

But the real virtue of a WTO-plus approach is that it would mitigate the "them-versus-us" mentality associated with regional blocs. Although it would be salutary to think that the world's major economic powers will embrace a universe of free trade with enthusiasm and confidence, I am less than sanguine. There is still strong pressure for governments to be mercantilist, especially in the area of high technology. Listening to Lester Thurow or Laura Tyson, one would assume that we are already engaged in a life-or-death struggle with Europe and Asia for technological supremacy - a struggle in which so-called strategic trade policy will play a major part. Even those governments that embrace the ideas of Adam Smith often have a rather selective reading of comparative advantage, interpreting it to mean that it is their destiny to supply the world's high-tech goods and services, while the rest supply cheap labour and raw resources. Ironically it is the knowledge-intensive sectors that are probably least susceptible to government manipulation, but this will not stop governments from trying. In a world delineated by regional blocs, there is greater danger that trade competition may dissolve into trade conflict.

A more worrisome aspect of regionalism is one identified by Sylvia Ostry: the problem of "system friction." Even if we manage to strip away all external barriers to trade, we will still expose societal differences - in legal systems, in financial regulations, in government structures - that in turn shape our economies. It does not require much imagination to realize that even legitimate systemic differences might well be labelled as unfair trade practices by some, especially when they appear to confer economic advantages. Indeed, already there are undertones of "system friction" in current trade tensions between the United States and Japan. One solution, of course, is to seek greater harmonization, to push nations toward uniform approaches to a variety of economic regulations and systems. Indeed, trade policy has already moved a considerable way in this direction in an effort to root out rules and regulations that serve as little more than hidden barriers to trade. But there are also dangers of travelling too far down a road toward harmonization, of trying too hard to "level the playing field." In so doing, we may well erase the very differences, strengths and innovations - the comparative advantages - that generate a free market. What a sad irony if in the name of greater freedom, including market freedom, we build the scaffolding for the universal homogeneous state.

An alternative is to recognize that economies, like societies, will always differ to some degree, and to try to create the institutions and rules that can allow these differences to co-exist while managing any tensions that may arise. Here perhaps we can learn something from a couple of European ideas: first subsidiarity, the notion that decision making and the administration of rules should be conducted by the level of