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Globalizing Free Trade

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The Ascent of Regionalism

About 60 percent of world trade now takes place within free trade agreements or among countries that have decided to achieve free trade by a date certain (table 1). The European Union has completed its ''single internal market'' and agreed with 12 Mediterranean countries to free trade with them by 2010 (Euromed). The 18 countries of the Asia Pacific Economic Cooperation (APEC) forum—including the United States, Japan, and China—have committed themselves to ''free trade and investment in the region'' by 2010 for the higher income members that make up 85 percent of their trade, and by 2020 for the rest. The 34 democracies of the Western Hemisphere will devise a Free Trade Area of the Americas (FTAA) by 2005, building on the existing North American Free Trade Agreement (NAFTA). A number of smaller arrangements, including the ASEAN Free Trade Area (AFTA) in Southeast Asia and Mercosur (Argentina, Brazil, Paraguay, Uruguay) in Latin America, augment these totals.

Economic success in today's world requires countries to liberalize to attract the mobile international investment that goes far to determine the distribution of global production and thus jobs, profits, and technology. Success requires countries to compete effectively in international markets

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Table 1 Regional free trade arrangements, 1994
(share of world trade)

European Union	22.8
Euromed	2.3
NAFTA	7.9
Mercosur	0.3
FTAA	2.6[a]
AFTA	1.3
Australia-New Zealand	0.1
APEC	23.7[a]
Total	61.0

a. Excluding subregionals.

rather than simply at home. This process of competitive liberalization has driven the trend toward free trade among myriad countries in all parts of the world with very different economic systems at very different stages of development and with very different prior philosophies.

But domestic political opposition frequently blocks countries from abolishing their traditional barriers unilaterally. Entrenched interests fight hard, and often with prolonged success, to maintain their protected positions. Trade reform thus requires mobilizing enough pro-trade interests to overcome those who resist further market opening, especially exporters and others who would gain directly from the opening of markets abroad. The political economy of trade liberalization in individual countries rests heavily on parallel liberalization in partner countries.

The most assured technique for achieving such parallel action is to insist on reciprocity, through the negotiation of trade agreements with enough existing or potential markets to tip the internal balance in favor of the desired liberalization. In seeking reciprocal liberalization, countries could turn either to their respective geographic region or to the world trading system as a whole. The global approach is superior because it maximizes the number of foreign markets involved and avoids the economic distortions (and political risks) of discrimination among trading partners.

As the urgency of competitive liberalization accelerated, however, the regional approach has increasingly come to the fore. It is considerably less complicated to work out mutually agreeable arrangements with a few neighbors than with the full membership of well over 100 countries in the World Trade Organization (WTO). Moreover, regional groupings are demonstrably willing to proceed more boldly: as noted above, many of them have decided to adopt totally free trade, whereas none of the global conclaves to date has even considered such an ambitious goal.

Desires to overcome traditional political rivalries have also driven several of the regional economic arrangements. The cardinal goal of the

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European Union was to end the historic hostility between France and Germany. Mercosur sought to end the arms race between Argentina and Brazil, including its nuclear dimension. Several of AFTA's members had experienced armed encounters in the earlier postwar period. A successful APEC would reduce the risk of intra-Asian and trans-Pacific conflicts, which have been so prevalent over the past century—including three wars for the United States.

The Threats to the Trading System

Regional and global liberalization initiatives have been mutually reinforcing since the European Common Market was created in the late 1950s. The fears of some observers that regionalism would derail globalism have been overcome to date. But determined leadership has been required to avoid conflicts between them, as have clearly appeared in earlier historical periods, with devastating security as well as economic impacts. Avoidance of conflicts has also required the maintenance of effective *global* trade rules that both define the regional arrangements and govern relations between them, and an institution to enforce those rules.

Even so, there have been some close calls—especially when the global system faltered. The major new regional arrangements, especially NAFTA and APEC, were partially spawned by missed deadlines of the Uruguay Round and intended to serve as alternatives to the global regime if needed. An ultimate failure of the round, as almost occurred, would have discredited the entire global system and raised the specter of competing blocs. By joining East Asia and North America, APEC has eliminated any possibility of the evolution of the three-bloc world that was so widely feared a few years ago—but a two-bloc world that would convey substantial dangers could still be created instead if APEC and Europe fail to work out satisfactory accommodations with each other.

