Business and Politics

Volume 11, *Issue* 3 2009 *Article* 5

GLOBAL ECONOMIC GOVERNANCE: BEYOND MANAGEMENT BY THE UNITED STATES AND THE EUROPEAN UNION?

Not Just a "Second Order" Problem in a Wider Economic Crisis: Systemic Challenges for the Global Trading System

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Abstract

Reform of the multilateral trade regime is not simply a second order problem within a wider economic crisis. The completion of the Doha Round may be a second order question but the global trade regime faces a series of broader systemic challenges beyond the completion of the current negotiations. This paper identifies five challenges: (i) a marked reduction in popular support for open markets in major OECD countries; (ii) the stalling of a transition from one global economic equilibrium to another; (iii) a lack of clarity and agreement on the agenda and objectives for the WTO as we move deeper into the 21st century; (iv) the demand for fairness and justice in the governance of the WTO—the 'legitimacy' question and (v) the rise of regional preferentialism as a challenge to multilateralism. Failure to address these challenges will represent not only a fundamental question for the future of the WTO as the guarantor of the norms and rules of the global trade regime specifically, but also the ability to establish greater coherence in global economic governance overall when its need is arguably greater than at any time since the depression years of the 20th century inter-war period.

KEYWORDS: multilateralism, trade policy, WTO, preferentialism, governance

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*This paper draws on and adapts some sections of the Report of the First Warwick Commission: *The Multilateral Trade Regime: Which Way Forward* (Warwick University, November 2007 accessed at http://go.warwick.ac.uk/go/warwickcommission.) Professor Higgott thanks the members of the Commission, especially Dr. Andrew Roadnight, for their support but absolves them from any responsibility for the arguments expressed in this paper. Earlier drafts of the paper were present to conferences in Washington, March 2008, and New Delhi, August 2008. Thanks got to the BMW Stiftung Herbert Quandt and the EU Framework 6 Network of Excellence 'Garnet' for their support. Professor of Politics and International Studies and Pro-Vice-Chancellor, University of Warwick.

Introduction

How we might 'govern' the global economy is a question that has gained increasing importance for the scholar of political science and international relations over the last decade or so. It is also now a singular question for the policy maker. Its salience has grown rapidly as the implications of our inability to provide for stable global economic management has been starkly revealed by the propensity for volatility and recurrent crisis in the global economy in latter part of the 20th century and the early years of the 21st. The period since 2007 in particular has seen an unprecedented series of challenges. The financial crisis resulting from the collapse of the US sub-prime mortgage market and the shocks that reverberated beyond the US confirmed the irrevocable interdependence of the global marketplace.

The sub-prime crisis demonstrated that unchecked and under-regulated markets are susceptible to corporate greed, inadequate risk management, and subsequent loss of confidence requiring of regulatory response; albeit of an often ill-defined nature and contested nature. For example, the seemingly co-ordinated action taken by the US Federal Reserve and other central banks around the world and the initiatives emanating from the G20 meetings of November 2008 and April 2009 have shown the limits of the system to regulate itself and reminded us that states, for all their limitations, remain the ultimate guarantors of economic stability and security. The case has never been clearer, since the end of the Cold War and the dramatic expansion of globalization, that some degree of institutional control is a necessary prerequisite for stability and rational management across the individual domains of the global economy. The extant institutions need to show greater coherence and enhance, or indeed develop, legitimacy in the eyes of both ordinary people and national governments.

Any reform process must also take into account the shifting balance of *political* power that is accompanying the shifting balance of *economic* power in the contemporary global order. A characteristic (perhaps the most dramatic) of the last decade has been the increasing role played by the large developing countries as both economic and diplomatic-cum-political actors. China's role as an increasingly powerful economic actor over the last decade is well chronicled and is not discussed in this paper. India's role as a political actor, especially in global trade negotiations since the turn of the century, has also grown substantially but is perhaps less well understood. Its leadership of the emerging coalitions of developing countries within the context of the multilateral negotiations in the Doha Round is an important phenomenon in international economic diplomacy—in both material and theoretical terms—and is, given its relevance for our discussion of the WTO, afforded some attention in this paper. It is no exaggeration to suggest that India has come to occupy a pivotal position as a 'veto player' in multilateral global trade negotiations; a position only ever previously held by the US and the other major developed powers such as the EU and Japan. Any conclusion of the Doha Round will need an accommodation to the interests of India as much as to that of the major developed actors in the negotiations.

The fate of the Doha negotiations, and the role of the WTO as an institution more generally, is inextricably linked to recent events in the global financial system. While this paper does not de-link the trade regime and the financial system it does focus on the position and role of the WTO as an instrument of policy coordination in a system under strain. In so doing it stresses that the future of the trade regimes it is not merely a 'second order' problem in a wider crisis. It is a major systemic problem in its own right. It exists in conjunction with, not independently of, the problems of governing and regulating the global financial system. The difficulties with concluding the Round, also known as Doha Development Agenda (DDA), demonstrate not only the difficulties of conducting multilateral trade negotiations in the 21st century. More widely, an ability (or not) to conclude the DDA also acts an important pointer to the prospects (or lack of them) of securing substantial institutional reform and enhanced cooperation in other global issue areas such as finance and the environment. In short an ability, or failure, to conclude the DDA is a litmus test for the prospects of enhanced global economic cooperation more generally.

These linkages are crucial to any discussion of global economic governance writ large. The direct focus of this paper, however, are three serious questions that confront the contemporary architecture of trade governance: (i) How to combat the rise of bilateral and regional preferentialism in trade? (ii) How to determine the boundaries of the activities of the WTO as an institution? (iii) How to enhance justice and fairness in the deliberative processes of the WTO? All three were growing in salience prior to the financial crises since 2007 and all three have taken a back seat in the debate of global economic cooperation as it has developed in the wake of the financial crises of 2007.

These three questions—appropriately contextualized—are the focus of this paper. The paper argues that if seen as systemic problems, their resolution is not to be found in by-passing or jettisoning the WTO, as has been argued for some time across the political spectrum (from economic nationalists to radical de-globalizers). The paper resists these positions notwithstanding the increasing call for alternative actions beyond the WTO since last abortive, Geneva mini-ministerial of July 2008 and the growing economically nationalist/protectionist responses to the financial crisis since that time. Instead the paper makes the judgment that these immediate trends, disturbing as they might be, do not presage a likely breakdown of continued trade liberalization. Rather, the paper addresses what we might call the wider systemic implications for the multilateral trade

DOI: 10.2202/1469-3569.1260

system before thinking about what future regulatory role the WTO might play in it.

Even had a major negotiating break-through come to pass in Geneva in July 2008 and the financial crisis had not occurred, it remains clear that the global trade regime still needs to be reformed if it is to meet the aspirations of the global economy and to see off the challenges it faces. The future of the WTO demands that we also begin to think about longer term structural issues, not simply the conclusion of a specific round of multilateral trade negotiations. The two issues are not, of course, discrete. Any discussions about how to improve the effectiveness and efficiency of the WTO as an agenda-setting and decision-making body inevitably needs to address the relationship between the wider 'consensus problem' and its specific ability to 'negotiate liberalization'. In this context, the paper assumes that we should expect to see both continuity and considerable change in the politico-economic characteristics and institutional structures of the global trade regime over the coming decades.

