

‘The Future of the Global Trading System’*

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Introduction

The short answers to the questions posed for this conference are as follows: Were do we stand? Answer: We stand at perhaps the most precarious juncture in the future of the global economy since the inter-war period of the 20th century. Were do we go? Answer: Unless remedial measures of major proportion are taken, into the unknown. Reform of both the global financial and trade regimes are essential. The prospects for that reform are constrained by a range of factors. This paper discusses some problems of the global trade regime within this wider context.

2008 sees the global economy facing an unprecedented series of challenges. The financial crisis resulting from the collapse of the US sub-prime mortgage market and the shocks that have reverberated beyond the USA confirm the irrevocable interdependence of the global marketplace. The sub-prime crisis has demonstrated that, unchecked and under-regulated, markets are susceptible to corporate greed, inadequate risk management and subsequent loss of confidence. The co-ordinated action taken by the US Federal Reserve and other central banks around the world has 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 globalisation, that some degree of institutional control is a necessary prerequisite for rational economic management. There is little doubt that the institutions which manage the global economy need to show greater coherence and recover legitimacy in the eyes of both ordinary people and national governments

Other global economic factors also contribute to the climate in which the International Trade System (ITS) operates. The emergence of Sovereign Wealth Funds (SWFs) has highlighted the shifting of economic power away from the traditional industrialised countries. Commentators also argue that the sustainability of the world economy as we have known it will be jeopardised by population growth and the increasing strength of some key developing nations.

It is in this context that the ITS, under-written by the World Trade Organization (WTO), finds itself in a malaise; we resist the word 'crisis'. The difficulties with

concluding the Doha Development Agenda (DDA) negotiations demonstrate not only the difficulties of conducting multilateral trade negotiations in the 21st century but also expose serious fault lines in the contemporary architecture of trade governance in particular and global economic governance more generally. This is particularly the case not only in relation to the inability of the WTO to bring to a close the actual negotiations of the DDA but also other issues such as how to determine the boundaries of its activities, address issues of justice and fairness in its deliberative processes and combat the rise of bilateral and regional preferentialism.

This paper argues that the answer to this malaise is not to by-pass or jettison the WTO as has been argued for some time across the political spectrum (from economic nationalists to radical de-globalisers) and increasingly in the wake of the recent, abortive, Geneva Mini-ministerial. Rather, the paper eschews rehearsing the reasons for failure in Geneva.¹ It makes the judgment that the halting of the multilateral discussions, disappointing and unfortunate as it is, does not presage a likely breakdown of continued trade liberalisation. Rather, the paper addresses what we might call the wider systemic implications for the multilateral system before thinking about the future regulatory role the WTO might play in it.

Even had a major negotiating breakthrough come to pass in Geneva in July, it is clear that the ITS will need to be reformed if it is to continue to meet the aspirations of the global economy and to see off the challenges it faces. It is appreciated that the Geneva negotiations came close to agreement and it is understood that those members of the trade policy community with large amounts of professional, personal and emotional capital sunk in the Round are still in part focussed on what 'nearly was' and, with one final push 'what might be'. As important as this might be, it is not the working assumption of this paper, and sad as it may be, the window of opportunity in the face of the absence of political will, especially generated by looming US and Indian elections, is closed (see Evenett, 2008). The future of the WTO demands that we also begin to think long term about the future of the WTO irrespective of the DDA. 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 'consensus problem' and its ability to 'negotiate liberalisation'. In this context, the paper assumes that we

should expect to see both continuity and considerable change in the politico-economic characteristics and institutional structure of the ITS over the coming decades. The paper examines the wider problems facing the global economy of which the ITS is part; considers some of the major problems affecting the ITS if it is to contribute to the achievement of Millennium Development Goal 8, which seeks to “develop a global partnership for development” and identifies some possible solutions to the challenges facing the ITS.

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. The Global Economy: the Context for International Trade

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 USA 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 industrialised 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 globalisation 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 industrialised world, corporations took advantage of the new sources of cheap labour 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 industrialised 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 (for a discussion see Warwick Commission, 2007:18-21).

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 of Southeast Asia failed to cope, amongst other things, with the demands of rapidly liberalising 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 industrialised 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 globalisation project itself. Born in the USA, out of a further bout of irrational exuberance (Schiller, 2008) the crisis has the potential to destabilise 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 have run to regulators demanding to be protected from the consequences of their own folly, the very same people who have rejected state (or international) regulation in the past. It seems unarguable that the consequence of this failure of the market must include greater regulation in the future. The thought to hold for the conclusion of this paper is consideration of the prospects of cooperative global regulation in same context as the inability of the principal actors in the global economy to bring about a conclusion to the DDA. Both are questions about political will and leadership.

