Global Trade Governance and Developing Countries: The Need for US Leadership

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Guest blogger Roberto Bouzas makes the case for US leadership to revive the multilateral trade regime, how this will benefit both developing and developed countries, and sets out how the United States should use the G20 London Summit as an opportunity to take the lead.

The challenges faced by developing countries and sustainable development regarding global economic governance are not substantially different from those faced by the developed world. In fact, both groups of countries share common challenges.

The first and most urgent challenge is to revive the multilateral trade regime. In the last half century, trade has been the policy area in which the international community has made the most strident progress towards cooperation. In the last decade, however, the effectiveness of the international trade regime has eroded under the weight of a changing international and domestic landscape (a new balance of power, an expanded membership, the emergence of new constituencies, and the development of uncharted regulatory areas). These structural transformations were underway well in advance of the financial crisis, but a creeping recession and mounting protectionist pressures have sharply deepened existing tensions.

The second challenge is to build more effective regimes in areas where international cooperation has been undersupplied. The financial meltdown of the last six months has made it clear that more effective regulation of the financial markets is necessary both at the domestic and global level. Similarly, more structured international cooperation is needed to cope with the effects of contagion and interdependence not only in the financial markets, but also in macroeconomic policy management. Another area in which more effective international cooperation is urgently required is the environment, especially climate change.

Since they are global in nature, these two challenges are faced by developing and developed countries alike. The only major difference between each group is not the nature of the challenges, but their respective abilities to offer solutions and cope with the consequences of failure. If neither challenge is adequately addressed both will suffer, but the effects will be far more devastating in the developing world, where there are less institutional resources and poverty is a more urgent and demanding problem.

Preventing a backlash against the multilateral trading system is the pre-requisite to a constructive governance response. The trade regime is the most developed international regime to deal with a finite (albeit ever expanding) set of global issues. A constructive response would include two main ingredients: 1) in the coming months the WTO should prove that it can serve effectively to prevent a protectionist revival, and 2) the Doha Round should be concluded promptly to give way for a new approach in the process of negotiations (comprehensive and ever-expanding trade rounds are unlikely to offer a useful roadmap for the future). If the multilateral trade system fails in this endeavor, it is hard to expect that successful governance regimes will emerge in other relatively underdeveloped areas of global intercourse.

Building more effective international regimes in the area of macroeconomic management, financial markets, and the environment will be much harder than reviving the international trade regime, but closely interconnected. The track record of international institutions in these areas is much less developed and not encouraging. Moreover, the tensions emerging from the financial crisis will raise new obstacles to making substantive progress. The International Monetary Fund (IMF)-World Bank Annual meetings in late 2008 passed unnoticed and there is a high chance that the Copenhagen conference on climate change later in 2009 will fail to reach a substantive agreement. The demand for progress, however, is still there.

In the current context of falling demand and output, rising unemployment and lower real incomes, the range of domestic political demands on economic policy are turning more defensive. This domestic dimension of the global crisis threatens to overload international institutions and regimes already shaken by paralysis. Even if it were possible to design the right international arrangements for responding to the crisis, the challenge would be one of persuading myopic national governments that owe their basic allegiance (and survival) to domestic constituencies to approve and implement them. Even if governments see that acting for the common good will pay off, organizing collectively to deliver such public goods will be problematic. It might be possible, but the process is likely to be slow and painful. Meanwhile, things are likely to worsen before they get better.

This leaves us with the unexpected search for a hegemon to push for solutions in a world where power has become more evenly distributed. Despite the remarkable progress made by the European Union in the last few decades, it can still not be considered as a coherent international actor (except perhaps in the realm of trade). Similarly, despite the rise of China, Brazil, Russia and India, they are still too small and carry too heavy a domestic burden to be able to take a lead. The European Union, the BRICS, and others will have to be on board, but the initiative and the push can only come from the United States, still the single most influential country in the world economy (as well as in military prowess).
This presents the new US government with a big challenge. The G20 meeting in London can be a step forward if it becomes an opportunity for the US administration to take the lead and persuades other important players to join. In London, the United States should make explicit commitments to:

1) lead WTO members to conclude the Doha Round and request a Congressional renewal of fast track trade negotiating authority;

2) implement a standstill on protectionist measures;

3) deal with the domestic financial and economic crisis boldly, cleaning the balance sheet of wrecked financial institutions and providing fiscal stimulus as required to prevent a severe depression;

4) reforming the IMF by expanding its resources, strengthening its surveillance and oversight authority and changing its governance structure to reflect more fully the current global distribution of economic power;

5) work with US Congress and other governments for a successful conclusion of the Copenhagen Conference on climate change later in 2009;

6) improve financial regulation and fight against innovations that shift transactions away from the eye of public regulators; and

7) call on the rest of the G20, and especially the European Union, the BRICs and the Asian NICs, to follow suit on each of the above points.

This may seem to place too much trust on unilateral action, but at this time any other approach will take too much time and allow things to worsen too much more before they get better. If the US administration takes the right steps, benign US-led unilateralism need not be the worst case scenario. While such benign unilateralism may not succeed, other options seem even more unlikely and still less likely to succeed.

For Latin America, the main danger is a return to across the board inward-oriented policies that have had such high costs in the past. Although the El Dorado promised by the proponents of liberalization in the 1990s was far from real, switching the pendulum in the opposite direction would not be a wise response. Latin American governments need to build upon those reforms undertaken in the last two decades that were sensible, leave naïve policies behind, and be pragmatic. A worsening international scenario will not help them to do so.

A final word of caution for economists: this time the profession should be prudent and modest, not only because the row of recent shocks to its pride counsel it, but also because in the present circumstances other social scientists may have more interesting things to say. Economic fixes are badly needed, but if taken isolated from their broader political context, they are unlikely to be of much use.

Roberto Bouzas is an economist, currently serving as an Associate Professor (Universidad de San Andrés) and Senior Research Fellow (National Council for Scientific and Technical Research). His latest edited book is Despues de Doha: la Agenda Emergente del Sistema de Comercio Internacional (Madrid: Marcial Pons Editores, 2007).

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