

WORLD TRADE



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NEXT YEAR IS THE 50TH ANNIVERSARY of the launch of the Marshall Plan and the establishment of the GATT. Soon after we will be entering a new millennium. In recalling the achievements of 1948, we must also explore how best to ensure a similar success in 2048.

At next year's celebrations, there will be many well-deserved tributes to the United States, the "master builder" of the post-war institutions for international economic co-operation. President Truman was able to get the newly elected Republican Congress to accept the Marshall Plan, described by Winston Churchill as the "most unsordid act in history." But he needed a little help from Joseph Stalin whose refusal to join ensured Congressional approval. The Cold War was no help in the case of the International Trade Organisation, which should have been the third pillar of the architecture for world economic governance created at Bretton Woods. Truman decided not to test Congressional deference again, since opposition was building from many quarters, especially from businessmen who felt the ITO mandate did not go far enough in opening up foreign markets and reducing government regulations. What survived from this prudent presidential decision was the General Agreement for Tariffs and Trade (GATT). Not requiring formal ratification by Congress, it served quite well for several decades as a forum to negotiate reductions in the protectionist barriers erected during the interwar years, slowly eroding American advantages stemming from the world's largest domestic market.

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World Trade 50 Years After the Marshall Plan

The Marshall Plan's Success

The Marshall Plan was central to the reconstruction of war-devastated Europe and not only—or even primarily—because of the aid dollars. More important were the less well known programmes which fostered technology catch-up with American industry, including the Technical Assistance project which arranged study tours to the US for nearly 19,000 Europeans to provide information on American manufacturing techniques as well as arranging training in Europe for thousands of workers, technicians and managers. This diffusion of American know-how along with the inflow of American investment and the liberalisation of trade served to shake up the complacent, cartelised and inward-looking European business community and launched the process of convergence with US productivity.

The post-war "convergence club" of the rich industrialised countries also included Japan. There was no Marshall Plan there but the Korean War produced similar results. The US Army turned Japan into a multi-purpose procurement base for its military operations. After the war "lift-off", economic reconstruction took place at a rapid pace, enhanced by Washington's establishment of a Technical Assistance programme to increase Japanese productivity. A Japanese official remarked that the outcome was that "Japanese capitalism re-emerged like a phoenix in a form almost identical to that of the pre-war period"—except, of course, that the goal was not military but economic.

Some Surprises for the US

So a mixture of benign hegemony and the Cold War created unprecedented prosperity and stability for the

Western world. But for the hegemon it had some unexpected consequences. By the 1970s, the major industrialised countries of the OECD had by and large converged in technological capabilities, capital per worker, education levels and managerial capacity. The US, the undisputed economic and technological superpower in 1950, never expected that two decades later Europe and Japan would catch up with or even challenge American predominance in some respects. And there was another and bigger surprise. Framed by the optic of the Cold War, the US assumed there were only two economic systems, "capitalist" or "communist". Though the OECD countries all chose capitalism, it became clearer over time that capitalism came in a variety of brands. These variants reflected deeply embedded historical, cultural and institutional systems and these systems resulted in structural differences that affect-

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ed openness to trade, investment and technology. Neither Japan nor Europe was a *tabula rasa* upon which the Americans could engrave their own market model, which is singular in many basic aspects, resting as it does on a unique historical and institutional system emanating from a fundamental distrust of government actions.

These two unexpected outcomes shaped the evolution of US trade policy during the 1970s and 1980s. A growing sense of unfairness—"we're open, they're not", "the free ride is over"—increased the use of unilateralist policy instruments to deal with the "unreasonable" practices of other countries which impeded access to their markets. By the end of the 1980s, US policy had become multi-track: multilateral; regional; and unilateral. More important, because of structural differences of access a new form of

trade conflict emerged—"system friction". Exemplified by the high-tech battles with Japan during the 1980s, the focus of American trade policy increasingly shifted inside the border to government regulatory and legal regimes and private practices. This change in American policy was the key factor in setting the agenda for the Uruguay Round of trade negotiations which included (in addition to traditional GATT-type issues) the "new issues" of trade in services, intellectual property and investment, for which barriers to effective access centred entirely on domestic policies and institutions.

