Fifty Years of Trade Policy: The Policy Lessons

C. Fred Bergsten

1. SUMMARY AND CONCLUSIONS

Five major lessons for successful global trade management, defined as steady reductions in barriers and maintenance of an effective rules-based system, emerge from the first fifty years of the GATT/WTO. They need to be applied to the present situation to set the stage for another half century of successful multilateral trade cooperation. I will summarise the key headings at the outset and then elaborate each, concluding with proposals for the WTO agenda for the early part of the twenty-first century.

1) The Bicycle Must Keep Moving. Forward momentum is essential to avoid backsliding into protectionism and mercantilism. A major new initiative is sorely needed at the present time to restart the bicycle.

2) Big is Beautiful. Large-scale initiatives work better than small ones in keeping the bicycle moving. The time has come to launch the largest liberalisation effort in the history of the global system, an effort to achieve global free trade by a date certain (probably 2010 or 2020) via a new round and probably several successors.

3) Building Blocks, Not Stumbling Blocs. Regional trade arrangements have been a major source of liberalisation momentum throughout the postwar period, especially over the past decade. However, they also pose potential risks to the global system. Hence their continued proliferation provide both the foundation for the next big multilateral initiative and another motivation to launch it.

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Money is Central. The international monetary and macroeconomic environment has been a critical determinant of the launch of all three major postwar trade rounds. Prospective monetary developments, particularly the onset of record trade deficits in the United States, suggest a similar imperative over the next year or two.

Leadership is Essential. The United States has galvanised each of the previous rounds but the European Union has been an essential partner in de facto ‘G-2’ management of the system. With the creation of the euro, G-2 management will extend into the monetary arena and become more apparent – including for the next major WTO negotiation.

2. THE BICYCLE

Momentum has been a decisive factor in the direction of trade policy throughout the postwar period, both internationally and within the major countries. The political economy is straightforward: new liberalisation initiatives force protectionist forces onto the defensive, while the absence thereof creates a vacuum that protectionists fill quite successfully.

The history of the GATT itself reveals an ebb and flow reflecting this principle. When the institution became largely comatose for several years after the completion of the Kennedy and Tokyo Rounds, major new protectionist efforts were undertaken and succeeded for at least a while: most notably the installation of the MFA and the US import surcharge in the early 1970s, and the panoply of new VERs (autos, steel, machine tools, tightening thereof in textiles/apparel) in the early 1980s. By contrast, the ongoing agenda of sector negotiations after the completion of the bulk of the Uruguay Round in 1994 has precluded significant backsliding to date.

The periodic absence of international momentum has had a particularly profound effect on the trade policy of the United States, the largest and most influential member of the system. American protectionists took advantage of the post-Kennedy Round malaise to ram the ‘Mills bill’ through the House, with its textile and shoe quotas and other far-reaching protectionist provisions; to threaten the even broader Burke-Hartke legislation to control all imports and outward direct investment; and to prompt the Nixon Administration to negotiate the MFA and apply an import surcharge. American protectionists successfully achieved the series of new VERs listed above, forced a wholesale reversal of the Reagan Administration’s trade policy in September 1985, and enacted the infamous ‘Super 301’ provision even after the Administration had successfully pre-empted more negative legislation. Despite the strength of the American economy, the current antiglobalisation forces in the United States have taken advantage of the present lack of forward momentum to block new fast track negotiating authority
for the President, pass legislation for steel quotas by a 2:1 majority in the House, come close to stopping permanent normal trade relations for China despite its overwhelming benefits for the United States, and contribute to torpedoing a range of new international initiatives including a new WTO round at the Seattle Ministerial and the Multilateral Agreement on Investment in the OECD.¹

As will be noted below, these temporary (but extremely costly) periods of major American protectionism were driven initially by (largely self-inflicted) imbalances in US monetary and macroeconomic policy. However, the absence of any major GATT initiatives at the time left the door open for such relapses. This explains why American trade negotiators are always anxious to begin a new initiative as soon as the prior one ends, or even sooner, and why the rest of the world errs to demur in the name of ‘trade fatigue’ or some other excuse that ignores the fundamental interplay between external and internal politics in American trade policy.