This paper unfolds in five sections. Section one identifies the broader global, politico-economic context in which any understanding of the contemporary trade system is embedded. Section two provides an overview of five major challenges facing the global trade regime in the opening decade of the 21st century. They are reflective not only of the failure to secure the DDA but also of wider systemic challenges for the trade regime. Sections three to five look in a little more detail at three of these challenges: (i) the shifting politico-economic landscape and the absence of leadership in the agenda setting process in the global trade regime; (ii) the need for greater institutional coherence in the relationship between trade and development and (iii) the challenge to the multilateral trade regime arising from the rise of preferentialism at the regional level.

1. Global Trade in Context

The triumph of market capitalism in the Cold War provided the opportunity for the achievement of the historic goal of free trade. Between 1947 and 1994, the General Agreement on Tariffs and Trade (GATT) oversaw significant reductions in tariffs imposed by Western European and North American nations on imported goods, which have fallen dramatically to average rates of 4% today. The collapse of the USSR allowed the US and its allies to determine the future shape of the global economy. Market capitalism took on a truly global character as the barriers to the movement of capital and goods tumbled (Bhagwati, 2004; Wolf, 2004).

The new dispensation, which included promises of access to the markets of the developed world for developing countries, still worked to the benefit of the powerful countries that had dominated the GATT. The emergence of the Asian

NICs, and latterly and most dramatically China, provided the industrialized nations with cheap manufactures and primary products while the major economies gained access to new markets for their services and high-value exports. To be sure, this new arrangement improved the lot of many people in the developing world but this was not (yet at least) at the expense of the political domination of the global economy by the rich countries of North America and Europe.

The new, globalised economy in the first wave of globalization was, in some ways, no different from the series of national and regional economies it had succeeded. The western tradition of limited oversight meant that few checks were put in place to control the corporations and individuals who ran, and profited from, the new global marketplace. Over time the role of the international institutions changed. While the International Monetary Fund lost its initial mission without fully securing a new role, the World Bank has probably adjusted better to the changing global economic environment; securing a more 'knowledge driven' role for itself (Stone, 2003). More promisingly, the WTO emerged out of the GATT with a mandate to extend and embed the global marketplace, not least through the integration of developing countries (see Narlkar, 2005 for a basic introduction).

In the initial years following the end of the Cold War the system appeared to work well enough. In the industrialized world, corporations took advantage of the new sources of cheap labor in Asia (and increasingly Eastern Europe) to produce cheap consumer goods and high profits. The financial titans enjoyed a bonanza as new markets opened up, as new ways of making profits were discovered and as cheap credit fuelled the consumer boom which sustained western economies. Even the workforces in the industrialized countries benefited as real incomes rose and the transition from manufacturing to services-based economies took hold. True, there was resistance to change in some quarters but, by and large, workers saw their standards of living rise.

Economic growth in the 'West' assisted in the emergence of new powerful economies in the South and East. Most obviously, the rapidly developing state-controlled capitalism of the Peoples' Republic of China fed the West with consumer goods while lifting 400 million people out of poverty (Lawrence, *n.d.* and Breslin, 2008). India, although it has not accepted the disciplines of the open market as willingly as China, has become a provider of technology-based and business services (Basu, *et al*. 2005 and Panagirya, 2008). Albeit with lesser global impact, Brazil's position as a powerful agricultural and commodity trader has consolidated.

However, the new dispensation has not been without its problems. Arguably, it replicates some of the 'boom and bust' features of the old national capitalist systems, at times on a grander scale. The first post Cold War shock to the system came with the Asian Financial Crisis of 1997-98 when the economies

DOI: 10.2202/1469-3569.1260

of Southeast Asia failed to cope, amongst other things, with the demands of rapidly liberalizing capital market, the impact of new technology, and inadequate institutional structures to ensure the proper management of those markets. The crisis exposed the gap between market perceptions of the strength of the *national economies* and the reality that they were less robust *political economies* than analysts thought.

2000-01 saw the Dotcom collapse. Mainly, but not exclusively an industrialized economy phenomenon, it followed a lengthy period of hype surrounding the potential inherent in the Internet and personal computing revolution. Between 1995 and 2000, a period of irrational exuberance (Schiller, 2000), a speculative bubble built around Internet-based companies, appeared to defy the normal business models merely by increasing market share. With excess funds sloshing around in the world's financial markets, speculators piled into these companies until reason was re-established and stock values were corrected with wholesale bankruptcy ensuing. The consequence was a mild but lengthy recession in the developed world.

Although its full scale is not yet known, the current collapse in the financial system appears to be the most far-reaching of them all. Some commentators, *pace* George Soros, argue that it will prove to be the most serious economic crisis since the Second World War, possibly since the 1930s, and threatens the globalization project itself. Born in the US, out of a further bout of irrational exuberance (Schiller, 2008) the crisis has the potential to destabilize the whole global economy and has brought home the consequence of the under-regulation of the financial sector. Without close supervision, the banks and other institutions of the financial system devised ever more arcane ways of manufacturing profits to line the pockets of their executives. As we have seen, the collapse in the market for 'sub-prime' mortgages exposed the fragility of confidence in the system as banks stopped lending to each other. Bankers ran to regulators to secure protection from the outcomes of their own folly; an inevitable consequence of which has been a trend towards re-regulation of some of the activities of financial markets. These events lead students of global economic governance to examine the prospects of cooperative global financial regulation in same context as the inability of the principal actors in the global trade system to bring about a conclusion to the DDA. Both are political questions of 'will' and leadership.

The international trade regime is clearly be affected by the fallout from the current wider economic and financial turmoil. As part of the project to create a global economy, the multilateral trade system is threatened by the perception that globalization has been tarnished by speculative investment and other excesses in financial markets seeking ever larger profits at the expense of sound business practice. The spill over into the growing opposition to trade liberalization might be irrational, but as later sections of the paper argue, it is nevertheless real.

At a specific level, whilst most members of the WTO appeared to have kept the worst domestic protectionist pressures under control in the early parts of the financial crisis (see WTO, 2009) there was evidence of countries adopting trade restricting or trade distorting measures to protect key national businesses and jobs. Examples of protectionist trade policy measures included increased tariffs on a range of products (steel, toys, apparel, footwear, food, and beverages), the introduction of export subsidies, increased VAT, and support to domestic automobile manufactures. These activities took place across a range of countries including the US, the EU, China, Russia, India, Indonesia, and Mercosur. The effect of this was to provoke retaliation. But the risk exists. It thus becomes all the more important for the WTO to reach agreement on Doha. The financial crisis also inhibited trade expansion through the negative effects of reduced liquidity on access to and sharp increases in the cost of trade credit for exporters. This was particularly acute for developing country exporters. The cost of trade credit tripled in some countries throughout 2008-9 (WTO, 2009: 7).

