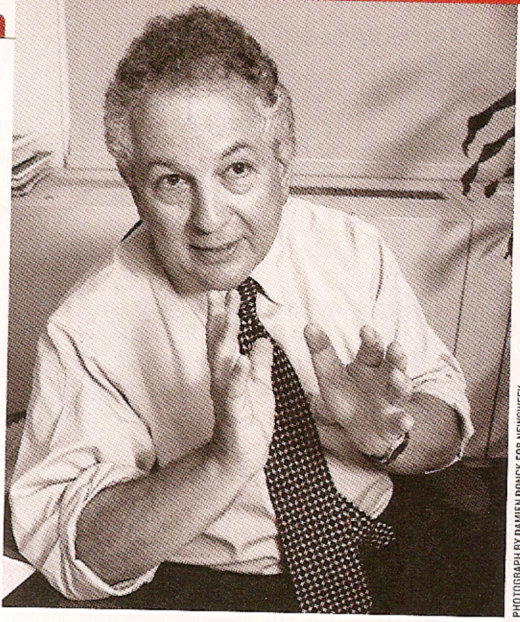
Beware the Road Shows


PHOTOGRAPH BY DAMIEN DONCK FOR NEWSWEEK

LOOK AROUND. THIS WEEK ALONE, U.S. COMMERCE Secretary Carlos Gutierrez will escort representatives from 25 U.S. companies on a trade-promotion trip through Beijing and Shanghai, while Education Secretary Margaret Spellings leads American university presidents to Tokyo, Seoul and Beijing to recruit foreign students. And they follow a parade of top politicians, from French President Jacques Chirac to Italian Prime Minister Romano Prodi, who have already mounted commercial-diplomatic forays into China this year. As the importance of emerging markets grows for international trade and investment, the number of these offensives seems likely to rise dramatically.

Over the past year, many national leaders have sounded warnings about the threat of rising protectionism, particularly as the Doha round of world-trade talks stalled and China's trade surplus soared. But protectionism in the form of tariffs and obstructionist regulation is likely a lesser threat than mercantilism, which amounts to closer collusion between governments and companies to sell more abroad. Rather than closing borders to commerce, which clearly violates international codes, governments may push commercial deals, which does not. South Korea, Japan and China have already been using undervalued exchange rates to do just that. But the game could become much rougher if the United States and Europe up the ante.

To be sure, government promotion of trade has less impact on the flow of goods and services than, say, relative levels of productivity, or negotiations to liberalize trade, or policies that lead to more domestic consumption. But powerful forces could trump these considerations, particularly in Washington. It is ironic that a Republican administration has so far given much less attention to export promotion than did President Bill Clinton, who routinely sent his Commerce and Energy secretaries on some of the highest-profile trade missions in recent history. But with the return of the Democrats to power in Washington, this could change.

Over the past decade, U.S. trade deficits have increased from 1.5 percent of GDP to well over 6 percent today, and with imports growing almost twice as fast as exports, far more than a declining dollar will be necessary to significantly shrink this gap. In addition, the Commerce Department estimates that only 10 percent of U.S. GDP is made up of exports, compared with at least twice that much for America's principal competitors. This indicates major potential that Washington will want to exploit.

The heyday of global trade liberalization may be over, as governments become less inclined to allow market forces to shape their societies. In Washington, Brussels, Tokyo and elsewhere, public officials are already working harder than they have in many years to regain control by stiffening domestic regulations over food, health care, privacy, communications and domestic security. As global competition heats up, we can also expect the public sector to take a more active role in the stimulation of industries such as biotechnology, nanotechnology and alternative energy, industries that require extensive R&D subsidies.

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Another spur to the new mercantilism will come from the increasingly bold commercial diplomacy of both resource buyers and sellers. Beijing is supporting foreign-investment strategies of state companies like the China Petroleum & Chemical Corp. with low-cost financing or foreign-aid enticements to host governments. Moscow is using political threats against neighboring countries to negotiate deals on behalf of companies such as government-owned Gazprom.

In the United States, a major mercantilist push could start with more elaborate cabinet-level trade missions and closer coordination between Washington and the many governors and mayors who also take their companies abroad. It could result in a bigger and stronger Export-Import Bank, one with additional money to assist exporters with financing, and one that acquires and adds firepower to other trade-promotion agencies such as those that provide political risk insurance. Most of all, it could put commerce at the top of America's foreign-policy priorities, where it hasn't been for a long time.

While mercantilism is as old as trade itself, too much of it would be worrisome. If the United States goes overboard, other governments will only ratchet up their efforts. Huge resources that could otherwise be devoted to trade-facilitating policies, such as assistance for workers displaced by rising imports or education to train employees for tomorrow's industries, will have been diverted. And a commercial arms race could lead to protectionism itself. Nevertheless, it's not clear to me where the political leadership to avoid this dangerous government-supported scramble for markets will come from.

GARTEN is the Juan Trippe Professor of international trade and finance at the Yale School of Management, and was under secretary of Commerce in the Clinton administration.