

All free traders now? *The Economist* 7 December 1996

“In Singapore on December 9th, the two-year-old World Trade Organization begins its first summit meeting. Although governments profess to be committed free traders, their actions still fall short of their words.”

'Free trade', wrote Richard Cobden in 1857, 'is God's diplomacy, and there is no other certain way of uniting people in the bonds of peace.' Few politicians since Cobden have thought of themselves as missionaries for free trade. Yet now, an odd thing is happening: most of the world's governments claim to be exactly that. In Singapore from December 9th to 13th, trade ministers will attend the first ministerial conference of the World Trade Organization (WTO)-and will surely take every opportunity to parade their free-trade credentials. How justified are their claims?

On the credit side, in the past few years there have been four main achievements for free traders to cheer. First, the Uruguay round of the WTO's predecessor, the GATT, went further than any previous global trade deal. Apart from promising to cut tariffs on manufactures-which are now down to an average of just 3.8% in rich countries – governments agreed for the first time to some liberalization of trade in agriculture and services. They also forged new agreements to get rid of some non-tariff barriers to trade, such as the spurious use of technical and health regulations to keep out imports. The round, which finished in 1993, also established the WTO itself, and set up a new mechanism for settling trade disputes.

This mechanism is the second recent cause for celebration. Under the GATT, any member could veto the verdict of a panel set up to rule on a quarrel-even if it was a party to the dispute. WTO panels are stricter. They must report within nine months and their decisions can be overturned only by consensus. Countries found to have broken WTO rules must either mend their ways or offer compensation; if they do not, they may face trade sanctions. So far, the mechanism has worked well. More than 60 cases have been brought. About a quarter have been completed. Ten of these disputes were settled without going before a panel.

The third encouraging sign is that more and more countries are joining the world trade club. During the Uruguay round, many developing countries realized that freer trade was not a confidence trick by rich countries, but would actually help their own economies. The membership of the GATT rose from 92 in 1986, when the round began, to 114 when negotiations ended. The WTO now boasts 126 members; another 30 countries, including China and Russia, want to join.

Fourth, trade has been booming. The WTO estimates that world trade in goods grew by 8% in volume terms last year, four times the growth of world GDP. In fact, during the 1990s international trade has grown far faster than world output, showing that national economies are becoming ever more closely linked. Foreign direct investment, another gauge of international economic integration, is also soaring: last year, estimates the United Nations Conference on Trade and Development, cross-border investment flows

rose by 40%, to \$ 315 billion.

Against such a background, it may seem churlish to doubt governments' professions of free-trade faith. Unfortunately, there are good reasons for such doubt. Since the completion of the Uruguay round, governments have frequently acted much as they did under the old GATT: as downright protectionists on some occasions and as mercantilists almost as a matter of course. That is to say, the main purpose of their trade diplomacy has not been to open up their own markets to imports but to prise open other people's markets for exports. The opening of home markets is usually seen as a concession to others, not (as economic logic dictates) as a good thing in itself because it benefits local consumers and makes both national and global economies work more efficiently.

The sin bin

The clearest example of the mercantilist tendency is the conduct of the so-called 'unfinished business' of the Uruguay round. When the round ended, agreement had not been reached on the following areas of service trade: financial services, shipping, 'movement of natural persons' (trade-speak for letting in foreigners to supply services on a temporary basis) and telecommunications.

In financial services the Americans, displeased by the slow pace of liberalization promised by some Asian countries, walked away from an agreement just before a deadline in June 1995 (though several other negotiators, including the European Union, have kept their offers open and talks are due to restart next April). In shipping, America's highly protected and unionized maritime industry virtually sank the talks before they left port. The issue of letting in foreigners temporarily has become entangled by political reservations about immigration as a whole. Few governments anywhere are keen to welcome foreign workers.

Only with the telecoms deal is there any sign of hope. After an earlier negotiation collapsed in April (with Europeans and Asians slow to commit themselves to liberalization and with America demanding better access to satellite-communications markets in developing countries) a recent round of talks has found several groups, including the Americans and Europeans, making more liberal offers. Negotiators reckon a deal can be reached by the new deadline of next February.