Of course, the international trade system faces other longer standing systemic challenges other than the financial crisis of 2007-9. It is clear that the multilateral trade system has had a positive impact on economic growth generally. The opening of markets does result in a more efficient allocation of resources worldwide. However, the overall sustainability of purely market-driven growth in the face of dramatic population growth and environmental degradation involving climate change and raw material consumption increasingly raises questions of global concern.

There is now near universal agreement that greenhouse gas emissions are causing global warming. More contentious, of course, is the question of how to reduce emissions in a way that is perceived to be fair. Of prime concern is the fact that historical responsibility for the emissions lies mainly with developed countries, which remain dependent on carbon-based fuel sources, while developing countries have only one realistic option if they are to pursue affordable development strategies and that is fossil fuel-based. Efforts to forge an acceptable international framework that reduces emissions in the face of competing demands from the developing world have not been successful and short run prospects are not good. The Kyoto Protocols were rejected by the US, the world's largest polluter, and did not cover the growing economic powers, China and India. Negotiations on the treaty to replace the Kyoto Protocols, due to expire in 2012, began in December 2007 and look likely to be as, if not more, tortuous and politically toxic as any previous round of multilateral trade negotiations. Failure to secure a conclusion to the Doha Round for Trade

DOI: 10.2202/1469-3569.1260

Negotiations can only be a negative demonstration effect of global political leadership to act collectively.

If there are already concerns about the sustainability of the world economy with a global population of 6.2 billion, then longer term the future looks bleaker still. The British government's projections envisage a global population of 9.5 billion by 2050 (*The Guardian*, March 7, 2008). Even at current levels of economic activity, and bearing in mind disparities between the developed world and the developing world, this prospect holds enormous implications for policymakers. If we have difficulty in arriving at international agreements to control the waste we produce now, how difficult will this issue be in the future? How will the globe accommodate 50% percent more consumers without reducing *per capita* consumption or increasing production dramatically is a question that remains in the too hard box for analysts and practitioners alike?

The problem becomes even more complex if the developing world succeeds in creating wealthier societies through greater integration into the world economy, a key objective of the multilateral trade system. Even if the 2.5 billion people of China and India do not attain levels of wealth and consumption seen in the developed world, any significant economic development will mean increased pressure on resources. The possible impact of such development can already be seen in the rising prices of oil and foodstuffs. Over time similar effects can expect to be seen in relation to other primary products, especially precious metals.

Pressure on resources and population growth pose challenges for the continued integration of the global economy generally, and for the trading system particularly. Not only is the future collective management of the global economy crucial to the environment in which trade governance exists, but it is also true that the architecture of the trade regime will need to accommodate the new stresses placed upon it by questions of sustainability and economic development. The normative argument advanced in this paper is that these issues can only be tackled if there is greater not less, collective action in the regulation across the spectrum of global economic activity. This debate is live and the jury is out. Showpiece events such as the activities of an emerging G20 suggest, however, that this need is understood, at least in times of crisis in the financial domain, if not easily accepted by all parties. Whether global institutions are capable of meeting this challenge is, of course, arguable. At the outset, these challenges present a paradoxical problem; there needs to be institutional policy coherence but there must also be an institutional division of labor. Specifically for the argument presented in this paper, trade policymakers, operating in or around the WTO, cannot ignore the context in which they operate; but nor can they address all these issues. While the challenges are global, they represent themselves in different ways in different institutional form. The next section identifies the form these challenges take for the governance of the global trade regime

2. Five Challenges Facing the International Trading System

There is, since the turn of the century, some significant evidence that many of the lessons learned in the 20th century about the importance of multilateral institutions (as transaction cost-reducers, vehicles for, trust enhancement, deal making, and compliance enforcement) and the norms and principles that underpin them, are in danger of being 'unlearned' in the 21st century. To immediate context for this 'un-learning' includes the growing anti-globalization protests that accompany ministerial meetings of the WTO; near permanent rumblings of discontent by diverse groups of countries from within the organization; and the turn to alternative forms of economic governance including bilateral and regional preferential trade agreements. Moreover, much of the trade liberalization in developing countries that has occurred has done so on a unilateral basis (Stern and Deardoff, 2006).

A recent detailed examination the multilateral trade regime (Warwick Commission, 2007) identified five central challenges facing the world trading system and the dilemmas they pose for policymakers. Firstly, drawing on Pew Foundation data, the Warwick Commission noted a paradox between continued governmental liberalization and internationalization of their economies in major OECD countries on the one hand and an attendant marked reduction in popular support for open markets in significant sections of the populations of these countries on the other. Concerns about stagnant wages, job losses, growing income inequality, and environmental degradation have become central to the political debate in most industrialized countries. Trade is seen as 'part of the problem,' especially in times of recession, rather than part of the solution by some large sections of their communities. The Commission also noted that this development was, ironically, occurring at the same time as support for economic liberalization was growing (amongst the political and economic elites, at least) in many of the larger and faster-growing developing countries.

The second challenge facing policymakers identified was, and is, the need to ensure that the increasingly multipolar, or even what we might call 'non-polar', nature of the global trading system does not itself become a source of stalemate and dysfunction. It is now well understood that a readjustment in power relations in the global economy is occurring; we are witnessing a messy transition from one global economic equilibrium to another, as new voices and centers of politico-economic gravity emerge in the global order. In this context, careful thought and action is needed to ensure the sustained participation of all major groups of WTO Members in its activities. Specifically, collective action decision making requires that the fast-growing large emerging market actors, notably but not solely China and India, take up leadership roles in the global trading system without the originally dominant economic actors, the United States and the European Union,

DOI: 10.2202/1469-3569.1260

do not disengage. We also need to ensure that the smallest and poorest WTO Members retain a valued stake in the system. This, rather than a decline in trade liberalization, is perhaps the most serious potential consequence of a failed DDA. Tackling this challenge requires a revised *modus operandi* across the spectrum of negotiations, content, and form of WTO agreements.

The third distinct challenge facing policymakers identified by the Warwick Commission was/is the need to reconcile the sometimes competing objectives of the WTO. Accompanying their growing weight in the WTO, developing countries have rightly demanded that certain matters of particular importance to them (political as much as economic *pace* agriculture) be addressed. At the same time, many WTO members want multilateral trade rules to keep up with commercial developments in the world economy. As the, at times, bitterly contested debate over ‘Singapore Issues’ (investment, competition policy, government procurement, and trade facilitation) in the early years of this century demonstrated, the very boundaries of WTO activity are contested. This raises important questions about the remit of the WTO. For instance, should the WTO confine itself to a limited number of trade-related measures, assuming the latter term could be satisfactorily defined? If so, would such a WTO retain the interest of all of its membership? Alternatively, should the WTO gradually become the locus of economic regulation in an increasingly integrated global economy? These questions speak to the very purpose of the WTO and practical guidelines, founded in existing commercial, legal and political realities, need to be reasserted, or new ones determined.