Moreover, the European Union frequently seems to focus so heavily on its regional agenda that it forgets its global responsibilities. The United States is often viewed as preoccupied with NAFTA or APEC—or turning protectionist more generally, a fear heightened by the early successes of Pat Buchanan in the 1996 Republican primaries. A subtle threat to the global trading system is posed by the TAFTA idea for free trade between North America and Europe, which implies that free trade is acceptable as long as it takes place among countries at roughly equal (i.e., high) income levels and which would have the rich (and white) countries combine to erect new discrimination against the poor (and a few rich Asians).

The Asian giants, Japan and China, also pose major threats to the continued openness of the trading system. The political economy of liberalization succeeds in winning domestic support, even in a country as large as the United States, only when its major foreign markets (especially

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if they are also its toughest competitors) are seen as contributing their fair shares to the process. Japan has grudgingly participated in all the GATT rounds but access to its markets remains extremely truncated.[1] China has not yet committed even to the minimum reforms necessary to join the WTO.

The history of trade policy teaches forcefully that failure to move steadily forward toward liberalization condemns the trading system to tip over or fall backward in the face of protectionist pressures—the "bicycle theory." For example, protectionism scored major successes during the prolonged periods when the GATT went into hibernation immediately after the successful conclusion of the Kennedy Round in the late 1960s and the Tokyo Round in the early 1980s. Renewed financial crises à la Mexico could, as in the past, produce a wholesale adoption of new import controls.

One of the great advantages of the contemporary regional initiatives is that they have kept the bicycle moving forward after the conclusion of the Uruguay Round. The round itself helped as well by scheduling future negotiations in a number of sectors, some of which are already under way. But there are strong pressures throughout the world that would seize on any stalling of the forward momentum and try to reverse the trend toward liberalization, and Buchanan's success was partly due to the inadequacy of such momentum in 1996.

The Gains from Global Liberalization

In addition, there are enormous opportunities for further economic gain by eliminating remaining tariff and nontariff border barriers. The Uruguay Round teed up these remnants of traditional protection for decisive action by converting all agricultural quotas into tariffs, phasing out quota protection for textiles and apparel, and binding most tariffs of developing countries. One last big push could condemn these practices to the dustbin of history.[2]

Even more importantly, new negotiations are needed to enable the global system to catch up with some of the "new problems" that are plaguing international trade relations. Protectionists in all countries are ingenious at staying "one step ahead of the judge," and the system needs continuous updating to keep these forces at bay. The goal should be to make all markets "contestable," with policies on investment, antitrust,

1. Sazanami, Urata, and Kawai (1995) conclude that the consumer costs of these barriers total at least 3 to 4 percent of Japanese GDP and that they block at least $50 billion of imports annually.

2. This case is made persuasively in Whalley (1996).

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and overall regulation as well as on trade that open economies fully to global competition.[3]

For example, most complaints about Japan no longer relate to that country's border barriers. They focus instead on the anticompetitive behavior of its firms with their exclusive supplier or distributor arrangements (vertical *keiretsu* as in auto parts and film, respectively) and domination of particular markets (cartels, as in glass). The United States has been using trade measures, such as section 301, to address nontrade problems. There is an urgent need to work out new international agreements on competition policy and corporate behavior.

Investment is a second area in which the international rules have lagged far behind commercial practice. Investment is now an essential element of international trade, especially in services but in traditional manufacturing as well. A few modest covenants on trade-related investment measures and services-related investment were agreed in the Uruguay Round. But the major efforts have come in regional groupings, including NAFTA and APEC, and the current OECD discussions of a Multilateral Agreement on Investment exclude the countries that are growing fastest and that maintain the most impediments.

Another pending issue is regionalism itself. The GATT article that governs such arrangements is extremely weak, and its implementation has been even weaker: more than 100 "free trade agreements" have been notified to the GATT, but none have been rejected and only two have been approved. Now that regionalism is so prevalent, the WTO needs to adopt much stronger provisions and procedures to make sure that they evolve in an open manner.

A number of other topics must be addressed as well. The numerous linkages between environmental measures and trade need to be sorted out in ways that both protect the environment and avoid providing new excuses for protecting against trade. The relationships between trade and labor standards, and between trade and corruption, need to be seriously discussed.