Telecoms, though, is an exception. For the most part, the grudging way in which some governments are keeping the promises they made during the Uruguay round smacks of bad faith. In textiles and clothing, for example, trade has been governed for over 30 years by a system of bilateral quotas. These quotas are supposed to be scrapped eventually and textile trade gradually brought into line with WTO disciplines; meanwhile, the size of quotas is being increased. But the process, which began in 1995, has been slow. Importing countries, which tend to be rich, are allowed to keep quotas covering almost half their trade until 2005. Moreover, they have started to bring under the WTO system only those products which are not subject to quotas-thus delaying the effect of

the deal. Not surprisingly, exporters, most of them developing countries, are up in arms. Doing the bare minimum does not seem to be the behavior of committed free traders.

Gauges of good faith

The problems left over from the past, however, are modest compared with those which are to come. In the next few years the free-trading commitment of the WTO's members will be tested by four daunting challenges, some familiar, others new. Each will give governments the opportunity either to make trade freer, or to hobble it.

The first challenge is to continue liberalizing trade in goods and services. The WTO is already committed to some negotiations as part of its 'built-in agenda' – i.e., matters begun during the Uruguay round. Negotiations on further liberalization of agricultural trade are due to begin in 1999 and a fresh round of talks on services is due to start in 2000. Although both these talks are some years away, if history is any guide it is already a fair bet that they will be difficult. Agriculture provided one of the trickiest problems of the Uruguay-round talks-indeed, the round nearly foundered on it.

There may be progress, though, in an area of business that was not in those talks. American trade negotiators have been pushing hard for an information-technology agreement' to reduce tariffs on computers, semiconductors, software and so forth. During last month's summit of the Asia-Pacific Economic Cooperation forum (APEC) in Manila, the Americans won the backing of other APEC countries for a WTO negotiation of the issue.

The Americans have a chance of getting their way, but the hurdles remain high. The highest, say American negotiators, is disagreement with the EU both over how quickly the Europeans should reduce their tariffs and over the range of products any deal should cover. In addition, some Asian countries are hesitant; in Manila, the endorsement of some APEC members was lukewarm. So information-technology talks should provide a start for the WTO in tackling its expanding agenda. But it is likely to be a slow one.

The WTO's second big challenge concerns China: on what terms should it be brought into the trading Organization China is the world's eleventh-biggest exporter; without it, the WTO cannot claim to represent world trade.

Incorporating China presents both technical and political problems. On the technical side, the difficulty is to bring a vast, semi-planned, semi-market economy into line with the WTO's more-or-less free-market principles. China has been freeing up its trade regime for the past decade, cutting tariffs and allowing foreign companies to invest through joint ventures with Chinese firms. But it still maintains a WTO-infringing array of controls, including export taxes, import quotas, trade licenses and import inspections. The Chinese are also determined to maintain a protective shroud around some 'strategic' industries, such as cars.

WTO members want China's government to set out a clear, and fairly short, timetable for the removal of all this. They also want an end to the country's habit of altering its trade regime arbitrarily. On this last point, China has at least promised to stop making matters worse. On November 1st, its trade minister, Long Yongtu, promised to impose no further trade restrictions inconsistent with WTO rules.

The politics of admitting China is, if anything, trickier, especially in the United States. Chinese exports to America are subject to the same tariffs as most WTO members, but this privilege has to be renewed annually. Strictly speaking, renewal depends on China's meeting a relatively-narrow criterion of not restricting emigration. Politically, however, the annual renewal depends on China's broad human-rights record. The Chinese regime seems unlikely to alter that fundamentally, so the chances of WTO admission actually depend on both sides agreeing not to make a fuss about what is going on. Not making a fuss has recently got harder because China's trade surplus with America has climbed to become as big as Japan's. The result is that protectionists are finding common cause with human-rights activists in America to oppose the extension of WTO privileges to China. As an example of the potential for trade conflict, the Chinese and Americans are already in a fight over textiles. America cut the import quota for Chinese goods in September, claiming China had been sending extra clothes through third countries. The Chinese are threatening to retaliate.

Slippery ground

The third challenge facing the WTO is whether, or how, to extend its remit into the so-called 'new issues' of trade policy: foreign investment, competition policy and labor standards. (These issues are not in fact new: they have been discussed since before the birth of the GATT in 1948.)

