

The WTO and the long-lost cause of real free trade

Terence Corcoran
National Post

Tuesday, September 16, 2003

Something crashed to Earth on the beach at Cancun, the problem is identifying what it was. The rhetoric from the international bureaucratic set would have us believe the Mexican standoff may mark the end of the World Trade Organization. "A severe blow" to the WTO, is how Pascal Lamy, Europe's Trade Commissioner, described the breakdown in trade talks. Reuters quoted an unnamed European diplomat who declared, "It certainly looks like the end of the World Trade Organization as we know it."

Before we start throwing ourselves out windows over the possibility of a breakdown in world trade, it's worth noting how far off the free trade path the WTO has wandered. In recent years, international trade negotiations have taken on increasingly complex and tangled issues that are far removed from the principles of free trade. The idea that trade should be based increasingly on "rules" and bureaucratic structures rather than free markets is now so entrenched that few people remember what the free trade agenda is all about.

As Michael Hart points out nearby, the WTO process has also been taken over by trade ministers whose penchant for grandstanding, rhetoric and dramatic do-or-die deadlines make for great headlines but do nothing to move free trade forward. As the WTO system has evolved, items open for negotiation and new forms of protectionism have increased. The push for free trade has been overwhelmed by calls for fair trade, investment rules, labour agreements, intellectual property regimes, pharmaceutical pacts and scores of other issues. To roll all these into an already overloaded agenda is to invite more Cancun-style disasters.

Worse, the principles of free trade have been lost. Maybe Cancun will drag the world's politicians back to basics. The fallacies of mercantalism, first exposed by Adam Smith almost 300 years ago, still animate all 147 (or is it 148 or 149?) nations at the WTO table. The old myths live on in every national position and in all trade discussions. Indeed, they still dominate the routine economic forecasts and reports churned out by thousands of business economists.

To read the daily output of trade task and macro statisticians is to plunge back four centuries to a time when the dominant economic idea was that economic policy should aim to curb imports and push exports. The purpose of policy then was to achieve a "favourable balance of trade," which meant a surplus.

This is an absurd and long-dead idea, but there it is in the latest analyses of U.S. trade problems with China. Hot off the news wires from yesterday comes the claim that since China has pegged its currency at 8.3 to the dollar, China's trade surplus with the United States has increased 25%. China and Japan have the two largest trade surpluses with the United States, accounting for 35% of the total U.S.

trade deficit from January to June.

The proper response to these numbers is a dismissive "So what?" Trade between any two nations participating in a massive multilateral trade system never balances, except by chance. Instead of throwing trade imbalance arguments out, U.S. trade officials and U.S. industries are currently using the numbers to trigger dangerous international trade confrontation. The risk of Cancun is that the world's nations and the WTO, having misinformed the world about the true structures and benefits of free trade, will now retreating back to setting even more risky national policies.

A scary step in that direction was taken yesterday when U.S. Commerce Secretary Don Evans pandered to a range of U.S. industries with plans for a fair trade task force and other measures that are aimed at correcting perceived imbalances in trade. There are, to be sure, injustices in China's handling of trade, and in the protectionist tactics of countries all over the world. But they don't warrant flirting with protectionism.

That's the real risk behind Cancun's failure. Free trade was never part of the WTO agenda; instead, the WTO was locked in round after round of talk grounded in mercantilist negotiating principles. Exports must be increased; imports must be curbed. As nations retreat back to their positions, the possibility seems great that they will also retreat further back to the 16th and 17th centuries. The challenge will be to resist that retreat. A new trade agenda is needed, one based on real principles of real free trade.