It would be possible to address all these issues in a series of separate regional negotiations. Indeed, some of the regional agreements have successfully addressed new topics in the past: the Canada-United States Free Trade Agreement provided a model for some of the services talks in the Uruguay Round, Australia-New Zealand successfully meshed their competition policies in a manner that also enabled them to eliminate antidumping duties, and NAFTA has pioneered in forging investment rules. But there would be a serious risk of inconsistency if such issues were addressed differently in the different regional forums. It would be much more efficient to derive worldwide approaches that could be applied by all. Again, the case for globalism is compelling.

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3. This key concept is elaborated by Feketekuty.

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The "Grand Bargain"

The members of the WTO should therefore agree to consolidate their regional arrangements into a global commitment to achieve worldwide free trade by a date certain. The date could be 2010, on the APEC and Euromed models, with a possible extension to 2015 or 2020 for the poorest countries.

Such a commitment would rest on a "grand bargain" between two groups of countries: the high-income mature economies of North America and Western Europe and the rapidly growing, lower income countries that make up most of the rest of the world (with Japan somewhere in between). The lower income fast growers (and Japan) owe much of their spectacular success to the openness of the world economy, which enabled them to pursue "outward oriented" development strategies. Hence they need insurance against any reversion to protection by the "old rich," including procedural safeguards against subtle methods of undoing prior market opening. In the regional agreements already adopted, they have demonstrated a willingness to pay the premia necessary to buy such insurance.

There is a second component of the "insurance motive" in a number of developing countries: insurance that their domestic successors will not reverse the liberalization of their own economies. Such reforms can be locked in by binding a country's liberalization in international agreements—regional and/or global. Such bindings apply only to trade and investment policies and directly related domestic measures, but it would be difficult to undo most domestic reforms if it were impossible to raise new external barriers to support a renewed flirtation with *dirigisme*.

The Asian and Latin American countries have been predominantly concerned about a possible reversion to protection in the United States, by far their largest market, and hence have emphasized trade deals with that country. They are also concerned about Europe, however, and so are pursuing that dimension as well: Mercosur through negotiating a trade agreement with the European Union, East Asia through its new summits with the Europeans. Neither of these arrangements is likely to produce much substance, however, and they would in any case raise all the problems of duplication and inconsistency cited above. East Asia and Latin America, which are likely to be the two fastest growing parts of the world economy over the coming decades, would thus benefit greatly from extending to Europe the free trade commitments they have already elicited from the United States. This can only be done through a global effort in the WTO.

The second part of the "grand bargain" would provide the higher income countries with full access to the markets of the lower income but rapidly growing countries around the world (and Japan). Most of the

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countries in this latter group, despite impressive liberalization in many of them over the past decade or so, retain substantial trade barriers.

This part of the bargain would be attractive to the rich countries because they too are heavily dependent on export expansion. Such dependence is nothing new for Europe but has also now evolved in a major way for the United States—where the share of trade in the economy has risen by two and a half times over the past generation. As exemplified by the Big Emerging Markets strategy of the Clinton administration, this rich-country interest focuses primarily on countries with large and rapidly growing markets that still maintain substantial access barriers. Hence the United States and Europe would also benefit greatly from the proposed "grand bargain."

There is nothing new conceptually in this proposal for the "old rich" to pledge to avoid new barriers while the "rapid growers" commit to eliminate theirs. Such asymmetric liberalization lies at the heart of NAFTA, the FTAA, APEC, and the more recent extensions of the European Union. In these regional versions of the "grand bargain," the poorer countries have bought assured continued access to the markets of the rich countries by agreeing to catch up over time with those countries' prior liberalization. The asymmetry is equitable because the willingness of the rich countries to facilitate the outward-oriented growth strategies of the poor was instrumental in enabling the latter to start catching up with the standards of living of the former.

The novel element here is shifting the context to the global plane via the WTO. This would consolidate and link the existing regional agreements. It would bring the former Soviet Union, South Asia, Africa, and the few other uncovered parts of the world into the deal. It would keep the bicycle moving forward for some time.

The Path to the "Grand Bargain"

The United States attempted to move in the proposed direction with its "Open Markets 2000" proposal at the G-7 summit in Naples in July 1994 but was turned down by the European Union. Several EU members reportedly blocked recent proposals by the European Commission to negotiate modest trade agreements in Latin America. Given the European Union's overarching focus on its own regional concerns, centering on the expansion of its membership to the east and the deepening of its integration, including monetary union, it is doubtful that Europe will be prepared for a leadership role in the global system at any early date.