None of the issues can be resolved quickly. They arouse deep disagreement-and it is easy to see why. Consider rules on foreign investment first. These would take the world's trading body directly into tricky areas of national policy. It may be understandable if an international agreement prevents one country from slapping a big tariff on the goods exported by another. But it is less immediately apparent why one country should not offer some of its own taxpayers' money to a company from another in order to persuade it to build a spanking new factory in the first. Nor is it obvious why the host country should not, say, require foreign investors to employ a certain number of local managers. What's wrong with that?

The answer is that such shackles and sweeteners act like tariffs or export subsidies, distorting the pattern of trade which would have prevailed had the measures not been in place. In theory, firms can sell in foreign markets either by sending their wares abroad, or by setting up a factory in a foreign land and serving the locals directly. In some industries, the second of these methods is far cheaper than the first. This is especially so of many services, such as banking, insurance and retailing. But it is increasingly common in manufacturing, too. A car, for instance, might contain an engine made in one country and axles from another, but be assembled in a third. According to one

estimate, transactions within firms now account for about one-third of world trade.

Yet despite close links between investment and trade, the WTO Currently has little to say on the subject. Such rules as exist are patchy. Governments may not, for instance, limit foreign-owned factories' imports to the value of their exports or insist that foreign investors use local inputs. WTO copyright rules are supposed to protect foreign investors' intellectual property. But countries can and do protect local banks or stockbrokers, for example, by refusing to issue licences to foreigners. They can limit foreigners' stakes in broadcasting firms or airlines. Governments may also insist that foreign investors produce goods for export as well as for the domestic market.

So it is not surprising that some people, led by the Europeans and Canadians, want to beef up the rules. America is prepared to support them, though it wants an agreement among OECD countries first. Some Latin American countries are also in favor, as is the WTO's secretariat, its civil service (this body, which usually stays neutral on such matters, issued a report in October backing the idea of a WTO investment accord).

Equally unsurprisingly, many developing countries, led by India, Malaysia and Tanzania, are viscerally opposed. They say they are eager for foreign investment but want to keep the right to set the terms of entry for foreigners. They feel under no particular pressure to sign up. Even without a WTO agreement, they are not short of investment: developing countries attracted \$ 100 billion-worth last year. China alone received \$ 38 billion. So a deal hardly looks imminent.

Prospects for an agreement covering competition policy look no rosier. This, too, is an apparently domestic economic matter with trade implications. The WTO is not out to ban all monopolies or create a universal competition policy. But some of its members do want to apply trade principles to the regulation of monopolies and mergers: those principles suggest monopoly policy should not discriminate against foreigners. Others think the WTO should have a role because firms could run international monopolies or cartels, yet be out of the reach of national competition watchdogs.

But, as these differing ideas suggest, countries cannot yet agree even what facet of competition policy to discuss. The EU would like to start work on a common set of principles for national competition policies (it is always keen on harmonization). America thinks this would be largely pointless; it reckons co-operation between national antitrust authorities will do for now.

The argument for the third new issue, bringing labor standards into the WTO, is even weaker. The United States is keen that it should be discussed. Ultimately, it would like the WTO to enshrine five 'core' labor standards in its rules. These include a ban on 'exploitative' child labor and a guarantee of trade-union freedom. (Incidentally, world labor standards already exist, drawn up by the International Labor Organization: America has ratified only one of the five in question.)

Not surprisingly, developing countries want none of this. They fear that, if they promised

to abolish child labor and then failed to keep their word, they would be vulnerable to retaliation under the WTO's dispute-settlement mechanism.

So for the time being, the United States is unlikely to get its way. That may be just as well, for the intellectual case for a labor-standards agreement is weak. If forced to improve labor standards, developing countries would increase their costs and they would export less. That would make them poorer still, and would surely make labor standards even worse. Not by accident, however, it would help protect some firms and workers in rich countries.

The biggest test of all

The fourth big issue is the spread of regional trading agreements. Almost every member of the WTO is also a member of such a group, whose numbers are proliferating. The WTO lists no fewer than 76 free-trade areas or customs unions set up or modified since 1948. Of these, more than half have come in the 1990s.