Sovereign Wealth Funds: The rise of SWFs is also viewed in some major Organisation for Economic Cooperation and Development (OECD) states, as a potential threat to open financial markets. SWFs have grown rapidly in the last fifteen years and now excite concerns about their impact on orderly markets. In particular, analysts point to the lack of transparency in their operations, the growing power they exercise in the marketplace and, hence their name, the fact that they are government-controlled. At the extreme, observers worry that SWFs could be vehicles for the exercise of predatory foreign policy by newly wealthy global actors; provoking protectionism as a means of defence of investment targets.

Sovereign funds have existed at least since the 1950s, but their total size worldwide has increased dramatically over the past 10–15 years. In 1990, funds probably held, at most, \$500 billion; the current total is an estimated \$2–3 trillion and, based on the likely trajectory of current accounts, could reach \$10 trillion by 2012. Although they do not currently bear comparison with the economies of the major economic powers, SWFs, will be increasingly significant players in the global marketplace by the turn of the decade. Fears are accentuated by recent changes in investment strategies by SWFs, which have increasingly been moving into equities and away from bonds.

A less hysterical view of SWFs sees them as vehicles to recycle the huge trading surpluses amassed by countries like Russia, Brunei, Dubai, Singapore and China. China, for example, is setting up an SWF to manage some of its \$1,200 billion in foreign reserves – the China Investment Corporation is expected soon to have a kitty

of up to \$300 billion (Financial Times, May 24, 2007), . In this way, they unlock huge amounts of capital to help lubricate the global economic machine. They can also act as stabilisers in times of economic uncertainty; a lesson not lost on East Asians in their initiative to establish a regional liquidity fund in the years following the financial crises of 1996-8 (see Dieter and Higgott, 2003). As long-term investors, SWFs can also allow corporations to plan investment strategies with confidence. And, like other long-term investors, they can step in to markets when asset prices have fallen thus exercising a moderating influence on the world's financial system.²

However, it is the transparency concerns about SWFs which are the main focus for attention at present. With notable exceptions, such as Norway's \$300bn Government Pension Fund, most SWFs publish scant information about their dealings and are able to lose themselves amongst day-to-day market activity. One of the largest funds, the Abu Dhabi Investment Authority, provides almost no information about its strategy and operations while others appear to be less well run, raising concerns about the way they manage risk.

Longer term, governments that do not have SWFs are also worried about the extent to which the decisions of SWF managers are dictated by non-economic priorities. For the USA and other OECD countries, although the potential size of Chinese funds is a longer term worry, it is Russian funds which are main contemporary worry. With concerns about the direction of Russian democracy a high priority, Moscow's decision to split its \$108bn stabilisation fund to create an SWF has aroused fears. German Chancellor Angela Merkel stopped Russia's Mischkonzerns Sistema from taking a bite of Deutsche Telekom last year, and put her foot down when Russia's VTB bank began nibbling at EADS, the Airbus and defence group (29/11/2007 <http://www.telegraph.co.uk/money/main.jhtml?>) As a result of the activities of investment arms linked to overseas governments' SWFs, there is a growing debate about how to stop them from acquiring strategic assets.

Greater regulation is clearly a likely outcome. The European Union is currently considering new legislation to control them and the US Administration has recently called on the IMF and the World Bank to develop best-practice guidelines in order to protect stability in financial markets. Whilst acknowledging that SWFs had an

important stabilising influence, Clay Lowery, the acting under-secretary for international affairs at the US Treasury, argued that a lack of transparency meant that SWFs' activities militated in favour of greater state scrutiny and regulation, especially where takeovers are concerned (*Financial Times*, June 6, 2007).

The international trade regime will clearly be affected by the fallout from the current wider economic and financial turmoil; as indeed, it in turn will affect the wider global economy by its failure to round off the DDA. As part of the project to create a global economy, the multilateral trade system is threatened by the perception that globalisation has been tarnished by speculative investment and other excesses in financial markets seeking ever larger profits at the expense of sound business practice. The rise of SWFs, create protectionist sentiments with attendant risks for the open marketplace in times of uncertainty. The spill over into the growing opposition to trade liberalisation might be irrational, but as later sections of the paper argue, it is nevertheless real.

Sustainability of the Global Economy: The international trade system faces other systemic challenges. 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 USA, 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 rounds of multilateral trade negotiations. Failure to secure agreement at the July Mini-ministerial in Geneva can only be a negative demonstration effect of the current pusillanimity 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. UK government 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 has 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 near future? How will we accommodate 50% percent more consumers without reducing *per capita* consumption or increasing production dramatically?