Nor can the United States forge the next global trade initiative by itself. Its latest effort was rebuffed, as just noted, but so was its similar push to renew global momentum after the Tokyo Round as long ago as 1982. The security leverage that permitted previous American leadership in this

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area (as in so many others) has disappeared with the end of the Cold War. American domestic politics can be brought to support a new global round despite the criticisms of the WTO and of trade liberalization more generally, as described below, but probably not to provide solo leadership for it.

The alternative is APEC, which includes the world's three largest economies (the United States, Japan, and China) and accounts for half of world output. From its inception in 1989, APEC has proceeded under the mantle of "open regionalism"—a term deliberately chosen to contrast it with the inward-looking regionalism that was feared in both Europe and North America. Every pronouncement of APEC leaders, including the Bogor Declaration that committed its membership to "free and open trade and investment in the region," has emphasized the group's commitment to further *global* liberalization and its antipathy toward becoming an exclusionary bloc.

APEC has not defined "open regionalism." Its members have, however, committed themselves to continue reducing their barriers to nonmember countries as they move toward free trade in the region. Some of them might extend their APEC liberalization to nonmembers unconditionally, which they are perfectly free to do as APEC has no intention of becoming a customs union with a common external trade policy.

Most likely, however, APEC will offer to generalize its regional liberalization to the rest of the world on a reciprocal basis. There are two reasons why this is the proper course. The first is external: since APEC accounts for about half the world economy, global liberalization and hence world economic benefits will double because nonmembers cannot afford to reject the offer. The second reason is internal: as noted earlier, the political economy of trade policy requires the mobilization of domestic export interests by offering them sufficiently enhanced access to foreign markets to induce them to undertake the effort necessary to win national support for liberalization.

APEC thus has the capability and the inclination to initiate the next major episode of global trade liberalization. It has already committed to achieve free trade in its region and is hard at work converting that vision into practical reality. It is in a strong position to assume leadership of the global trading system.[4]

Starting the Process

The WTO will be holding its first ministerial meeting in Singapore in December 1996. This would be the natural occasion to begin the process of achieving global free trade in the early part of the 21st century.

4. APEC, of course, has undertaken several initiatives in addition to trade liberalization in the areas of trade facilitation, finance, and development cooperation. It will remain an extremely important institution even if its regional trade plans are globalized.

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It would clearly be premature, however, to seek a global free trade pledge at this juncture. The United States has just concluded a presidential campaign in which the incumbent, who took a courageous lead in signing and ratifying free trade pacts during his first two years in office, became reluctant to discuss the issue, and his opponents were equally hesitant if not explicitly hostile. The European Union will be preoccupied well into 1997 by the Inter-Governmental Conference on the future of its integration process. APEC will probably not yet be far enough along in implementing its own plans to provide the needed inducement for others to join it. Several of the largest trading nations (including China, Russia, and Taiwan) remain outside the WTO.

In determining a role for the Singapore ministerial, however, it is important to set long-term systemic goals and then work backward. An agreement to achieve "global free trade by 2010" could plausibly be reached at the succeeding WTO meeting in 1998. To do so, planning needs to proceed on a number of fronts.

First, the biennial WTO meeting in 1998 should be converted into the first Global Trade Summit. The GATT never held a summit meeting. Yet summits have been a regular feature of the European integration process, the rapid evolution of APEC since 1993, the launch of the FTAA, and key subregional trade arrangements including AFTA and Mercosur. The WTO should bring together its heads of government at the last high-level meeting of the world trade body in the 20th century to set a vision for the global trading system in the 21st century.

Second, the Singapore ministerial should appoint a Wise Persons Group to make recommendations for the future of the trading system. A similar group, chaired by Fritz Leutwiler of Switzerland and including Senator Bill Bradley from the United States, was created by the GATT in late 1983. Its report in early 1985 made an important contribution to the decision to begin the Uruguay Round in 1986. AFTA was proposed by a group of private advisers from ASEAN countries. The APEC vision was initially proposed by that organization's Eminent Persons Group. It is essential to move outside official circles to produce bold ideas for major initiatives.

Third, Singapore should initiate a work program to tee up the issues that would form the substantive core of the "global free trade" negotiations. Fortunately, there is already widespread agreement on most points of that agenda. The Uruguay Round itself laid out an ambitious schedule of further negotiations including telecommunications and maritime services in 1996, financial services (again) in 1997, government procurement in 1999, and agriculture and services in 2000. Consultations among the WTO members have identified an additional set of priority topics along the lines of those outlined above: competition policy, investment, trade-environment linkages, perhaps labor standards and their relationship to trade, and several others.