Evidence of zeal for freer trade? It would seem so, especially since regional deals sometimes cover aspects of trade that the WTO does not, such as investment and competition policy. For instance, the North American Free-Trade Agreement (NAFTA) has an investment code; APEC has some 'non-binding principles'. The EU and an agreement between Australia and New Zealand contain common regional competition policies.

The truth, however, is more mixed. Yes, scrapping trade barriers within a region can encourage trade and investment among countries within the club. But it can also divert trade and investment away from other countries. Japanese car plants have been attracted to Britain, for example, by the thought that they can bypass the EU's restrictions on imports of Japanese cars. And while investment in Mexico has no doubt been boosted by the thought of tariff-free entry to the United States, some of this will have been at the expense of countries outside NAFTA.

No less troubling is the danger that, just as regional deals can divert trade from one part of the world to another, so the agreements can have the same sort of impact on trade diplomats' energies, diverting them away from the more important business of continuing to liberalize world trade. There is still plenty to do: on conventional trade, on new issues and on the admission of China. God's diplomats? One day, maybe; but not yet.

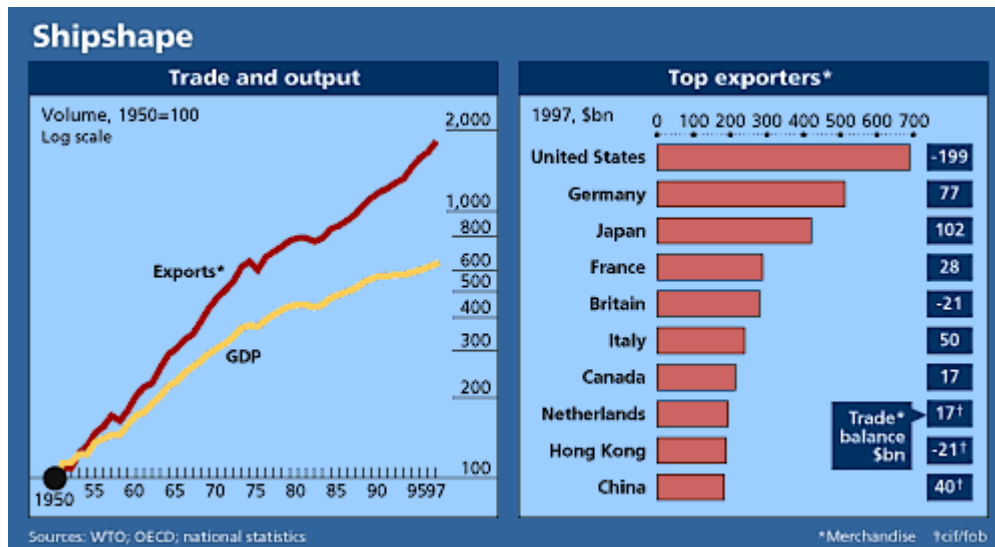
Fifty years on

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World leaders are about to celebrate the multilateral trading system's golden jubilee in Geneva. The past half-century has given free traders much to smile about. But their job is far from done

IN 1948 a club of 23 countries cut tariffs on each other's exports under the General Agreement on Tariffs and Trade, the first multilateral accord to lower border barriers since Napoleonic times. *The Economist*, we must confess, reacted somewhat equivocally. To assess the exact consequences of an agreement involving 106 sets of bilateral negotiations and two volumes of liberalisation schedules weighing eight pounds was, we concluded, "an impossible task". We feared that the GATT's complexity and its members' "caution and timidity" would hobble the intended growth of trade.

Our scepticism proved ill-founded. The GATT set in train a series of ever-thicker agreements that removed many of the shackles restricting trade. Today, average tariffs are a mere tenth of what they were when the GATT came into force. Ministers attending the World Trade Organisation's 50th-birthday jamboree in Geneva during May 18th-20th can therefore be forgiven a little mutual back-patting. But the mood of celebration ought not to obscure the fact that, 50 years on, the GATT's work is unfinished. A great deal of trade reform is still required, and by now is long overdue.



Since the GATT was implemented in 1948 there have been eight "rounds" of global trade talks, each involving more countries, and taking liberalisation further, than the last. The most recent of these, the Uruguay round completed in 1993, was also the most ambitious. Negotiators succeeded in crafting rules to govern trade in services and to protect intellectual property such as patents and computer software, matters which had previously been outside the GATT's purview.