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, which have multiple causes including higher demand from developing countries. Over time similar effects will 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 avowedly normative position of this paper is that these issues can only be tackled if there is general

agreement that more, not less, regulation of economic activity is desirable. We are certainly not arguing that the WTO, or the multilateral trade regime generally, can or should address all these issues. However, it is apparent that in the increasingly interdependent world in which we find ourselves, trade policymakers cannot ignore either the context in which they operate or the need to contribute to the resolution of these challenges. Whether global institutions are capable of meeting this challenge is, of course, arguable. At the outset, these challenges raise major questions of institutional policy coherence.

2. Five Challenges Facing the International Trading System

We have suggested that the malaise which afflicts the system is suggested not only by the lack of conclusion to the deliberations of the DDA, but also by other symptoms in the contemporary global economy linked to the global trade agenda. Over a long term perspective, there is evidence that many of the lessons learned in the 20th century about the importance of multilateral institutions and the rules, norms and principles that underpin them, are in danger of being ‘unlearned’ in the 21st century. To this longer term trend we must add the more immediate anti-globalisation protests that accompanied the full ministerial meetings of the WTO; near permanent rumblings of discontent by diverse groups of countries from within the organisation; and the turn to alternative forms of economic governance including bilateral and regional preferential trade agreements. Moreover, much of the trade liberalisation in developing countries that has occurred has done so on a unilateral basis (World Bank 2005).

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, the Warwick Commission noted a paradox between continued governmental liberalisation and internationalisation 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. Concern about stagnant wages, job losses, growing income inequality and environmental degradation are now central to the political debate in most industrialised countries. Trade is seen as part of the problem 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 liberalisation is growing (amongst the political and economic elites, at least) in many of the larger and faster-growing developing countries.

The second challenge facing policymakers was, and is, the need to ensure that the increasingly multi-polar, 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 clear that a re-adjustment in power relations in the global economy is occurring; we are seeing a messy transition from one global economic equilibrium to another, as new voices and centres 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, we need to ensure that the fast-growing large emerging markets take up leadership roles in the global trading system while at the same time ensuring that the originally dominant economic actors, the United States and the European Union, 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 liberalisation, is perhaps the most serious 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, 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 (political as much as economic *pace* agriculture) to them 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' in the early years of this century demonstrated, the very boundaries of the WTO agenda 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 organisation. The WTO gathers regular and fierce criticism from Non Governmental Organisations (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 organisations 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 liberalisation 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, drawing on the Warwick Report, 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 globalisation, especially enhanced trade liberalisation 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 USA, 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 centres 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 countries such as South Korea, Mexico, Egypt, Turkey, and most recently Vietnam, have had similarly impressive growth rates in recent years. Major developing countries are increasingly the beneficiaries of globalisation 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.³ The importance of the G-20 coalition as a stable and fairly united coalition of developing countries has been both symbolically and practically significant. 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.

However, the changing role of the large developing countries has generated new challenges for the multilateral trade system. But, the transformation of the old Quad group (Canada, the European Union, Japan and the USA) into the G4 (USA, 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.

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 USA and European Union. The basic point is that for India and China the gains to be had from the liberalisation on offer in the DDA are small when compared to the gains from their own unilateral growth trajectories and it should be noted, when played in to the domestic political mileage that is to be gained by standing firm, against the USA especially, in the negotiations.

This is not to suggest that China's role in the WTO to date has been negative. By and large, its policies have been supportive of a rules-based multilateral trading order and it has used this current round of multilateral trade negotiations as a "listening and learning" exercise. But China has shown little interest so far in promoting reform of the WTO and the multilateral trade system. Although China has been present in the Doha negotiations, it has yet to develop a leadership role akin to that of Brazil or India. Hence it is clear that there remains a misalignment between the new roles of China and India in the global economy and their ability, regardless of desire, to shape its institutions. But it is this diffusion of global economic power to the major developing countries that has changed the nature of the 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, and its implications for the future, should not be underestimated.

This position is also not a little ironic. In contrast to growing public fears about globalisation in industrialised countries, many citizens in the developing countries and, especially, the political elites of East and South Asia are coming to the conclusion that open borders are, on balance, positive for their regions. Polling evidence shows that 71 percent of Africans thought that globalisation was good for their own countries. In the Asia Pacific, 52 percent of those surveyed had a positive perception of globalisation, 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 Globalisation in Industrialised Countries Globalisation has come under increasing criticism in the early years of the 21st century from the public in industrialised countries. Increased trade growth and trade liberalisation, along with financial deregulation, have informed a better understanding of globalisation. Evidence from opinion polls suggests that the public support for globalisation in OECD economies grows when workers achieve higher wage levels and deteriorates when labour markets perform badly, when labour remuneration is stagnant or unemployment rising.