The fourth challenge is the extent to which the issues of fairness and justice are addressed at the WTO. Decision-making processes in the WTO have come under scrutiny and not just for those concerned with issues of procedural fairness for its own sake – but because process also influences outcomes. Unfair processes can result in disengagement by members and a decline in the credibility of an organization. The WTO gathers regular and fierce criticism from non-governmental organizations (NGOs) and numerous developing country governments, dissatisfied with what they see as the extremely limited, or qualified, legitimacy present in its negotiation, decision-making, and dispute settlement processes. These criticisms were brought to a head at the Seattle Ministerial meeting in 1999. On close empirical observation of the period since then, it would seem that the WTO is insufficiently credited for responding to this challenge. It has instituted several substantial reforms, especially in the direction of improving internal transparency and it is difficult not to argue that it is ahead of other international organizations in this regard

Nevertheless, problems persist. The WTO needs to continue its efforts to build a more just multilateral trade system. This is a permanent reform process. WTO Members need to balance the potentially competing demands of efficiency, fairness, and legitimacy within the system in such a way as to keep the diverse membership of the WTO engaged. Fairness here typically means those procedures (often termed "procedural justice") used in the negotiation and decision-making process. They also include issues of fair representation, fair treatment, fair play, and transparency (see Albin, 2008 and Higgott and Erman, 2008).

The fifth major challenge facing the world trading system follows partly from the growing frustration with slow decision-making in the multilateral regime. As a consequence, policymakers are turning to other vehicles for trade reform, notably bilateral and regional trade agreements. To be sure, frustration with the multilateral system is not the only spur towards regional preferentialism; but experience shows that these alternative vehicles for reciprocal trade liberalization have important knock-on effects for the multilateral trading system. Reconciling these approaches to trade reform is less a new challenge than an enduring one.

Identifying these important problems, and their potential consequences, currently bearing heavily upon the world trading system, is not to suggest that the system is irrevocably broken. Rather, it asks whether the rules, principles, and processes that currently underpin the multilateral trade system can address the five challenges identified here during the first decades of the 21st century. The next section identifies a number of concrete, practical, avowedly reformist rather than revolutionary, recommendations for considerations.

3. The Shifting Politico-Economic Landscape and the Absence of Leadership in the Global Trade Regime

Economic globalization, especially enhanced trade liberalization and financial deregulation, has brought national economies ever closer together. The contours of the global economy continue to exhibit far-reaching changes. Throughout the second half of the 20th century, economic clout in matters of global commerce was chiefly concentrated in the US, European Union, and Japan. In this new century, their collective economic dominance is giving way to a dispersal of economic power in a southerly and easterly direction as developing countries come to account for a growing share of global trade and investment. Such a share has increased by fully a quarter since early the early 1990s—up from 39 percent of global Gross Domestic Product (GDP) in 1990 to 49 percent in 2006. Along with the three traditional economic powers (and Russia), Brazil, India, and China have become important centers of economic and political power in the world economy. Together, Brazil, China, India, and Russia now account for 26.53 percent of global GDP. Their share of global exports has risen from 4.14 percent in 1990 to 14.66 percent in 2006 and, on the import side, their share has risen from 2.75 percent to 9.59 percent over the same period. Other larger developing

DOI: 10.2202/1469-3569.1260

countries such as South Korea, Mexico, Egypt, Turkey, and most recently Vietnam, have had similarly impressive growth rates in recent years. Major developing countries have been beneficiaries of globalization and its shapers too (Warwick Commission, 2007: 13-21).

Accompanying their increasing global economic importance, China, India, and Brazil have also become more active political and diplomatic players in many key international forums. More specifically, within the global trading system, India and Brazil have become increasingly powerful role in the negotiation processes, especially with the formation of the G-20 coalition in the WTO.[1] The importance of the G-20 coalition as a stable and fairly united coalition of developing countries has been both symbolically and practically significant at the WTO. Despite the stalemate of the talks at the Cancún Ministerial Conference, India, China, and Brazil demonstrated an ability, and future potential, to exercise collective influence on the negotiations. Indeed, India and Brazil have clearly established themselves as what we would call 'process drivers' in multilateral trade negotiations (see Tussie, 2009).

However, the changing role of the large developing countries has generated new challenges for the multilateral trade system. But within the WTO, the transformation of the old Quad group (Canada, the European Union, Japan, and the US) into the G4 (US, European Union, India and Brazil) demonstrates the surprising flexibility and adaptability of the system, especially when contrasted with the rigidity to be found at the IMF and the World Bank. But the G4 is not a club of like-minded countries in the way of the old Quad, and what role it might play in the future still remains to be seen.

In sum, the bipolar multilateral trading system of old has given way to a multi-polar alternative. Moreover, large numbers of flexible, and sometimes fluid, coalitions of WTO Members have been formed to assert more effectively national commercial objectives (see Narlikar and Tussie, 2004). This has markedly added to the complexity of agenda formation and negotiation in the WTO and the consequences have so far been mixed. The greater participation of a broader range of WTO Members, and the vibrant deliberations that this has produced, are surely to be welcomed, especially at a time when disaffection with, and in some instances disengagement from, other international economic institutions is growing. Yet, at the same time, the difficulties experienced in concluding the DDA suggest that reaching collective accords will become increasingly, not less, challenging.

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[1] To be distinguished from the G20 of the financial summits of November 2008 and April 2009. The WTO G20 is made up of Argentina, Bolivia, Brazil, Chile, China, Cuba, Ecuador, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Peru, Philippines, South Africa, Tanzania, Thailand, Uruguay, Venezuela, and Zimbabwe.

Emerging Trade Powers and the Support for Openness in Developing Countries

Even though several developing countries have simultaneously emerged as leading trading powers, this does not imply that the national priorities and challenges facing policymakers in these countries are similar or that the growth trajectories undertaken by them, apart from a trend to openness, are comparable. Degrees of openness also vary by country and sector: China, for example, has opened up considerably both to trade and investment while India has been more reticent on both counts. By opening its economy, China has already become the world's third largest importer. China has accepted and implemented obligations that go much further than those of most developing countries. China has made strategic use of the multilateral trade system to advance its interests, but at the same time, has refrained from making any explicit attempt to change the regime.

By contrast, and notwithstanding that it still sees itself as a country whose overall development challenges prevent it from more fully opening its markets to foreign competition, India plays an increasingly important role in the negotiation processes as a member of the G4. India's economic growth, like that of China and many other emerging economies, has been increasing dramatically. This must partly explain China's low profile in the Doha negotiations and India's reluctance to offer reciprocal concessions on what they perceive as 'small deals' from the US and European Union. The basic point is that for India and China the gains to be had from the liberalization on offer in the DDA are small when compared to the gains from their own unilateral growth trajectories and the domestic political mileage that is to be gained by standing firm, against the US especially, in the negotiations.

China's policies since joining the WTO have been largely supportive of a rules-based multilateral trading order. It has used the Doha Round negotiations as a "listening and learning" exercise, but shown little interest in promoting reform of the WTO or multilateral trade system in general. It has certainly not taken a role akin to that of Brazil or India. Hence there remains a misalignment between the roles of China and India in the global trade system and their ability, regardless of desire, to shape its key institution. But it is this diffusion of global economic power to the major developing countries that has changed the nature of the political power equation in the contemporary international economic order. The developing majors now have a role, a veto power even, in the contemporary era that they did not previously possess. The political symbolism of this should not be underestimated.