The lesson for the present period is clear: launch a new liberalising initiative in the WTO to restart the bicycle as soon as possible. As noted, the sectoral follow-ups to the Uruguay Round – in telecommunications services, financial services and information technology products – maintained a degree of momentum after its conclusion. The Uruguay Round wrap-up was extremely wise to incorporate a ‘built-in agenda’ for the future, including such major topics as agriculture and overall services.

But the Seattle Ministerial failed to launch a new round and no significant liberalising progress is under way anywhere in the world at present. The United States, the developing countries and the rest of the WTO membership need to restart the bicycle promptly and regain the momentum for liberalisation.² It is urgent for them to do so in light of the evident strength of the backlash against globalisation, as indicated in the continuing rejection of fast track in the United States and the growing Asian calls to reduce their vulnerabilities to future crises by partial separation from the global system to replace their full-scale outward orientation of the past.³

3. BIG IS BEAUTIFUL

The history of the GATT/WTO, and especially trade policy in the United States, clearly reveals that large-scale initiatives fare better than modest ones. The political economy is again straightforward: big-picture proposals capture the imagination of top political leaders and thus induce them to provide the

¹ The latter is analysed in Graham (2000).
² Details for how to do so are presented in Schott (2000).
³ See Bergsten (2000).
leadership needed to win domestic support, provide a critical foreign policy/ 
national security rationale to amplify the purely economic case for proceeding, 
and generate such huge stakes that no political leader is willing to accept blame 
for failure of the enterprise once it has been launched. ‘Big is beautiful,’ 
therefore, at both the start-up and completion of the process.

The key example of the United States is again instructive. Extension of 
NAFTA to tiny Chile would be so small that it could never command Presidential 
leadership and business support. The defeat of fast track in 1997–98 was due 
importantly to the Administration’s failure to indicate how it would use the 
authority and thus the absence of any stakes that were deemed to be worth 
fighting for.

Each succeeding GATT round has had the important advantage of being more 
ambitious than its predecessors. The Kennedy Round sharply increased the extent 
of multilateral cuts in tariffs, which remained an important impediment to trade at 
that time. The Tokyo Round began the process of extending the GATT system to 
non-tariff measures. The Uruguay Round brought agriculture and textiles into the 
system, seriously addressed services and intellectual property rights, and 
dramatically improved the dispute settlement mechanism. ‘Bigger was better’ 
in attracting sufficient political support to bring each succeeding negotiation to a 
successful conclusion, despite the bigger battles that had to be taken on to do so.

There is a natural extension, to the next phase of multilateral liberalisation and 
rulemaking, from this past progression of escalating increasing negotiating goals: 
setting a goal of global free trade by a date certain, perhaps 2010 or 2020.\(^4\) Over 
60 per cent of world trade is already free, or en route to being free (see Table 1), 
as a result of the initiatives already completed or undertaken by the several large 
regional arrangements (EU, NAFTA, Mercosur, AFTA, Australia-New Zealand,

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\begin{array}{l|c}
\text{Region} & \text{Share of World Trade, 1998} \\
\hline
\text{EU} & 22.8 \\
\text{EUROMED} & 2.3 \\
\text{NAFTA} & 7.9 \\
\text{MERCOSUR} & 0.3 \\
\text{FTAA} & 2.6^* \\
\text{AFTA} & 1.3 \\
\text{AUSTRALIA-NEW ZEALAND} & 0.1 \\
\text{APEC} & 23.7^* \\
\hline
\text{Total} & 61.0 \\
\end{array}
\]

Note: 
\(^*\) Excluding subregionals.

\(^4\) As originally proposed in Bergsten (1996).
FTAA and APEC). It is thus a relatively short step to global free trade, and rolling the regionals into such a multilateral context is in any event the only way to assure the avoidance of conflict among them. Hence a global free trade goal appears feasible, as well as being a highly desirable big-picture proposal to capture political imagination and support around the world.

The route to that goal will clearly encompass several major ‘rounds’ of WTO negotiation. A corollary of ‘big is beautiful’ is that multi-issue rounds have been crucial to the outcome of the successive GATT negotiations. Tradeoffs across issue-areas are required to meet the needs of the ever-growing number of country participants, and to induce a critical mass to sign on.