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Another important preparatory step is to complete the membership of the WTO. Singapore should accelerate the effort to bring China, Russia, and the other large nonmembers into the institution in time to participate fully in the proposed negotiations. These countries must, of course, comply with the organization's requirements to get in, but no move to "global free trade" can be complete without them.

Finally, the WTO needs to firmly establish its own credibility throughout the world. This will mean effective implementation of its dispute settlement mechanism, more transparency of its operations so that all interested parties can see how it works in practice, and efficient management of the overall organization. Trust in the institution itself is a necessary prerequisite for giving it the additional responsibilities suggested here and for allaying fears that it "violates the sovereignty" of member countries.

Beyond these preparatory steps, a number of key questions remain to be answered before a "global free trade" pledge could be adopted. For example, how should "free trade" be defined? It should clearly apply to all tariffs, quotas, and other border barriers—which would require substantial liberalization in many developing countries but not much in most of the industrial world. It should also extend to selected measures behind the border because of the central role they play in blocking contestability of markets and hence in current and foreseeable trade conflicts with some countries (such as Japan).

Another key issue is the definition of "reciprocity" or "comparability." All agree in principle that any such negotiation must elicit fair contributions from all parties. But it is extremely difficult, in purely intellectual terms even before turning to the politics, to equate "concessions" across issues as disparate as tariffs and national competition policies. The concept of "reciprocity" was never very precise and became even more difficult when the GATT turned to negotiating nontariff barriers. Nevertheless, the political economy of trade requires each country to demonstrate that its own "concessions" were matched by those of its partners, and it is highly desirable to buttress the case with orders of magnitude if not precise estimates.

Another question is whether the goal of "global free trade" should be achieved via another comprehensive trading "round" with a single deadline or via continuous negotiations over time on individual issues. At the end of each previous round, including the Uruguay Round, virtually all participants have dismissed the idea of launching such an all-encompassing effort ever again. "Trade fatigue" is fully understandable from those who have had to labor to bring such an effort to conclusion, especially when it took seven years, as in the latest example. Moreover, individual negotiations are now occurring in the WTO on a wide range of topics, including financial services and telecommunications, and there is some reason to be encouraged by the results to date.

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On the other hand, the logic of rounds has always prevailed in the past. Comprehensive coverage has proved necessary to offer the maximum scope for liberalization across sectors and issues, thereby inducing the greatest number of countries to agree to the largest possible liberalization. Sectoral or issue-specific efforts, by contrast, require intraissue tradeoffs that tend to minimize the headway that can be made. The current process of issue-specific negotiations should be monitored closely to see if they look promising as a long-term proposition, at least with respect to rule making, but the rejection of the financial services package by the United States in 1995 constitutes a warning that broader inducements may be needed with respect to liberalization. The tried-and-true alternative of a round should be kept foremost in mind—especially to achieve "global free trade by 2010," which would be the most ambitious multilateral trade initiative ever attempted.

Will It Fly?

The final question is the most crucial: is such a proposal politically feasible in the key countries? The doubts and fears outlined above suggest that a herculean effort will be needed to pull it off.

The pivotal actor, as in all past global trade initiatives, will probably be the United States. Most other countries have traditionally been more dependent on trade and have thus accepted, if sometimes grudgingly, the case for liberalization. The Europeans, for all their apparent insularity, have removed all barriers to each other and logically point out that it would be inconsistent for them to impose new restraints on nonmembers. Japan cannot afford to block progress sought by others, as indicated when it agreed to liberalize rice imports—its politically most sensitive sector by far—at the end of the Uruguay Round. Most developing countries are even more dependent on trade and, as noted at the outset, have been actively engaged for some time in a process of competitive liberalization.