This position is also not a little ironic. In contrast to growing public fears about globalization in industrialized countries, many citizens in the developing countries and, especially, the political elites of East and South Asia, certainly prior to the global economic downturns since 2007, were coming to the

DOI: 10.2202/1469-3569.1260

conclusion that open borders were, on balance, positive for their regions. Polling evidence from 2005-6 showed that 71 percent of Africans thought that globalization was good for their own countries. In the Asia Pacific, 52 percent of those surveyed had a positive perception of globalization, with only 5 percent viewing it as negative (2006 Gallup Poll). However, this level of support in the developing world for worldwide economic change has yet to manifest itself in the unfettered commitment towards policies aimed at strengthening the multilateral trade regime by the emerging players.

The Waning Popularity of Globalization in Industrialized Countries

By contrast, and especially since 2006, globalization has come under increasing criticism in the early years of the 21st century from the public in industrialized countries. The same polling that showed strong support for open borders in the developing world also indicated that support for globalization was weak in OECD countries. Responding to the question about whether globalization was a good thing or a bad thing for one's country, only 26 percent of North Americans considered it 'a good thing', whilst almost as many, 24 percent, thought globalization a 'bad thing'. Figures for Western Europe (28 percent positive, 22 percent negative) were similar (2006 Gallup Poll).

Increased trade growth and trade liberalization, along with financial deregulation, have informed a better understanding of globalization among OECD publics. Evidence from opinion polls suggests that the public support for globalization in OECD economies grows when workers achieve higher wage levels and deteriorates when labor markets perform badly, when labor remuneration is stagnant or unemployment rising. In the US, for decades the world's strongest force for globalization, the gilded age of strong economic growth and ample opportunity for all Americans is widely thought to have ended. Although globalization is not the cause of the problems in the American economy, it has revealed underlying weaknesses and structural faults such as unprecedented levels of governmental and international debt, a deteriorating public education network, the ever weaker social security provision for health care and unemployment.

The growing concentration of wealth and power in the financial sector and the subsequent crises they have generated have accompanied a perception of an uneven distribution gains from international trade, both within and between countries, that has been a major factor in the decline of political support for the multilateral trading regime. Trade liberalization in the past has been based on the assumption that benefits from trade are realized in all the countries that participate in the process of multilateral liberalization. Whilst it has always been clear that some sectors of an economy may suffer from increased foreign competition, the expectation has been that national aggregate economic welfare overall would rise with trade liberalization.

But today there is growing support for the view that the continuing division of labor brought about by the growth in the economies of major developing countries, such as China and India, is having negative consequences for the major economies, especially the US and European Union. Although workers still enjoy the benefits of cheap developing country, especially Chinese, imports, their real wages are no longer rising. In the United States between 2000 and 2006, for example, more than 96 percent of all workers saw no increase in their real earnings and, in some cases, a decline. At the same time, earnings have risen sharply for the small elite of highly qualified people and corporate executives (Rothkopf, 2008).

Over the past two decades, labor has become increasingly global. Population growth, and the integration of China, India, and countries from the former Eastern bloc into the world economy, has led to an estimated fourfold increase in the effective global labor force. According to the IMF, the latter could more than double again by 2050. The bigger labor pool is being accessed by industrialized countries through imports of final products, off-shoring of the production of intermediate including services, and immigration. This ongoing globalization of the labor market has drawn increasing attention from policymakers and the media, particularly in the industrialized economies. The most common concern is whether the unprecedented addition of such a large pool of workers from emerging markets and developing countries is adversely affecting compensation and employment in the industrialized economies.

The evidence is that the share of income accruing to labor, as opposed to capital, in industrialized economies has fallen by about 7 percentage points on average since the early 1980s, with the largest drop in Europe and Japan. It is this type of decline that fuels concerns that globalization and two of its most important vectors, trade and investment liberalization, rank among the chief culprits. Yet, rapid technological change, that is ‘skill-biased technological change’, has had a larger negative impact on the share of income going to labor than the globalization of labor *per se*. Technological change is reducing the share of income going to unskilled labor, and growth in total real labor compensation in unskilled sectors has hence been sluggish. Not surprisingly, globalization tends to be equated with rising job insecurity, often prompting calls to halt or reconsider policies of engagement towards the world economy.[2]

It is in this difficult political context for globalization in OECD countries, and perhaps most notably in the United States, that some prominent economists and policymakers have begun to question its ultimate benefits for the American

[2] I would like to thank Pierre Sauvé for these insights

DOI: 10.2202/1469-3569.1260

economy. These are not the voices usually critical of globalization. For example, Nobel Laureate, Paul Samuelson (2004), questioned whether globalization would continue to be beneficial for all economies. Productivity gains in one country could, under certain circumstances, benefit just one country and hurt the others. Mainstream trade economists, Samuelson argues, have for too long, ignored the adverse effects of globalization on incomes in the United States. He challenged the widely held view that, overall, industrialized economies benefited from liberalization even if the short term effects, due to the transfer of production to cheaper locations, were negative. Alan Blinder, another respected American economist, recently added to this debate. While acknowledging the benefits of free trade, he argued that America could be hit by a wave of job losses as a result of trade liberalization. Blinder (2007) indicated that between 22 and 29 percent of jobs in the United States were at risk of being lost to 'off-shoring' with the impact no longer restricted to low-skill jobs but increasingly affecting high-skill services such as radiology, architecture, and engineering. These themes were picked up by both Hillary Clinton and Barak Obama in their 2008 campaigns for the Democratic Presidential nomination.

The relevance of the above insights is that they alert us to the fact that whilst the principles that underlie trade liberalization remain largely unchallenged, even in analytical circles traditionally supportive of globalization, they are currently undergoing a process of qualification. The standard economic response to this dilemma—that liberalization enhances aggregate welfare—might well be correct but it does not solve the political problem. It might be good economic theory but it is poor politics. Some objections to liberalization are clearly just protectionism by another name. Moreover, even where material compensatory mechanisms might be adequate, the destruction of domestic social arrangements can have deleterious outcomes of their own. But if knee-jerk nationalist responses are to be avoided in the early 21st century, then public policy must distinguish between politically inspired protectionism and legitimate welfare concerns. Securing domestic political support for the continued liberalization of the global economy requires more than just the assertion of its economic virtue. It also requires political legitimacy.

Although the distribution of income and support for trade liberalization are only weakly correlated, some of the legitimacy problems confronting the multilateral trade regime appear to result from a perception that growing income inequality is, in part at least, a product of trade liberalization. Evidence is mounting that globalization is starting to hurt skilled workers in OECD countries, exactly the groups that have to date been its main political supporters. Thus the benefits from globalization have to be distributed more equally if we are not to see a rise of protectionism. The challenge for policymakers is to devise new forms of national and international collective action relating to international commerce that make it easier to secure support from the new players while at the same time minimizing the effects of the negative public attitudes.

