EDITORIAL DESK

Free Trade Has to Be Managed

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As the presidents and prime ministers of the seven industrialized nations prepare to gather later this week in Genoa, Italy, the global economy has come to resemble a balloon rapidly losing air. The world's three largest economies -- in the United States, the European Union and Japan -- are slumping, and the financial and trading connections among them are reinforcing the downward spiral. Emerging markets from Argentina to Turkey to Indonesia have serious financial problems, too, all of which are made worse by the slowing of the world's major economies. Corporate profits everywhere are evaporating, and stock markets are weakening.

The G-7 meeting will be a crucial test for President Bush. Until now, he has said little about the global economy, much less offered any strategy on globalization other than rhetorical support for free trade. This will have to change. The forces that have increased flows of money, goods, services and information around the globe and helped create growth are now working to make the economic downturn deeper and more widespread.

Few mechanisms now exist to manage globalization. Cooperation among governments is increasing, but it is still uneven. We live in a world economy, but we lack institutions that could stabilize and regulate this economy. For example, stocks and bonds are traded around the world and around the clock, but there is nothing like a world Securities and Exchange Commission to oversee regulation. Food and pharmaceuticals are traded freely, but there is no global entity to ensure safety standards.

President Bush and the other G-7 leaders have to decide whether they have the foresight to construct new systems that can regulate commerce across borders as well as act to moderate a worldwide recession.

If they fail to build such systems, they face two risks. First, because of the connection of markets and financial systems, if problems in one part of the world are not successfully addressed, they will spread to other parts. In 1998 a currency crisis in Thailand created a financial debacle that engulfed Asia and Latin America and even threatened American banking. Today, the retrenchment of American technology companies has created another kind of contagion. As companies like Cisco, Lucent and Motorola contract their businesses, they cut back on purchases from abroad. That has contributed to a slowdown in the Asian economies, which are heavily dependent on exporting electronic components to the United States. Conversely, because American firms rely heavily on Asia to buy their products, contraction in countries like Singapore, Taiwan and South Korea will make it more difficult for our economy to resume its growth.

The second risk of failing to manage globalization is political. Unfettered market forces can lead to job losses and financial problems that could create a backlash against foreign investment and result in protectionism and overregulation. These developments would hurt our own recovery.

The Bush administration has shown little interest in grappling with these issues. It has demonstrated skepticism about intervening to help developing countries in financial difficulty. It has seemed critical of the attention that previous administrations gave to economic relations with Japan. Faced with rising steel imports, the president has taken steps likely to result in higher tariffs or quotas.

But in light of the slowing world economy, Mr. Bush will not be able to avoid engaging the issues of globalization for long. He will have no choice but to lead the movement for new global trade negotiations, which will require expending enormous political capital to push Congress to give the administration authority to negotiate trade agreements.

Mr. Bush will also have to work closely with other G-7 leaders to avoid the prospect of a global recession. At minimum, they need to make sure that their policies toward interest rates, currencies, and banking and labor issues will collectively produce enough economic stimulus. They also need to consider how to forestall economic collapse in Argentina.

The recent E.U. veto of the proposed merger between General Electric and Honeywell shows that the administration should push for more coordinated global rules for antitrust policy. It should make aggressive efforts to build a better global system for intellectual property rights.

Finally, the administration and the G-7 nations will have to address the widening divide between rich and poor nations. This means providing more debt relief and increasing humanitarian aid to combat diseases like AIDS, as well as helping to build basic health systems in poor countries.

This may seem like an ambitious agenda for President Bush, given his administration's reticence about international engagement. But since the end of World War II, every administration has eventually faced up to its international economic responsibilities. Some started early; some were dragged into the fray by events. In view of the precarious economic situation today, the Bush administration cannot wait too long. Genoa would be a good place to make the leap.

Drawing (Gelman)