Perhaps surprisingly, there are two reasons the case for "global free trade by 2010" should be eminently saleable in the United States. First, increased trade can be a big *help* in enabling America to solve its most pressing economic and social problem—widespread stagnation of wages, incomes, and standards of living. Export jobs pay 15 percent more than the average wage. Worker productivity at exporting firms is 20 to 40 percent higher. These firms expand employment 20 percent faster than nonexporting firms and are 10 percent less likely to fail. Small and medium-sized exporters do even better than large ones and account for 70 percent of all sales abroad.[5]

5. These and other data are derived in Richardson and Rindal (1996).

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Hence a shift to export jobs from import-competing jobs, which would be the net result if trade liberalization had no impact on the American trade *balance*, would help considerably even though the latter pay more than the national average too. Better yet would be a shift to export jobs from the nontradeable (mainly services) sector, most of which pays less than most tradeables (mainly manufacturing), which would occur if liberalization helped the United States reduce its trade deficit. This is quite feasible without raising major international problems because the United States continues to run annual trade deficits of about $175 billion. An improvement of even $100 billion in America's net external position, lowering the deficit to about 1 percent of GDP, would create 1 million to 2 million more of these high-paying export jobs than would be lost to growing imports. Total elimination of the external deficit would have twice as favorable an impact. Such improvement in the country's net external position should thus be a cardinal policy goal of the next administration, primarily because it would provide a major boost in dealing with the country's chief *domestic* problem.

To be sure, substantial adjustments in the United States' internal economy will be required to achieve such a shift. Net national saving must rise by 1 to 2 percent of GDP to obviate the need for the net capital inflows that are the counterpart of the current account deficits[6]—but will do so if the budget deficit is eliminated by 2002 or so even if private savings fail to rebound from their current historic lows. Individuals will need better education, training, and retraining to compete effectively in the world economy—but will need them to raise their incomes regardless of what happens on the trade front.

These internal efforts would be greatly reinforced if American exports could win full access to foreign markets. Exports have done well in recent years. They have more than doubled as a share of total US output since 1960. They would make an important contribution to solving the United States' fundamental economic and social problems if they could double again by 2010.

"Global free trade by 2010" could make a significant contribution to enabling the United States to reach that goal. Impediments to market access remain quite high in much of the rest of the world. An elimination of Japan's barriers alone could expand American exports by $20 billion annually, creating 300,000 to 400,000 very good jobs or even more (Bergsten and Noland 1993). Latin America's restrictions average three times our own.

"Global free trade" in practice would mean a sharp reduction in barriers in most other countries compared with very little liberalization in the

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6. These net capital inflows, though essential to fund domestic investment, are a direct cause of the trade deficit because they push up the exchange rate of the dollar and thereby reduce American competitiveness in world markets (including its own).

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United States, where markets are already largely free.[7] The asymmetric nature of the liberalization process, as described above in depicting the "grand bargain," is the second compelling reason it should be readily acceptable in the United States.

The United States would not receive a totally free ride in such a negotiation. Other countries, in both the industrial and developing world, would insist that the United States subject its import safeguard measures (such as antidumping duties) and its export promotion tools (such as section 301) to more stringent multilateral disciplines. This is a modest price for the United States to pay, however, and the reduction of actual barriers remains almost wholly asymmetric.

From the American standpoint, such an initiative is the only way to achieve a truly "level playing field" across the world economy. It would bring foreign barriers down. At a stroke, it would greatly increase and roll into a single package the benefits that would otherwise be provided for the American economy by NAFTA, APEC, and the FTAA.

To be sure, a major political debate will be needed in the United States to endorse such an initiative. That debate will have to come anyway, as the administration seeks congressional approval to proceed with the liberalizations already agreed in APEC and the FTAA. Globalizing free trade would in fact add only modestly to the needed authority, adding Europe (with which trade is already largely free) and a few developing countries to the package—always on a reciprocal basis, of course.

But the idea of "free trade" with China and Japan, or even Brazil and Indonesia, will surely trigger a national debate—one that will make the NAFTA debate of 1993 pale by comparison. History shows, however, that the United States is far more successful with large initiatives than small ones, certainly in trade. Sweeping visions, such as the Kennedy Round and its successors, engage the president and the Congress in a major national venture. The business community and other supportive constituencies make the investments needed to carry the day. Once launched, the initiatives command sufficient momentum to overcome rearguard efforts to derail or even erode them.

When the victorious allies constructed the economic system for the postwar world, they included an International Trade Organization (which became the GATT) to reduce barriers and resolve commercial disputes among nations. When Europe united in the late 1950s, the United States initiated a series of multilateral liberalizations to both forge a trans-Atlantic political partnership and reduce the discriminatory impact of the new Common Market. When those global efforts faltered in the 1980s and early 1990s, regional liberalization agreements blossomed around the globe to

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7. America's remaining barriers carry a net economic cost of only about $10 billion in an economy of $7 trillion (Hufbauer and Elliott 1994).

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