The United States could never have agreed to eliminate its textile quotas without the gains in agriculture, services and intellectual property rights that enabled the beneficiaries in those sectors to convince the Congress that the overall deal was in the national interest. Japan and Korea could never have begun the liberalisation of their rice quotas without major gains for their exports of industrial products. The three sectoral agreements of 1995–97 have probably completed the roster of potential stand-alone deals. Indeed, their negotiation may have even jeopardised later agreements on agriculture and other difficult topics by ‘using up’ some of the tradeoffs that could otherwise have been employed for that purpose. It must also be remembered that several sectoral efforts, including maritime services in the WTO and the Multilateral Agreement on Investment in the OECD, have failed largely because of the absence of potential tradeoffs with other issue-areas.

The APEC sectoral initiatives of 1997–98, though they have failed to bring concrete results, are instructive in this regard. After their success in galvanising global agreement on the Information Technology Agreement (ITA) in 1996, the APEC leaders decided to try to replicate that event in additional sectors. They originally envisaged agreeing on two or three sectors, at their Vancouver summit in late 1997, but found that ‘balance among the parties’ required a much larger number – so they decided to proceed on 15, including 9 in 1998. APEC of course hoped to multilateralise these negotiations, as it did with the ITA, and the EU and others promptly indicated that they would propose additional sectors. But even this was not broad enough and the entire initiative had to be meshed with the built-in agenda already endorsed by the WTO to help set the stage for a new round (with or without the ‘global free trade by 2010/2020’ goal recommended here).

The basic lesson of GATT/WTO history, as well as of trade policy in the United States, is that larger initiatives fare better than small ones. Application of that lesson to the period ahead is of crucial importance because of the severe threat to the open trading system from opponents of globalisation in the United States, Europe and some key developing countries. The complaint that large rounds take too long to complete is actually a virtue because, as long as their eventual success remains a realistic prospect, it is the very existence of the
negotiations that propels the bicycle forward and provides a bulwark against backsliding. If one worries about excessive duration, however, the answer is to divide the total negotiations into a series of self-balancing, but smaller, ‘roundups’ every two or three years to assure the credibility of the process.\textsuperscript{5} The prescribed course of action is, in any event, the earliest possible launch of a new round within the context of setting a policy objective of achieving global free trade by 2010 or 2020.

4. BUILDING BLOCKS, NOT STUMBLING BLOCS

Debate continues to rage in some quarters over the compatibility of regional trade agreements with the multilateral system. Some observers fear that regional participants, once having liberalised regionally, will not want to give up their preferential arrangements and/or will have ‘used up’ their liberalisation potential and/or trade attention.

There are, indeed, a few disquieting signs. NAFTA employs rules of origin in the textile/apparel sector that discriminate sharply against non-members. Mercosur raised its common external tariff in late 1997 and sometimes expresses doubts about extending its liberalisation to broader groupings. History suggests the real possibility of clashes among regional blocs if their relationships are not managed in the context of a successful global system.

Fortunately, however, the postwar record is an unbroken chain of positive interaction between the global system and its main regional subsystems. There are clear theoretical grounds for this outcome: modest liberalisation begets broader liberalisation by demonstrating its payoff and familiarising domestic politics with the issue, regional deals can provide useful models for broader global agreements, and the adverse impact of new preferential arrangements on outsiders induces the latter to seek new multilateral compacts.

The regionals have in fact kept the bicycle moving forward both through their own liberalisation and through the impetus they have provided to the successive multilateral initiatives. They have been a major driving force behind each of the rounds that have been the primary channels for global progress. Hence the regionals have been key elements in the successful evolution of the two principles already enumerated, the forward momentum of the bicycle and ‘big is beautiful.’

The key regional arrangement is by far the European Union, and its evolution has been central to the entire postwar history of the multilateral trading system. The initial creation of the Common Market, in the late 1950s, was the most important driver of the American initiative to launch the Kennedy Round in the early 1960s – both for defensive reasons, to start reducing the newly created

\textsuperscript{5} As advocated by Schott (1996).
discrimination against American exports, and to build the ‘new Atlantic partnership’ enunciated by President Kennedy. The expansion of the European Community to include the United Kingdom and others, with the extension of its discrimination to important new markets, was an important factor in the American decision to insist on the Tokyo Round in the 1970s. The EU decision to launch the ‘single market’ strategy in 1985, with the implied broadening of discrimination to many new functional areas, likewise added to the US determination to begin the Uruguay Round a year later. To its great credit, the EU has agreed to reduce its barriers on a multilateral basis in each of these rounds – though with great reluctance in agriculture – and thus to sustain the bicycle of global liberalisation.

