Beware the Road Shows

LOOK AROUND. THIS WEEK ALONE, U.S. COM- 
merce Secretary Carlos Gutierrez will escort rep- 
resentatives 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 Be-
ing 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 inter-
national 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 domes-
tic consumption. But powerful forces 
could trump these considerations, partic-
ularly in Washington. It is ironic that a 
Republican administration has so far giv-
en much less attention to export promo-
tion 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 defi-
cits 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 dol-
lar will be necessary to significantly shrink 
this gap. In addition, the Commerce De-
partment estimates that only 10 percent 
of U.S. GDP is made up of exports, com-
pared with at least twice that much for 
America's principal competitors. This indi-
cates major potential that Washington 
will want to exploit.

The heyday of global trade liberalization 
may be over, as governments become 

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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, communica-
tions 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 
bionotechnology, nanotechnology and al-
terative energy, industries that require 
extensive R&D subsidies.

Another spur to the new mercantilism 
will come from the increasingly bold com-
mmercial 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. 
Moscoc is using political threats against 
neighboring countries to negotiate deals 
on behalf of companies such as govern-
ment-owned Gazprom.

In the United States, a major merca-
tilist push could start with more elaborate 
cabinet-level trade missions and closer co-
operation 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 ac-
quires 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 ef-
forts. 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 
itsell. Nevertheless, it's not clear to me 
where the political leadership to avoid 
this dangerous government-supported 
scramble for markets will come from.

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