Justice and Fairness on the Global Trade Agenda

Trade governance is neither immune, nor separate, from wider notions of fairness and justice in the global community. Increased attention needs to be paid to the way that WTO agreements and procedures affect its members, particularly the weakest. WTO Members need to address the relationship between current trade rules and fairness, justice and development. The challenge in the 21^{st} century is not to protect the poorest developing countries from trade, but to enable them to participate in the international division of labor on more equal and successful terms. The reality is that, without denying the virtues of open, freer trade, many developing countries nowadays believe that some WTO norms and applications are inimical to their development. Some would argue that the system today is based more on assumptions of reciprocity stemming more from the theory of club goods than a theory of public goods predicated on non-rivalry and non-excludability and availability to all.

The WTO displays many of the attributes of a democratic and inclusive club. Its rules provide for consensus decision-making in agenda-setting and the results of negotiations are applied on a Most-Favored Nation (MFN) basis, thus ensuring that all members enjoy the same benefits. In this sense, the weakest WTO Members gain from being part of a rules-based organization. But the DDA has shown that decision-making can be paralyzed by the need to achieve consensus not least because processes can be held to ransom by Members which have no interest in the topic under consideration. Also, *realpolitik* dictates that weaker Members' ability to use the Dispute Settlement Mechanism to seek redress are limited and the explosion of Preferential Trading Agreements (PTAs) means that weaker Members are increasingly vulnerable to being marginalized and losing the benefits of MFN.

The future of the global trading system, then, depends to a large extent on securing a more efficient process of decision-making in the WTO. Quicker decision-making is also essential to the continued relevance of the WTO-based governance arrangements or they will wither on the vine. With national political cycles of around four years and ever-shortening business cycles, the length of time it takes to conclude a Round is contributing to the rise of bilateralism and regionalism. But any new procedure would need to be not only conditional on the preservation of the principle of non-discrimination applying to all Members but also reflecting the interests of all Members. Thus a core challenge is to shape the agenda in a way that both respects the interests of the entire membership while at the same time securing the continued commitment of all parties.

DOI: 10.2202/1469-3569.1260

In pursuit of this balance, some analysts recommend that consideration be given to the circumstances in which a "critical mass" approach to decision-making might apply; especially with regard to rules issues, that preserves both the rights and interests of smaller players while recognizing the need to address issues of concern to a 'critical mass' of WTO Members (see Warwick Commission, 2007: 30-35 and Gallagher and Stoler, 2009). The key implication of this approach is that not all Members would necessarily be expected to make commitments in the policy area concerned. Clearly, to the degree that this runs across the 'consensus' assumptions of WTO decision-making, this is a politically sensitive proposition especially for developing countries and extreme care would need to be taken to secure their interests in any criteria they would need to meet if such an approach were to be adopted—indeed it may prove to be a political bridge too far. Among the criteria for considering a critical mass approach to defining the agenda are the need to identify a positive global welfare benefit, to protect the principle of non-discrimination, and explicitly controlling for any income distribution effects of rule-making. But, given the difficulties faced in taking the WTO forward in the wake of the DDA the exploration of such an approach can not for long be kept off its agenda for reform.

4. Trade and Development: International Institutions and Policy Coherence

A challenge in the 21st century is not to protect the poorest developing countries from trade, but to enable them to participate in the international division of labor on more equal and successful terms. What rules and procedures would enable these countries to secure the maximum benefit from a liberalizing trading order? Without nowadays denying the virtues of open, freer trade, many developing countries nevertheless believe that some WTO norms and applications are inimical to their development. Some would argue that the system today is based more on assumptions of reciprocity stemming more from the theory of club goods than a theory of public goods predicated on non-rivalry and non-excludability and availability to all. One observer captured perfectly the dilemma of seeing the international trade regime as a global public good and the DDA as a 'development round':

> The adjustment burden of new rules will mostly fall on developing countries, as the rules that are likely to emerge will reflect the status quo in industrial countries ('best practice') … If the Doha Development Agenda is to live up to its name, the fact that country priorities and capacities differ enormously will need to be addressed. There are two basic options: shift back to a club approach, or pursue universal membership agreements that are

> accompanied with more development provisions. (Hoekman, 2005: 406)

To move beyond this dichotomy, a more variegated approach comprising the following three elements may hold greater promise: (i) critical mass-based initiatives (to facilitate the provision of club goods) alluded to in the previous section; (ii) a richer set of S&DT provisions for developing countries than employed at present; and (iii) a strong commitment to Aid for Trade (AfT) measures that ease the implementation burdens weaker WTO members may face (see Warwick Commission 2007 and Evenett, 2009). For these policies to succeed the system of global governance going forward will depend to no small degree on the extent to which international institutions can work together. As the art of government becomes ever more complex, and the degree to which institutions in all walks of life need to become increasingly accountable to multiple stakeholders, the credibility of international institutions is much more dependent on the way in which they work together than was previously the case.

In the early 21st century, enhanced policy coherence amongst the institutions in global economic governance is a must; not an optional extra. In order to illustrate the problems of institutional coherence at the global level, consider the position in relation to the trade and development agenda. In the late 20th and early 21st centuries, the Bretton Woods institutions and the WTO, as much by accident as design it sometimes appears, now meet on the ground of development. The role of the World Bank here has long been self-explanatory. The transformation from its role as a vehicle for European reconstruction to a vehicle for supporting developing countries had a natural logic to it in the era of decolonization; as does its more recent emphasis on 'knowledge' (Stone, 2001) and 'governance' in the development process (Stone 2006). The IMF, however, has for some considerable time been an institution in search of a new mission. Its desired role as the arbiter of global macroeconomic rectitude, especially in the developing world, had largely disappeared in the wake of its sub-optimal performance in the financial crises of the late 20th century only to return as an instrument of global financial policy in the wake of the 2007-9 crises and the London 2009 G20 summit. The WTO's move into the development field in the in the Doha Round (identified as the 'Doha Development Agenda') was as much by accident as design, occasioned as it was by the desire to kick start the current round of multilateral trade negotiations. But once having been identified as a development round, the rhetorical and political significance, unsurprisingly, took on a dynamic of its own for many developing country WTO Members.

The international institutions, if they are to be forces for good in the development process, need systemic policy coherence across their domains of competence: between balance of payments issues and financial crises (IMF);

DOI: 10.2202/1469-3569.1260

capital flows and official assistance (World Bank-IDA), norm-building and the creation of rules of the game in trade (WTO). Indeed, an important aspect of the WTO's mandate is to co-operate with the IMF, the World Bank and other multilateral institutions to achieve greater coherence in global economic policy-making. A separate Declaration was adopted at the Marrakesh Ministerial Meeting in April 1994 to underscore this objective and key WTO public documents regularly reaffirm this priority (WTO, *Annual Report*, 2007: 3).

