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### Review Of "The Post-Cold War Trading System: Who's On First?"

By S. Ostry

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## American Economic Association

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The Post-Cold War Trading System: Who's on First? by Sylvia Ostry

Review by: Stephen S. Golub

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that will promote economic efficiency and welfare. As Krauss emphasizes, trade protection is certainly not the way to go.

Krauss is hypercritical of the programs of foreign economic and military aid that the United States has provided to Western Europe (and Japan?), to the less developed countries, and more recently to countries making the transition from central planning to a market-based economy. He argues that all these programs have inevitably failed either because they were misguided in pursuit of egalitarianism or condoned ineffective policies in the recipient countries. In his view, a great deal of money could have been saved if the United States had been much less generous and insisted on market-based incentives, restructuring, and de-emphasis of government-supported programs. In retrospect, many of Krauss' criticisms are well taken, although at times he rails too much against the ideas of historical men of influence and fails to take into account the complex tides of history and the politics of times past.

In his concluding chapter, Krauss addresses issues of regionalism, focusing on the European Union and NAFTA. He criticizes the pursuit of economic and monetary integration in Europe on the grounds that it serves to reinforce the centralized influence and power of the European Commission and that insufficient encouragement is being given to increasing imports from Eastern Europe. He thus downplays here again the role of history and especially the political dynamics that underlie the desire of the Europeans to achieve greater harmony in their relationships so as to overshadow the deep conflicts of the past. In contrast, his view of NAFTA seems more benign. He argues that it will bring about wage convergence so as to resolve the problems of U.S.-Mexican migration, and that the extension of NAFTA to the rest of the Western Hemisphere will be a stepping stone toward global free trade. Here I found it curious that he did not discuss the role that the WTO might play in fostering multilateral trade liberalization rather than taking this detour through regional trading blocs.

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*The post-cold war trading system: Who's on first?* By SYLVIA OSTRY. London and Chicago: University of Chicago Press, 1997. 330 pages. \$45.00. ISBN 0-226-63789-1.

Sylvia Ostry does not directly answer the question in the title until the final page. But the answer is never in doubt: the dominance of the United States emerges starkly in this insightful and engrossing chronicle of post-war international trade negotiations. Ostry's lively historical account reveals how American interests and beliefs have shaped virtually all aspects of the postwar trading system, from the creation of the General Agreement on Tariffs and Trade (GATT) to the completion of the Uruguay Round. As the former head of the Canadian delegation at the Uruguay Round, she displays a commanding knowledge of trade policy developments and presents a concise, balanced, and incisive bird's eye view of the forces at work.

Ostry shows how American reluctance to cede any sovereignty to international organizations—so evident today—led to the failure to implement the International Trade Organization, which was to have been a much more powerful and encompassing organization than the GATT. Numerous exceptions and escape clauses were built into the GATT to make it acceptable. Nonetheless, American-led trade liberalization under the auspices of the GATT provided a huge boost to Europe and Japan. But the limited powers of the GATT set the stage for subsequent problems. At first, United States dominance of the world economy allowed it to accept lack of reciprocity by other countries in liberalizing trade. But by the 1970s, the tremendous growth of Japan, seemingly abetted by industrial policy, along with stagflation at home, spawned American complaints about the GATT's toothlessness in the face of other countries' "unfair" practices. The United States responded with both unilateral and multilateral initiatives. The former manifested itself as the "New Protectionism," consisting mainly of voluntary export restraints on Japanese imports, while the latter was reflected in the agenda of the Tokyo Round of trade negotiations—non-tariff barriers, the European Common Agricultural Policy, government procurement.

The Tokyo Round achieved little, however, and U.S. frustration escalated in the 1980s. Although stagflation eased, the ballooning U.S. trade deficits provided macroeconomic fuel for the microeconomic complaints about predatory Japanese behavior. Pressure for stronger unilateral actions culminated in the enactment of the infamous Super 301 provision of U.S. trade law, which authorized retaliation against countries for a wide range of “unfair” trade practices. While Ostry condemns Super 301 as a dangerous threat to a rules-based system, she points out that its effects were limited due to the executive branch’s reluctance. The threat of stronger U.S. measures may have helped persuade other countries to accede to U.S. pressure for a new and more ambitious round of trade negotiations, the Uruguay Round.

Unlike the Tokyo Round, Ostry views the Uruguay Round as a major achievement, notably the agreements on services and intellectual property rights, and the creation of the World Trade Organization (WTO). In responding to American concerns and tackling some of the thorny issues raised by “deeper integration,” the Uruguay Round revived multilateralism and diminished the appeal of regional trade agreements, which Ostry dismisses as a “fad” that has “gotten out of hand” (pp. 203–04). The WTO considerably enhances the weak dispute settlement powers of the GATT. The familiar American ambivalence towards international organizations nearly blocked ratification of the Uruguay Round, and in 1995 U.S. threats of punitive tariffs on Japanese luxury car imports in response to alleged lack of access to the Japanese car market posed a potentially fatal threat to the WTO. Ostry argues that the world trading system must make continued albeit incremental progress on issues such as foreign investment, competition policy, and regulatory reform to create a global “level playing field,” while navigating the shoals of “system frictions” related to differences in economic structures and cultures.

The analysis of the world economy is not as convincing as the discussion of trade policy. For example, Ostry stresses the “enormous” American investment in Europe beginning in the 1950s (p. 29), but Table 2.3 reports only

nominal investment flows, providing little idea of how rapidly such flows increased in real terms or how large they loomed relative to European capital stocks. Many tables and figures are dated and only loosely related to the thread of the argument. The view that China’s economic emergence is “the most formidable challenge the Western powers have ever faced” (p. 211) is surely an exaggeration.

Did America undermine its own dominance by promoting European and Japanese reconstruction through unilateral trade liberalization and technology transfer? Ostry equivocates. She seems to concur with arguments that early American nurturing of the Japanese economy was a “disaster” (p. 48), because it did not require reciprocal Japanese liberalization. She approvingly quotes Raymond Aron’s statement “As the predominant economy, America had the advantage from its trading partners’ point of view of believing in freedom and communication rather than in secrecy and bureaucracy” (p. 26). When discussing the 1990s, however, Ostry accepts the current conventional wisdom that Japan and Europe are at a disadvantage relative to the more free-wheeling and flexible American system. Her enthusiasm for “deeper integration” may also be overdone. After all, comparative advantage is based on economic diversity. Moreover, regulatory harmonization may often be unnecessary to provide foreign and domestic firms with equal market access—the traditional GATT principle of national treatment is sufficient. Despite these questions, Ostry has provided a sophisticated and illuminating look at the paradoxes of American trade policies and their global consequences.

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## G Financial Economics

*The economics of financial markets.* By HENDRIK S. HOUTHAKKER AND PETER J. WILLIAMSON. New York and Oxford: Oxford University Press, 1996. Pp. xiii, 361. \$39.95. ISBN 0-19-504407-X. JEL 97-0127

*The Economics of Financial Markets* is an outstanding book about financial markets.