The same polling that showed strong support for open borders in the developing world also indicated that support for globalisation was weak in OECD countries. Responding to the question about whether globalisation 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 globalisation a 'bad thing'. Figures for Western Europe (28 percent positive, 22 percent negative) were similar (2006 Gallup Poll).

In the USA, for decades the world's strongest force for globalisation, the gilded age of strong economic growth and ample opportunity for all Americans is widely thought to have ended. Although globalisation 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. All this is accompanied by a growing concentration of wealth and power at the same time as top earners have been the prime beneficiaries of recently enacted tax cuts.

The uneven distribution of welfare gains from international trade – both among and within states – is a major issue affecting the long-term political support for the multilateral trading regime. Trade liberalisation in the past has been based on the assumption that benefits from trade are realised in all the countries that participate in the process of multilateral liberalisation. 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 liberalisation.

But today there is growing support for the view that the continuing division of labour 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 USA 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, labour 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 labour force. According to the IMF, the latter could more than double again by 2050. The bigger labour pool is being accessed by industrialised countries through imports

of final products, off-shoring of the production of intermediate including services, and immigration. This ongoing globalisation of the labour market has drawn increasing attention from policymakers and the media, particularly in the industrialised 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 industrialised economies.

The evidence is that the share of income accruing to labour, as opposed to capital, in industrialised 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 globalisation and two of its most important vectors, trade and investment liberalisation, 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 labour than the globalisation of labour *per se*. Technological change is reducing the share of income going to unskilled labour, and growth in total real labour compensation in unskilled sectors has hence been sluggish. Not surprisingly, globalisation tends to be equated with rising job insecurity, often prompting calls to halt or reconsider policies of engagement towards the world economy.

It is in this difficult political context for globalisation 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 economy. These are not the voices usually critical of globalisation. For example, Nobel Laureate, Paul Samuelson (2004), questioned whether globalisation 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 globalisation on incomes in the United States. He challenged the widely held view that, overall, industrialised economies benefited from liberalisation 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 liberalisation. Blinder (2007) suggests that

between 22 and 29 percent of jobs in the United States 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 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 liberalisation remain largely unchallenged, even in analytical circles traditionally supportive of globalisation, they are currently undergoing a process of qualification. The standard economic response to this dilemma – that liberalisation 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 liberalisation 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 liberalisation 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 liberalisation 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 liberalisation. Evidence is mounting that globalisation 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 globalisation have to be distributed more equally if we are not to see a rise of protectionism in OECD countries. 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 minimising 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 21st century is not to protect the poorest developing countries from trade, but to enable them to participate in the international division of labour 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-Favoured 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 organisation. The DDA has shown that decision-making can be paralysed 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 marginalised and losing the benefits of MFN. The future of the global trading system, then, depends to a large extent on efficient decision-making in the WTO.

Quicker decision-making is 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. Hence 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.

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. In pursuit of this balance, the Warwick Commission recommends 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 recognising the need to address issues of concern to a ‘critical mass’ of WTO Members. 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 accommodating explicitly 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 should be given consideration (see the Warwick Commission, 2007: 30-35).

4. Trade and Development: International Institutions and Policy Coherence

The 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 labour on more equal and successful terms. What rules and procedures would enable these countries to secure the maximum benefit from a liberalising trading order? 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. 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. For these recommendations 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, coherence in global governance is a must; not an optional extra. In order to illustrate the problems of institutional coherence at the global level, let us examine 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 decolonisation; 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 macro-economic rectitude, especially in the developing world, has largely disappeared in the wake of the financial crises of the late 20th century. The WTO's move into the development field in the Doha Round 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 took on a dynamic of its own for many 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); capital flows and official assistance (World Bank-IDA) and 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, organisations need to talk to each other. Institutional coherence is particularly important in the area of trade since many of the challenges of trade liberalisation 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 liberalisation. 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 channelled more effectively⁴. 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 theory, the World Bank helps with 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 become one. Little in the WTO’s history or the expertise of its staff, let alone the trade diplomats sent to represent their countries’ interests at the WTO, suggests that this international organisation has the capacity to identify, design, fund, and implement development projects. Moreover, the WTO has enough demanding and important 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 organisations can meet all of the legitimate needs of developing countries. Neither should we assume that 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.

