrators, and zero integrators. Real benefits for the zero integrators, Wilson cautioned, may actually come from unilateral liberalization, not from negotiating in the multilateral setting of the WTO. Thus she believes that the World Bank and the IMF have an important role to play in increasing the capacity of these countries to benefit from trade, through technical assistance, broader economic development programs, and the new poverty reduction initiative.

2. Communiqué of the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (September 27, 1999).

Jeffrey Frankel took issue with the view that President Clinton had failed to elicit support for further trade liberalization among the American people because of a lack of commitment to these issues. He argued that making this case to the public is, in fact, very difficult. Indeed, although it backfired, one of the initial rationales for the United States hosting the WTO meeting in Seattle was the hope that it would provide a forum in which to highlight the importance of trade.