The positive thrust of regionalism for global liberalisation has broadened considerably over the last decade or so. When the EU and others refused to proceed with the new round that the United States was seeking in the early 1980s, the United States reversed its traditional policy of sole reliance on multilateral liberalisation and agreed to negotiate bilateral free trade agreements with Israel and then Canada; the EU and others took notice and subsequently agreed to restart the multilateral bicycle. When the Uruguay Round faltered in the late 1980s, Mexico successfully sought US and Canadian agreement to negotiate NAFTA and several Asian countries (notably Japan and Australia) took the lead in creating APEC; the EU and others took notice and the Round regained momentum. When the Round faltered once more in the early 1990s, APEC’s decision to hold annual summits and create ‘a community of Asian Pacific economies’ oriented toward ‘free and open trade and investment in the region by 2010/2020,’ as formally agreed a year later, quickly persuaded the Europeans to overcome their problems and participate in a successful wrap-up.

For their part, all of the new regionals have so far emulated the willingness of the EU to multilateralise at least part of their liberalisation (on a fully reciprocal basis). APEC, potentially the second most important regional grouping because its external trade level closely approximates that of the EU, has to date remained wholly faithful to its precept of ‘open regionalism’ and has in fact played a key role in galvanising the conclusion of both the Uruguay Round and the ITA.

The current stoppage of the multilateral bicycle has spawned or renewed a proliferation of regional initiatives. Japan, the world’s second largest trading country, has reversed its traditional policy and is pursuing bilateral free trade agreements with Korea, Mexico, Singapore and Canada. Chile, Mexico, Singapore and New Zealand are negotiating new FTAs with each other and several other partners. AFTA and CER are trying to link their subregionals. The EU is continuing to expand its network of FTAs.

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6 As analysed by Bergsten (1997a and 1998).
7 Details are in Bergsten (2000).
It will be essential for the major countries, who are at the same time central to both the global system and the main regionals, to manage the interaction between them in a manner that will continue to be mutually supportive – as the United States did while simultaneously negotiating NAFTA and the Uruguay Round. Assuming that the United States (with NAFTA, APEC and the FTAA) and the European Union (with its expanding network, including Euromed and perhaps EU-Mercosur), do so, the lesson for the present period is clear: implement the liberalisation commitments of the regional arrangements as rapidly and successfully as possible, and roll them into global agreements via a new round as promptly as possible.

5. MONEY IS CENTRAL

International monetary conditions and the related macroeconomic environment, though outside the purview of the GATT/WTO itself, have been central factors in the postwar evolution of the multilateral trading system. They have been particularly critical to the launch of the successive major negotiations, and to the determination of the United States to push for such agreements.

This was particularly true for the Tokyo and Uruguay Rounds. The Tokyo Round was in fact launched as part of the agreement, insisted upon by the United States, to restore fixed exchange rates among the major countries and terminate the import surcharge that it had instituted in August 1971 – the most frontal assault on the principles of the GATT in the history of that institution. The American strategy was twofold: to accomplish a substantial devaluation of the dollar, to restore American competitiveness and reverse the sharp deterioration (for those days) of its trade balance, and to launch a new international trade negotiation to help resist the intense protectionist pressure which had developed by 1971, as described above. (Dollar devaluation was also essential to enable the Administration to win Congressional support for the new trade round, which it did in 1974.)

The launch of the Uruguay Round was similarly linked to a monetary crisis. The huge dollar overvaluation of the early 1980s, stemming from the massive budget deficits and ‘malign neglect’ of the first Reagan Administration, generated a huge current account deficit and converted the United States in short order from world’s largest creditor country to world’s largest debtor. As a result, protectionist pressure escalated rapidly and Reagan himself, despite his devotion to open markets in general and free trade in particular, ‘granted more import relief to US industry than any of his predecessors in more than half a century.’