In simple terms, organizations need to talk to each other. Institutional coherence is particularly important in the area of trade since many of the challenges of trade liberalization are to be found outside of the immediate trade domain. Trade requires not only good rules to help advance its promotion. It also needs mechanisms to address concerns of those countries not as well prepared to benefit from a rules-based system as the more developed countries. Developing countries need assistance in the creation and enhancement of mechanisms to assist in their turn to trade liberalization. It is here that institutional policy coherence can make a difference. Indeed, it becomes a, perhaps the, major test for international economic institutional coherence in the 21st century.

Given expectations of increased funding, aid from industrial countries to developing countries needs to be channeled more effectively[3]. Hence the agencies undertaking these tasks need to be as one in their understanding of how to manage this resource. Agencies, donors, and client countries need to manage these resources coherently if we are not to see problems from increasing aid flows, such as exchange rate problems and other distortions in domestic economies. We need proper regulatory institutions to prevent corruption and ensure good governance.

In trade, in theory at least, the World Bank helps with the development of 'good governance' practice and institution building, while the WTO uses its intellectual and institutional influence to call for a proper 'aid for trade' relationship and the IMF ensures macro-economic stability is not compromised. There is, of course, often a disjuncture between theory and practice. The WTO is not a development bank, an aid agency, or funding body; nor should it become one. Little in the WTO's history or the expertise of its staff, let alone in the experience of the trade diplomats sent to represent their countries' interests at the WTO, suggests that this international organization has the capacity to identify, design, fund, and implement development projects. Moreover, the WTO has enough demanding and functions to execute as it is.

In similar vein, nor should we assume that the evolving patchwork of bilateral, regional, and multilateral trade-related capacity building initiatives pursued by national aid ministries and international organizations can meet all of the legitimate needs of developing countries. Neither should we assume that

[3] Note: the July 2005 Gleneagles Agreement (in theory) promised additional commitments of between US$25-50 billion by 2010.

attaining these ends can solely be a matter of implementing commitments made by nations at the WTO. Indeed, nowadays it is almost conventional wisdom that WTO Members, including developing countries, must take complementary measures to make the most of opportunities created by trade agreements.

The constraints identified above pose significant challenges for the WTO membership and for the very reputation of the WTO; challenges which the current AfT initiative have brought to the fore. Calls for greater co-ordination among donors and providers of technical assistance, although not new, are not particularly surprising in this context. “Coherence” may seem an unquestionably desirable goal but is the AfT initiative likely to deliver it?

For the developing countries AfT is a potentially important vehicle for capacity building.[4] However, there are a series of questions that need to be addressed. These concern factors such as the adequacy of donor commitments and whether donor promises will be met; the degree to which AfT will reflect developing country, rather than donor, priorities; the coherence and co-ordination of AfT amongst the (six) institutions that are currently party to its administration; and, perhaps most importantly, developing countries are concerned lest aid for trade should be linked to their negotiating positions in multilateral trade negotiations.

To the extent that the AfT initiative provides the impetus to eliminate duplications in aid programs and to meet unfulfilled needs from developing countries, it is clearly a good thing. However, it is unclear precisely how a non-binding, exhortatory initiative of this type will alter the interests, incentives, and priorities that have generated the diverse array of trade-related aid initiatives in the first place. Previous attempts at co-ordination among donors have often yielded little and it is not apparent why matters should be any different this time around. Concerns are particularly heightened by the, often muted, support given by industrial country aid ministries to seriously funding AfT initiatives and associated trade-related capacity building and technical assistance. Many of them are solely focused on poverty reduction agendas and act as if they perceive little positive contribution by trade to economic development. Worse still, the broadening definition of what constitutes ‘aid for trade’ has enabled an increasing number of aid projects to be classified as trade-related, thus creating the impression that substantial funding is being provided.

The wider economic and geopolitical situation raises a number of serious concerns about the future of the globalization project in general. The multilateral trade system, as a crucial element of the globalised economy, cannot operate set apart from these realities and is forced to accept their constraints. Expectations

[4] My knowledge of the Aid for trade Debate is informed in large part by conversations with Simon Evenett. To whom thanks are extended. The discussion here reflects a large input from him, without of course, holding him to account for anything said.

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among poorer countries and civil society was raised about the potential pro-development impact of the WTO and these expectations may not be fulfilled, not unlike the impact of giving the Doha Round a “development” label in the first instance. In the search for coherence care needs to be taken, nevertheless, in deciding which institutions and policymakers are responsible for what. The WTO is not responsible for meeting the aid-related promises made by individual WTO Members at various Ministerial Conferences and elsewhere. The WTO’s negotiating and juridical functions relate to creating and preserving commercial opportunities; not to ensuring that WTO Members exploit any opportunities that are created.

5. The Rise of Preferential Trading Agreements.

If a more responsive system of justice is a necessity for the future of the world trading regime, then an absolute requirement is the re-invigoration of multilateralism in the face of the trend towards preferentialism—a trend clearly boosted in times of global economic crisis. The recent trend amongst larger countries to go outside of the WTO to reach trade deals carries the risk of undermining the fabric of inclusive, fair and stable institutional arrangements that underpin international trade. Governments appear to be forgetting the beneficial lessons learned in the second half of the 20th century from the débacle of largely institution-free trading arrangements in the first half of the 20th century.

In the last two decades, significant trade liberalization has been achieved outside the multilateral arena, with most tariff reductions coming from unilateral liberalization. For some, growing recourse to bilateral and regional preferential agreements is simply an inferior policy choice that undermines multilateralism and should be avoided. Yet trade governance and liberalization are not as simple as that. PTAs need not, in all circumstances, be counterproductive in terms of a wider multilateral trade agenda. Moreover, such agreements, along with regional activity in other economic policy domains such as monetary relations, are increasingly a fact of life in contemporary international political and economic relations and they will not simply disappear. But poorly conceived regionalism carries many avoidable costs and tends to penalize the weaker and smaller members of the trade community. Even commentators favorably disposed towards PTAs as a vehicle of international cooperation recognize their downside from a more inclusive, multilateral perspective.

Bilateral preferential agreements often involve countries that are not geographically contiguous, for example those between the United States and certain Middle Eastern and Latin American nations. Such agreements may have important economic implications for at least one party, but generally they are strongly motivated by political and strategic considerations. To the extent that such PTAs involve a large (developed) and one or more small (developing) countries, their global economic impact will not be very significant and one would need to look at more localized regional factors to understand their effects on third parties.

Second, large countries entering into such arrangements sometimes apply a standard policy template that embodies elements going beyond WTO provisions (the so-called "WTO-plus" provisions), either in terms of the areas covered or the depth of commitments. This may be seen as strategic behavior, perhaps motivated more generally by foreign policy considerations as was the case in the US bilateral PTA initiatives with Singapore and Australia in recent years (see Capling, 2005). Smaller countries may also pursue these arrangements in part for strategic reasons, relating both to the search for stability and certainty in their trade relations with major partners and perhaps to a desire to define and tie in domestic policies in a manner that make them harder to change (see Desker, 2004). Developing countries may be willing to accept WTO-plus provisions in exchange for these perceived benefits.

