

while avoiding the inherently exclusionary nature of regional blocs?

Sometime in the not-too-distant future we will need to confront the issue of how the various regional blocs interact and how, when rules and structures overlap, an eventual convergence might be orchestrated. In an ideal world, of course, all paths would lead back to the World Trade Organization – and indeed this remains Canada's objective. But at this time it is probably unrealistic to assume that the hundred-plus members of the WTO could, in unison, liberalize sufficiently to catch up with the regional blocs; it would be equally unrealistic to assume that the regional blocs would willingly open themselves up to the rest of the world on a strict most-favoured-nation basis. Not only would this fail to address the issue of "free riders," it might even weaken the competitive dynamic that is helping drive the global trade agenda forward.

There is another approach. Since commitments have been made to free trade in the Americas, free trade in APEC and possibly free trade with Europe, at some point there is potential for a new trade arrangement that bridges all the blocs – a kind of WTO-plus. Membership in such a grouping would depend not on region but on a willingness to commit to more intensive, more comprehensive rules-based trade and investment. One obvious advantage of this approach is that it would iron out many of the complexities of a world of multiple free trade agreements. At a minimum we would go a long way toward ridding ourselves of an increasingly complex patchwork of rules of origin. The continued existence of low tariffs, coupled with rules of origin, impose a transaction cost on cross-border trade out of all proportion to the purported benefits to protected industries. It is time to acknowledge that the era of the tariff is finally over, and to get on with other, more pressing and difficult issues.

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. 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 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,