This poses 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. 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 programmes 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 globalisation 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 among poorer countries and civil society will have been raised about the pro-development impact of the WTO and these may not be fulfilled, not unlike the impact of giving the Doha Round a “development” label. Care needs to be taken in deciding which institutions and policymakers are responsible for what; here accountability is the key. The WTO is not responsible for meeting the aid-related promises made by individual WTO Members at various Ministerial Conferences and elsewhere. It should be made clear that 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. The consequences of not doing so and inadequately pursuing the current AfT initiative could be adverse for the WTO.

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 challenge of preferentialism. 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 should not forget the lessons learned in the second half of the 20th century from the *débauche* of largely institution-free trading arrangements in the first half of the 20th century.

In the last two decades, significant trade liberalisation has been achieved outside the multilateral arena, with most tariff reductions coming from unilateral liberalisation. 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 liberalisation 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 economic relations and they will not simply disappear. But poorly conceived regionalism carries many avoidable costs and tends to penalise the weaker and smaller members of the trade community. Even commentators favourably disposed towards PTAs as a vehicle of international cooperation recognise 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 localised 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 behaviour, perhaps motivated more generally by foreign policy considerations. Alternatively, such PTAs could be part of a broader demonstration of the characteristics of international trade policy regimes sought by the large country concerned.

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. Developing countries may be willing to accept WTO-plus provisions in exchange for these perceived benefits.

One could argue that as long as trade liberalisation occurs, as it does with unilateral liberalisation, 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 emphasise 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

But we need a more systematic consideration of what motivates governments to enter into PTAs. In the past, unilateral liberalisation 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 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 liberalisation. 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 assume that there is little need to see a threat to the multilateral regime emerging from preferential agreements. There is, however, evidence to suggest that today's preferential agreements create a different environment which poses threats to the multilateral trading regime.

First, the United States is actively pushing for PTAs. The country that helped shape and underwrite the post World War II non-discriminatory trading regime has been at the forefront of those emphasising 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 active 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 diverts 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 multilateralise it (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 in the system should show leadership. They should be willing to underwrite the "public good" of non-discriminatory multilateral trade. In short, as suggested in the Report of the Warwick Commission (2007: 53), the major industrial countries, being mindful of the systemic implications of establishing additional PTAs with other large trading countries, should forswear the establishment of PTAs among themselves. Such agreements would be seen by their signatories as a new template for redefining the multilateral trade regime. It is hard to imagine a more contentious and destructive scenario for international trade as the 21st century roles forward.

Conclusion

That the DDA has not been the focus of attention of this paper is not to underestimate the importance, were it possible, of trying to rescue something from the seven years of negotiations before, as Peter Mandelson has put it, 'the caravans move on'. Rather, in the likely event that this turns out not to be feasible, the paper has focussed on a number of specific systemic challenges to the global trade regime that transcend issues specific to the DDA. The global economy in general, and the multilateral trading system in particular, are at crossroads. For those of a reformist persuasion in their approach towards the global trade regime there is a clear and pressing need we would argue to: (i) improve the management of agenda-setting, decision-making and participation in global trade; and, (ii) define more tightly and precisely the relationship between trade and development; and (iii) understand, and respond to, the increasingly complex relationship between the multilateral system and the growing number of preferential trade relationships.

Support for an open, liberal trading system is neither consistent nor unambiguous. Trade liberalisation may well continue even without a completed multilateral round. But, as we have suggested, other linked elements are 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. But we have also argued in the paper that some of the 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 time that they are becoming appreciated by the smaller ones.

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 has for half a century given voice and legitimacy to these rules. But they have received little or no attention in the DDA. For that system to unravel for want of attention is a potential danger in what looks like an emerging 'era of non-cooperation' (see Dieter and Higgott, 2009). We are not predicting it, but in its darkest form this neglect could

portend a return to beggar-thy-neighbour trade policies not seen since the inter-war years of the 20th century. This is something, at a time when other elements of the global economic order are suffering stresses in their own right, that the world's population can ill afford.

¹ A range of 'who dunnit' interpretations can be found in the WTO blogosphere and the media for the period 30 July-4 August 2008.

² 'The Rise of Sovereign Wealth Funds,' <http://www.imf.org/external/pubs/ft/fandd/2007/09/straight.htm>

³ Argentina, Bolivia, Brazil, Chile, China, Cuba, Ecuador, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Peru, Philippines, South Africa, Tanzania, Thailand, Uruguay, Venezuela, Zimbabwe.

⁴ The July 2005 Gleneagles Agreement (in theory) promised additional commitments of between US\$25-50 billion by 2010.

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

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