One could argue that as long as trade liberalization occurs, as it does with unilateral liberalization, it matters less whether it is at a bilateral, regional or multilateral level. In theory, preferential agreements can have significant benefits; for example, promoting technology and knowledge transfers, domestic reforms, productivity gains and improved developmental prospects. Critics of preferential agreements, however, would emphasize the negative effects, including the distortion in trade patterns between 'insiders' and 'outsiders' which undermine the welfare gains arising from expanded trade. Critics also stress that the trade distortions create incentives for inefficient resource allocation. The institutional dimensions of rules also matter; especially the 'spaghetti bowl' effect of multiple agreements with separate rules of origin. The operational costs of meeting different requirements in different countries pose a major challenge, especially for small- and medium-sized enterprises. PTAs with these outcomes are clearly a second-best option compared to a multilateral agreement at the WTO with uniform rules applicable to all Members.[5]

In the past, unilateral liberalization and preferential agreements co-existed with the development of multilateralism. It has been suggested that, at least during the first phase of regionalism after World War II, in the 1960s, these three

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[5] The critical literature on regionalism is now voluminous; see illustratively Bhagwati and Kreuger, 1995; Pomfret, 1997 and Bhagwati, 1998

DOI: 10.2202/1469-3569.1260

dimensions complemented rather than competed with each other. The 1980s saw the launch of the Uruguay Round in 1986, major steps forward in European as well as North American integration as well as unilateral liberalization. With the completion of the Uruguay Round in 1994, we saw both a remarkable achievement for multilateralism and some important preferential initiatives. Thus, we could have assumed that there is little need to see a threat to the multilateral regime emerging from preferential agreements. But things have changed, since then there has been mounting evidence to suggest that today's preferential agreements create a different environment which poses threats to the multilateral trading regime.

First, the United States has actively pushed for PTAs since the turn of the century. The country that helped shape and underwrite the post World War II non-discriminatory trading regime has been at the forefront of those emphasizing the development of PTAs in recent years. Whilst the number of PTAs between the United States and other countries has been somewhat limited, in part due to the linking of trade and security policy, the continuing push for preferential agreements represents a break with US policies of the past. Similarly, the European Union has long been actively pursuing PTAs although many of them have been with countries either on the European continent or with which the EU has enjoyed strong historical relations.

Third, Asian countries have joined the trend. Whilst important East Asian countries, Japan, South Korea, and China, long refrained from negotiating preferential agreements these countries have been extremely actively in the push for PTAs since the turn of the century. Fourth, many PTAs are about much more than regulating trade. The United States, for example, uses a template in its PTAs that also has the effect of shaping domestic regulation in the partner countries. The consequence is the creation of parallel regulatory spheres that, at least in some cases, make international trade more difficult than under the umbrella of the WTO. A plethora of competing and overlapping norms and regulations does not facilitate international trade.

Regionalism will not disappear, nor is the WTO necessarily well placed to achieve everything that governments seek to attain in terms of their international trade relations with other nations. But the explosion of regionalism in recent years has clearly been sub-optimal in systemic and political terms in a number of ways. Specifically, regionalism has diverted attention from multilateral negotiations. Governments may believe, or be lulled politically into the conviction, that they can acquire all they need by way of trade policy through regional arrangements. This has led to, and is likely to continue to lead to, neglect of the relative costs and benefits, especially over time, of regional versus multilateral approaches to trade relations. The challenge, as we have been told by several scholars and practitioners recently is to multilateralize regionalism (see Baldwin, 2006 and Baldwin, Evenett and Low, 2007).

This is a major challenge that needs to be addressed by the global trade policy community. Let us not forget, that one of the reasons why half of world trade is still conducted on a MFN basis, notwithstanding the existence of an even greater number of PTAs, is that the largest trading nations have so far desisted from negotiating PTAs among themselves. No such agreements exist, for example, among the United States, the European Union and Japan, although the United States and the European Union have signed a 'Framework for Advancing Transatlantic Economic Integration' in April 2007. Relatively few agreements exist between the three major players and major developing countries. None of the three have PTAs with China or Brazil, for example. However, other large developing country traders such as South Korea and Mexico do have PTAs with at least one of them.

If the WTO membership is to engage seriously in addressing what has clearly become a challenge to the coherence and stability of the trading system, the largest trading nations should be willing to underwrite the "public good" of non-discriminatory multilateral trade. The Warwick Commission (2007: 53) suggests that the major industrial countries, being mindful of the systemic implications of establishing additional PTAs with other large trading countries, should foreswear the establishment of PTAs among themselves. Such agreements would be seen by their signatories as a new template for redefining the multilateral trade regime.

Conclusion

Embedded in the context of wider global economic crisis, he paper has focused on a number of systemic challenges to the global trade regime that transcend the detailed negotiating issues specific to attempts to bring the DDA to a conclusion. Moreover, the paper has been not only analytical; it is also highly normative. The normative arguments set out in it have made the case for (i) improving the management of agenda-setting, decision-making and participation in the global trade regime; (ii) defining more tightly and precisely the relationship between trade and development; and (iii) understanding, and responding to, the increasingly complex relationship between the multilateral system and the growing number of preferential trade relationships.

Support for an open, liberal trading system has been shown to be neither consistent nor unambiguous. Trade liberalization may well continue even without a completed multilateral round. But neither will a completed Doha speed up liberalization dramatically. Nor will it prevent states from resorting to previously higher tariffs (see Evenett, 2009). But other linked elements have been

DOI: 10.2202/1469-3569.1260

shown to be important too. For many supporters of the WTO, especially some of the smaller countries whose participation in trade negotiations is unlikely to affect the size or shape of an agreement like the DDA, it is the other elements, especially principles and rules that are important. Indeed, lessons about the importance of rules and principles in international relations, especially with regards to the value of multilateralism and institutions, may be coming ‘unlearned’ by some of the major players at exactly the a time when they are most needed. Notwithstanding the efforts of the WTO and the G”) summits, the outbreak of financial crises in 2007 and the major economic downturn that has followed have seen backsliding in WTO member commitments to the multilateral trade regime and the growth of what two analysts call ‘murky protectionism’ (Baldwin and Evenett, 2009)

We may be entering an era of what Robert Keohane (2005) has called’ ‘contingent multilateralism’ in which the major players, and especially the erstwhile hegemon, sets less store by the self binding ordinances in the early 21st century than it did in the second half of the 20th century when the grand institutional bargain held (Ikenberry, 2000). In the trade domain the GATT and subsequently the WTO for half a century gave voice and legitimacy to these rules. A characteristic of the present era, not present at the time of the 1930s Depression has indeed been the existence of a substantive set of trade rules. But the trade rules have received little or no attention in the DDA and the challenge to them in the recent era of financial crisis has come to be thought of as a second order problem in a wider reform agenda. As Pascal Lamy has recently noted, we ignore their salience in mitigating crisis at our peril (Lamy, 2009: 3.). It is the WTO’s role as the guardian and socializer of the norms, principles and rules of global trade, that is so important if we are to avoid repeating the mistakes of the past, especially avoiding a return to ‘beggar they neighbor’ protectionist trade policies in an era of global economic recession.

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