The round's other success was the creation of the WTO. Unlike the loosely organised GATT, the WTO was set up as a permanent organisation with far greater powers to arbitrate trade disputes. Under the GATT, any member—even one found to have violated the rules—could block a ruling that it had erected unfair trade barriers. In contrast, the findings of the WTO's dispute panels are not hostage to veto. Countries found to be in the wrong must change their ways or offer compensation; those that do neither face sanctions.

The prospect of swifter justice seems to have convinced governments to bring their trade disputes to the WTO instead of engaging in tit-for-tat retaliation. In just three years the WTO has dealt with 132 complaints; over its 47-year existence, the GATT heard only 300. The mechanism has not merely been used by big countries to trample small fry, as some feared: when Costa Rica asked the WTO to rule against American barriers to its exports of men's underwear, it won the case and forced America to change its import rules.

The WTO has been so successful that more than 30 countries, including China and Russia, are now queueing up to join. The membership has already grown to 132 countries. And the organisation has continued to oversee impressive growth in world trade (see chart). Last year the volume of merchandise trade grew by 9.5%, over three times faster than global output. The East Asian crisis will slow things down this year, though growth in trade is still expected to outpace growth in production.

Round and round	
A GATT/WTO chronology	
1947	Birth of the GATT, signed by 23 countries on October 30th at the Palais des Nations in Geneva.
1948	The GATT comes into force. First meeting of its members in Havana, Cuba.
1949	Second round of talks at Annecy, France. Some 5,000 tariff cuts agreed to; ten new countries admitted.
1950-51	Third round at Torquay, England. Members exchange 8,700 trade concessions and welcome four new countries.
1956	Fourth round at Geneva. Tariff cuts worth \$1.3 trillion at today's prices.
1960-62	The Dillon round, named after US Under-Secretary of State Douglas Dillon, who proposed the talks. A further 4,400 tariff cuts.
1964-67	The Kennedy round. Many industrial tariffs halved. Signed by 50 countries. Code on dumping agreed to separately.
1973-79	The Tokyo round, involving 99 countries. First serious discussion of non-tariff trade barriers, such as subsidies and licensing requirements. Average tariff on manufactured goods in the nine biggest markets cut from 7% to 4.7%.
1986-93	The Uruguay round. Further cuts in industrial tariffs, export subsidies, licensing and customs valuation. First agreements on trade in services and intellectual property.
1995	Formation of World Trade Organisation with power to settle disputes between members.
1997	Agreements concluded on telecommunications services, information technology and financial services.
1998	Today the WTO has 132 members. More than 30 others are waiting to join.

Fears that the Uruguay round would be followed by a prolonged lull in trade liberalisation have proved misplaced. Last year several strands that had been left dangling were tied, notably "sectoral" agreements to lower trade barriers in telecommunications, financial services and information technology. These deals were important for three reasons. They greatly increased the amount of trade covered by the WTO's rules and dispute-settlement procedures. They may lead to larger gains in trade volumes than the entire Uruguay-round treaty. And they finished most of the round's left-over business, clearing the way for a new round of global talks to deal with obstacles that still inhibit trade.

Now look forward

With so much achieved, trade ministers might seem entitled to feel smug. They aren't. Protectionism, though waning, is still commonplace. In textiles and agriculture, tariffs remain high and progress in eliminating import quotas has been slow. Little advance has been made in lowering trade barriers in areas such as shipping and access for foreign workers.

The trouble is, many countries still think of opening their markets to more imports as a concession to be made reluctantly, not (as economists see it) as something that is good for them in its own right. Even America and the European Union, which have led the push for open markets, still shelter parts of their economies for fear of hurting workers in coddled industries.

Globalisation has aroused worries in many rich countries that free trade with much poorer countries threatens jobs and prosperity. This was plain in last year's debate in the United States over expanding the North American Free Trade Agreement, or NAFTA. The existing NAFTA, a 1994 pact covering Canada, the United States and Mexico, was viewed by many Americans as their loss and Mexico's gain. The idea that trade is desirable only if it happens among countries with similar wages dies hard. In a new poll by the University of Maryland, only 43% of Americans supported freer trade with "low-wage countries" which lowered their tariffs, compared with the 66% who supported freer trade in general.

