

## **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.