Without the new issues, it seems highly improbable that the American business community would have continued to support the multilateral system for much longer since other options—regionalism and unilateralism—were available. And in the Uruguay Round the role of international business was of crucial importance. Today that role is far greater than it was in the mid-1980s because of the enormous surge of foreign direct investment, fed and led by the revolution in information technology. These ongoing forces of globalisation reinforce the deepening integration of the global economy; the shift in the political centre of gravity inside the border; and the source of trade disputes to system friction. This is especially the case in East Asia, where many countries want to open the door to the convergence club. All governments (with the possible exception of Hong Kong—at least up to now) have implemented high-tech industrial policies which include carrots and sticks to increase technology transfer from foreign firms. These policies will often be in direct conflict with the global trading system which must include transparent and enforceable investment rules. And the potential for conflict goes beyond high-tech policies. The legal systems in East Asia, with few exceptions, bear little resemblance to the Western legal traditions that have so influenced

trade policy—in particular, the importance of transparency and due process. Though the idea of a clash of civilisations is overstretched, system friction is virtually certain—especially with China where the historical, cultural and institutional heritage is, in many respects, at odds with the Western model, especially the unique American version.

Economic Policy Versus Foreign Policy

Further, with the end of the Cold War, foreign policy and economic policy—once termed "high policy" and "low policy"—are blending. The constraining influence of high policy on trade disputes is eroding and, in the US, congressional deference to the executive is ebbing. At the same time, erosion of executive power from below is exemplified by the proliferation of unilateral economic sanctions at the state and local level. Trade issues are now often expressed in military language: anti-dumping or unilateral sanctions are termed "weapons of choice" in the trade policy "arsenal". War rooms are established to monitor agreements. One could make a plausible case that low policy is now high policy—economic policy has become foreign policy. For these and other reasons, the stakes for the global economy and polity in the stable, rules-based system of the WTO are very high. But one could hardly deny that uncertainty about the future of that system has increased.

Yet some things are clear. Many of the items on the post-Uruguay agenda are already underway and will continue the focus on domestic regulatory policies. The agreement on liberalisation of basic telecommunications services announced at the first WTO ministerial meeting last December is emblematic of the singular importance of the services sectors. Financial services are next in line, and likely to be extremely contentious in East Asia because of the ongoing difficulties in Thailand and other countries. The US has already walked away

from these negotiations once before, because of inadequate offers, especially from Asian countries. The last-minute rescue by the EU in salvaging the earlier negotiations protected the WTO from a serious loss of credibility.

Challenges Ahead

What will happen this time is anyone's guess, but it is especially important for Canada who hosts the APEC summit meeting in November in Vancouver, just before the target date for the conclusion of the agreement. Other policy items include trade and the environment; trade and labour standards; competition policy and a global investment agreement. One could well argue that this agenda of deepening integration is moving in the direction of a single global market. But no country, including the US, has a plan for steering such an ambitious and lengthy voyage. And the WTO lacks the essential strategic assets of research, technical assistance, and monitoring capabilities to facilitate such negotiations. Key questions remain unanswered—indeed unasked. Does a global level playing field mean the elimination of all system diversity? However unlikely that may be, it would be a pretty boring landscape. Most important, how can a co-operative leadership be devised to include the big powers—the US, EU and Japan—as well as the coalitions of middle powers who have the highest stake in a rules-based system? How can China be effectively integrated into the WTO system and sustain the fundamental structural reform essential to that integration?

As we prepare to mark the 50th anniversary of the Marshall Plan and the GATT—and toast the Americans—we should remember that Canada was also present at the creation, and that Canada took the lead in proposing the creation of the WTO. Indeed coalitions of middle powers played an important role in the Uruguay Round negotiations for the first time in the history of the GATT. With the end of the bipolar Cold War world the need for such coalitions is far greater. And the importance of influence or soft power has increased. There is ample opportunity for an enhanced Canadian role. Will we rise to the occasion? ♦

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