This has dented the political commitment to free trade. Until recently, politicians in America set a global trade-liberalising agenda despite a doubting public. Nervous of stoking anti-globalisation sentiment, however, President Clinton made only a half-hearted effort to get congressional backing for "fast-track" authority to negotiate trade treaties. When the attempt collapsed, trade unions, environmentalists and many congressmen cheered. The same coalition has helped bring talks on a global foreign-investment accord to a halt.

Work in progress

Against this background, the WTO faces several daunting challenges. The first is to continue bringing down tariffs on traded goods. Average penalties have fallen steadily since the GATT's formation but even the most open economies retain lofty barriers: for instance, America still charges a tariff of 14.6% on imports of clothing, five times higher than its average levy.

Resistance to tariff cuts is strongest in agriculture. According to Tim Josling, a trade expert at Stanford University, tariffs and other barriers on farm goods average a crippling 40% worldwide and create distortions that "destroy huge amounts of value". A new set of global farm talks is planned to start in 1999. At the least, you might think, these could lock in impressive reforms in Latin America and encourage further watering-down of the European Union's Common Agricultural Policy. But they will prove difficult: squabbles over agriculture almost sank the Uruguay round.

The next challenge will be to assist trade in services, which is growing more quickly than trade in goods. A fresh round of services talks is due to start in 2000. The aim will be to strengthen last year's agreements on telecoms, financial services and IT, as well as completing an accord on accountancy services which is currently being negotiated. Rich countries want firm rules on government procurement, to replace the vague existing code. Some countries, but not America, are also keen to tackle other subjects that eluded agreement in earlier talks, such as shipping. These will prove thorny, too, as any global talks will have to cope with a spaghetti bowl of bilateral agreements dating back decades.

The WTO must also decide how closely to become involved in more esoteric issues, such as antitrust rules, foreign-investment restrictions, workers' rights and environmental protection. These matters are conceptually complex and particularly contentious because they intrude on what many governments consider to be domestic policy. The WTO must strike a balance between attacking domestic policies that seriously distort trade and avoiding infringements of national

sovereignty.

Antitrust and trade overlap in all sorts of ways: when, say, a country's regulations prevent foreign companies from building factories or distributing their products through the same channels as local firms; or when governments turn a blind eye to international cartels in, say, oil or aluminium. So should the WTO be charged with drafting new rules that address this overlap? It is well placed for the task, having addressed complex competition-related problems in its telecoms-trade accord. If nothing else, it might hope to force the 60 or so WTO members that have no competition law to draft one. Alas, the biggest members cannot agree on whether the WTO should try to produce global competition rules. Europe is for, America against.

The members also disagree on whether the WTO should deal with the links between trade and investment. The WTO has done little work on the subject and has few investment rules. Its richest members decided to forge an investment agreement of their own at the Organisation for Economic Co-operation and Development (OECD) in Paris. But their Multilateral Agreement on Investment has fallen victim to squabbles over whether "strategic" industries such as broadcasting should be included (America is keen, France bitterly opposed), and over criticism from excluded developing countries and from environmental groups, which complain that the agreement is biased towards multinationals. The MAI is worth salvaging, but within the WTO, not at the OECD.

The trickiest and most emotive new issues, however, concern labour standards and the environment. These, unlike investment rules and competition policy, are of intense interest to a public worried about dolphins, rain forests, and maltreated workers. The WTO cannot afford to ignore them. But developing workable international rules that do not end up as tools for restricting trade will be difficult.

A first step in dealing with workers' rights, offering support for a set of "core standards", including pronouncements on child labour, was taken at the WTO's first summit, in 1996. The standards, pushed by rich countries, were not made binding, in part because some developing nations suspected that the real motive was to reduce their wage-cost advantage—and to give rich countries an excuse to discriminate against poor-country exports—rather than to protect workers. They have a point: if poorer countries were forced to bring labour laws up to rich-country standards overnight, their exports would fall and their economies would be badly hurt. The WTO seems happy to let the International Labour Organisation lead the debate until there is a broader consensus about what sort of rules, if any, might be appropriate.