8 Remarks by Treasury Secretary James A. Baker III before a conference sponsored by the Institute for International Economics (14 September, 1987).
addition, leading Congressmen commented that ‘the Smoot Hawley tariff itself would have passed had it come to the House floor in the fall of 1985.’ The Administration therefore adopted a two-part strategy similar to 1971: depreciate the dollar sharply, primarily through the Plaza Agreement of 1985, and launch a new multilateral negotiation to counter the protectionist pressure. Dollar devaluation was again essential to achieve the stronger trade position that would garner Congressional approval for the new trade talks, as ultimately achieved in 1988.

The Kennedy Round also originated partially in a monetary crisis. The first run on gold in the postwar period occurred during the Presidential campaign in 1960, and President Kennedy reportedly viewed the balance-of-payments problem along with the risk of nuclear war as his top policy priorities. The Administration’s strategy for correcting the deficit (as defined at the time), as developed during its first year in office, included a major effort to open foreign markets to American exports. This in turn led to the proposal to launch the Kennedy Round.

Today’s circumstances replicate these previous episodes to an important extent. By early 2000, the US merchandise trade deficit reached an annual rate of $450 billion and the current account deficit reached a rate of $400 billion (over four per cent of GDP). The imbalance is of course primarily a macroeconomic phenomenon, as in the past, and will require substantial correction in the exchange rate of the dollar – which is currently overvalued by 15–20 per cent in trade terms.9

In the meanwhile, however, substantial protectionist pressures have already surfaced and will undoubtedly rise once the US economy slows and unemployment begins to increase – and be blamed on the record trade deficit. As noted above, the opponents of globalisation have successfully resisted new Presidential negotiating authority even while the economy has been proceeding successfully. The monetary imbalance will thus again require the United States to press for a new multilateral negotiation, to restart the bicycle and help resist the backlash against liberalisation.

There is thus an intimate relationship between the global trading system and monetary/macroeconomic imbalances. The latter trigger changes in trade balances that generate protectionist processes. The imbalances cannot be corrected by trade policy but rather must be resolved by changes in macroeconomic and currency policies. These changes take time (usually two to three years) to play through, however, and the trade policy pressures must meanwhile be countered by restarting the bicycle of liberalisation. This pattern has played a significant role in the launch of all three major GATT negotiations and is likely to do so again for the first major effort under the WTO.

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9 See Mann (1999).
The final key variable in the successful management of the GATT regime was leadership, usually exercised most visibly by the United States. As noted, American events and initiatives played a central role in the launch of all three GATT rounds (and most of the smaller negotiations as well, including the latest sectoral talks).

It must be remembered, however, that the European Union has been an essential partner in each of these ventures. The reason is simple: the EU, since it expanded beyond the original six members in the early 1970s, has had an economy as large as that of the United States, has been an even larger trading entity, and has spoken with a single voice on most trade policy issues. Hence Europe has been able to veto any global trade accord, and has been a necessary co-leader of all multilateral enterprises.

With the creation of the euro, the EU is in the process of achieving a similar degree of equality on monetary and macroeconomic issues. Particularly in light of the critical importance for trade policy of prospective monetary developments, in both the United States and the European Union, it is thus even more important for this de facto G-2 to provide joint leadership for the WTO system.

In recent years, the United States has sought to magnify its leadership by mobilising Asian cooperation through APEC. As noted above, APEC has played a crucial leadership role in the global system on at least two occasions – the conclusion of the Uruguay Round and the negotiation of the ITA. The United States generally takes the lead on trade issues within APEC but the group as a whole can now be an important player in the global trading system. However, APEC failed to hold together at Seattle despite the agreement at its Leaders Meeting in Auckland in September 1999 to make a major collective push for a successful outcome there.

Another new element is the enhanced clout of the developing countries. They played an important role in the Uruguay Round and were important factors in the failure at Seattle. There are sharp differences within the group on most issues, however, and they are not yet capable of playing a positive leadership role. The essentially bipolar power structure will still require joint US-EU leadership to launch a new round, and all other global trade initiatives for the foreseeable future, and thus inter alia overcoming the spate of bilateral trade conflicts that now plague the G-2 relationship.\footnote{See Bergsten (1997b).}

\footnote{See Bergsten (1999).}
7. CONCLUSION

This assessment of the last fifty years identifies five key principles as explaining the success of the global trade regime. The five have generally worked together in mutually reinforcing ways:

- Monetary and macroeconomic imbalances trigger a need for new global negotiations, to contain the protectionist impulses generated by large trade imbalances;
- New regional arrangements, which create new trade discrimination and thus motivate outsiders to negotiate globally in response, also trigger such a need;
- New multilateral rounds are then undertaken to restart the bicycle of liberalisation, in order to counter the risks of backsliding and even reversal of previous openings;
- Large initiatives, especially comprehensive rounds, are utilised in implementing the strategy to appeal to the widest possible group of participating countries and thus to propel the bicycle most effectively;
- Leadership is provided by the largest trading entities, mainly the United States and the European Union, as the de facto stewards of the system.

This five-part pattern largely explains the inauguration, progress and completion of the three large rounds that have represented the dominant developments of the postwar trading system. The pattern is re-emerging today and is likely to do so clearly over the next year or so. The system needs to respond with a new round on this occasion as it did with the Kennedy, Tokyo, and Uruguay Rounds in the past.

It must be recognised, however, that today’s circumstances differ in important ways from those of the past. For example, the threat to the open trading system – at least so far – is not primarily the crude protectionism of the past that, in the case of the United States, produced a ‘Mills bill’ and import surcharge in the early 1970s and a series of VERs in the middle 1980s. The ostensible threat is a more nuanced reaction to globalisation, accepting the inevitability of that phenomenon but seeking to manage it in potentially destructive ways.

One set of these efforts focuses on neomercantilistic devices, like the ‘super 301’ provision of 1988 US trade legislation. Another promotes linkages between trade policy and non-trade objectives, notably regarding international labour standards, which could become covers for future protectionism. Most important is the explicit effort to stop the bicycle by calling a ‘strategic pause’ in further liberalisation, perhaps as a prelude to reintroducing traditional protectionist efforts if the system’s forward momentum can be decisively broken. The

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advocates of that strategy in the United States can claim at least two notable successes with their defeat of fast track negotiating authority and the MAI.

These new pressures offer both opportunities and risks. They pose opportunities to address a series of real problems which their advocates identify, including barriers to trade not yet covered by the WTO (e.g., competition policy in Japan) and interrelationships between trade, on the one hand, and labour and environmental issues, on the other. The risk is of course the derailing of the bicycle of liberalisation and thus jeopardising the progress of the past fifty years.

It is also important, at this point in time, to note the backlash against globalisation in other parts of the world. There is a minority, but nevertheless strong and perhaps growing, sentiment of this type in Europe. The Asian crisis has triggered a similar backlash in Asia, though one that appears to focus more on the creation of new regional arrangements than on closure of markets. The issue for the global trading system is thus far more than ‘simply’ countering the risk of backsliding in the United States, important as that consideration alone continues to be.

The monetary impetus for a new trade initiative also now takes on great importance of geographical dimension. As noted above, record trade deficits in the United States raise the spectre of sharp trade policy reactions once the US economy slows and unemployment begins to rise.

The third key reason to launch a new negotiation, the need to channel the regional arrangements in a cohesive global direction, is also more extensive than in the past. This dimension of the prior rounds was aimed primarily to reduce the discriminatory impact of the European Union. Now, however, it is also important to generate a similar opening by NAFTA, Mercosur, and several other regional groupings that have become economically significant in the 1990s. It is also necessary to channel the proliferating array of new regional arrangements in directions that are consistent with, and supportive of, the global system. The need for a new global trade negotiation, again, has varied geographical as well as substantive dimensions.

In pursuing that negotiation, I have argued for the most far-reaching application in GATT/WTO history of the principle that ‘big is beautiful.’ All of the past rounds were quite ambitious, by contemporary standards, but they sought merely to reduce barriers (and write new rules) in the search for freer trade. Now that so many regional arrangements have already blazed the trail to free trade, the time has come for the global system to adopt a goal of eliminating all barriers by a date certain (perhaps 2010 and 2020, à la APEC and Euromed). In addition to all its substantive benefits, this would keep the bicycle of liberalisation moving forward for the next decade or two. The global trading system will meet the challenges of the turn of the century only if we learn the lessons of this enormously fruitful period of global cooperation, draw appropriate lessons for the future, and proceed courageously to implement those conclusions.
REFERENCES