Going green

The relationship between trade and the environment is the thorniest of all. The difficulty facing rule-makers is this: the benefits of trade depend on the assumption that relative prices in different countries reflect differences in factors of production, productivity and so on. However, if one firm is polluting freely while another bears the cost of cleaning up its pollution, then relative costs will fail to reflect these differences, and trade that looks desirable may not be.

So far, the WTO has shied away from this. Its working group on trade and the environment has, the organisation itself admits, made little headway. Symptomatic of the confusion was its muddled reaction to a European ban on hormone-treated beef, contested by the United States. The WTO ruled last year in the Americans' favour, but let Brussels keep the ban while its scientists looked again for evidence to support it. Another example is the WTO's recent ruling against an American law blocking imports of shrimps from countries that do not use special nets to protect endangered turtles. The verdict was based on a narrow legal interpretation of trade rules with little regard for legitimate green concerns.

These new issues are likely to get even thornier as the WTO admits new members. By far the

biggest wannabe is China. Without China, the world's second-largest economy and its tenth-largest exporter, the WTO cannot claim truly global status. The organisation had originally hoped to admit the Chinese at next week's summit, but this now looks unlikely before late 1999. Chinese officials hoping for quick entry point to concessions on their part: the closure of 54 factories producing pirated goods since 1996 and a promise to eradicate export subsidies and import quotas over several years, for instance. Rich countries reply that China has to lower border tariffs, free up trade in services and reform non-tariff measures such as licensing requirements before it can expect a seat.

Along with these challenges come two potential threats. The first is the rise of regional trade agreements. These have proliferated in recent years: in 1990 there were fewer than 25; today there are more than 90, including the European Union, NAFTA in North America, ASEAN in Asia and Mercosur in Latin America. Only last month, 34 countries from North and South America launched an initiative to free trade among them by 2005. Not to be outdone, the EU wants to form a bilateral economic partnership with America—though France may block the idea.

There is fierce disagreement about whether regional trade groupings are good or bad. Most are too new to analyse with much confidence. All of the groupings to date have tended to increase the flow of trade rather than to restrict it, which suggests at first sight that they are economically beneficial. None has yet adopted rules that are openly at odds with the WTO's.

There are, however, clear dangers. One is that regional agreements can divert trade, leading a country to import from a member of its trading block rather than from a cheaper supplier outside its region. Another is that regional groups might raise barriers against each other, creating protectionist blocks. (Recently, Mercosur raised its common external tariffs to avert an expected flood of imports from crisis-ridden Asia.) Also, regional trade rules may complicate the creation of new global rules.

The other threat to trade is a vacuum in political leadership. Sir Leon Brittan, the EU's trade commissioner, sings from a free-trade hymn sheet, but his constituency hardly leads by example. The EU's barriers against would-be members in Eastern Europe may be falling, but remain dauntingly high. Some EU countries, such as France and Italy, still preach protectionism in farming and car making.

Though less protectionist than the European Union, America is losing its way. Until recently wedded to multilateralism, under Bill Clinton it has focused on regional initiatives, such as NAFTA and the Free Trade Area of the Americas. This, and the failure to secure fast-track, have raised concern that the government might soon buckle under pressure for protectionism from right-wing politicians, greens and unions. America's trade deficit is expected to widen as Asian exporters benefit from the recent currency devaluations. As it grows, so will protectionist pressure. Were America to halt trade liberalisation or raise import barriers, others would follow.

Keep pedalling

How to prevent this? The best way would undoubtedly be to launch another round of global negotiations. A new round could balance the drift towards discriminatory regional tie-ups and reduce the risk that regionalism will become a source of conflict. With a broad agenda, the new round could enable governments to strike cross-sectoral bargains when negotiating sensitive issues such as farm trade: the Uruguay round would have achieved far less without links between assorted reforms in agriculture, textiles and services across many countries.

Sir Leon has already called for such an initiative. Before it stands a chance of succeeding, however, governments will have to sort out their thinking on the new issues of trade—labour rights, the environment and competition policy. Talks that fail to address them are likely to face

stiff political opposition on both sides of the Atlantic. Reaching consensus on these new issues among more than 100 countries will be no mean feat. But neither was the Uruguay round. It lasted eight years and was written off several times before reaching a successful conclusion. Another big push on trade would do the world economy a power of good, and the millennium round is such a fine name it would be a shame to waste it.

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