

"Macroeconomic Policy Objectives in Developing Countries: Questioning the Impact of a New Protectionist Turn"

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The benefits of any further internationalization seem to have vanished for most countries, developed or developing. The drawbacks of the present phase are numerous from the deterritorialisation of value added to the new uncertainties brought by the worsening of environmental issues. Trade deficits and surpluses seem more and more difficult to reduce. Tariffs are back and a phase of detrimental trade war may become more and more worrying. Can a modern protectionism, basing the legitimacy of its rules on the SDGs (Sustainable Development Goals) be a sustainable way out? The paper will try to assess the pros and the cons of such move in trade governance, in particular for the emerging economies

1 Towards a new protectionist trend ?

The international trade system that has prevailed since the creation of the world trade organization in 1994 has entered in a major open crisis. The brutal protectionist measures taken by Donald Trump are not the only causes of this threat. This system has appeared more and more unsustainable in the follow up of the global financial crisis of 2008.

Major flaws of this system could not be cured over the last decade and the consequences of this rigidity have worsened. The existence of the WTO itself is at stake and a major restructuring of the world trade system may have to occur. Such warnings are all the more serious that they are shared by numerous experts ..including Pascal Lamy the ex director of the WTO². Such restructuring will have to concern all the main trade actors on a new basis. This includes not only a redefinition of the stands of EU countries and China but also imply to take into account the positions of all the emerging economies. Indeed a large part of the weaknesses of the actual trading system stems from the fact that this system did not adjust to the structural changes that accompanied the emergence of these developing economies. But the transformations which occurred since the creation of the WTO are not the only causes of the unsustainability of the system. If one wants to assess the various risks of the present situations for all the trade partners, with a special insight on emerging economies, which is the purpose of this paper, one has to take a longer term perspective. In effect looking back at the aftermath of World War II when the main traits of the world global governance took their modern shapes, the trade issue appears rather problematic ..;and thus source of major vulnerability for the whole period of the so called "golden age of capitalism" to echo the title of Marglin, Schor book (1992) (cf section II). The fact that the WTO was created in 1994 after the neo liberal turn of the early 1980s does not mean that the problem was solved and that the enlarged trade system had found a steady basis of development. It was clear from the start that this institution was incomplete to achieve such result. It was indeed conducive of major changes in the world economic system in increasing trade flows among developed and developing countries but this transformation was also accompanied by major structural changes that were not taken into account and which were soon going to increase the threat of unsustainability. The global financial crisis of 2008 which set the light on the importance of the financial flows (and their uncertain purposes) which had developed in a decade or so,

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² See Pascal Lamy intervention at a recent meeting of the International Economic Forum of Americas hosted by the OECD on the 2nd and 3rd of October 2018.

stressed that the creation of the WTO was a victory à la Pyrrhus for the neo economic liberalism that diffused worldwide (see section III). The WTO has been less and less in position to cure its initial limitations, running the risk to end as provoking a major return to some new kind of protectionism.

Taking into account the new context in which international exchanges are taking place, what are the alternatives to a trade war, with rises in tariffs which could turn into a major economic crisis. In these scenarios the part that emerging countries could play is important (section IV), especially if one takes into consideration the new global challenge that the environmental threat stands for (section IV).

II Overview of the building up of an international regime in the aftermath of World War II.

If we need to go back to the aftermath of World War II, it is to stress that at the time the global governance did not mainly rely on any kind of trade arrangement but on a common aspiration to set as development objectives social and economic rights for the common man. The basic principles of these conventions were assessed in a major conference held in Philadelphia in May 1944, organized in a post war resuming of International Labour Conference, an UN institution. 41 member states were represented and the Philadelphia Charter, which was adopted there, set the tone for the various Employment conventions that were more or less formally established in the aftermath of World War II. The applications of these resolutions were as diverse as the levels of development and the cultural specificities of the countries under view. Many countries were just developing (from China to most of South America countries), other included dependent territories (such as the British Empire entity). The charter had a world wide ambition. .. even if finally, this world remained divided into three : a western world much attuned to the objectives set in the Charter, a socialist world, heading towards a communist ideal, that could be read as an interpretation of the Charter and a third world, often still far from the objectives set in the charter and balancing on which was the best way, westerner or socialist, to improve the economic and social conditions of the common man. The centrality of this charter for most countries did not imply how the relations among countries should be dealt with. In the western world a fixed exchange rate system, based on the convertibility of the dollar was the basis of the trade system, partly governed by a set of international Institutions (the World bank and the IMF founded at Bretton Woods in July 1944³) to adjust to the changes provoked by growing differences among countries, be it in terms of productivity or of solvability. We say “partly governed” as trade flows have been from 1947 onwards under the auspices of a series of General Agreements on Tariffs and Trade (GATT) which, in successive rounds, worked hard to progressively reduce tariffs ..with little hope to lead to a big charter on international trade. After some three decades of sustained growth in the western world, the system effectively met its first global crisis, following an external deficit in the US which affected the credibility of the dollar and led to the end of its convertibility. It was soon followed with a sharp rise in oil prices fueling high price inflation in all developed economies which had become over these three decades great consumers of oil. These events led over the 1970s to the end of these “golden years of capitalism” for these western economies searching to curb down inflation by increasing price competition and compressing public spending., all of which paved the way at the turn of the 1980s to a neo economic liberalism, claiming that consumer surpluses brought by decreasing prices would

³ Among a similar number of states 43

compensate the slowdown in wages. A general turn towards trade liberalization thus accompanied the instalment of a new floating exchange rates regime. This trade liberalization was somehow welcome by the countries of the third world which have had very contrasted experiences over the same period, some benefiting from the expansion of the western economies in supplying them with agricultural products and natural resources (with the drawbacks in terms of wealth concentration that such export activities encompass) while other third world countries either remained stuck in underdevelopment or kept on struggling to get rid of the shackles of the colonialist era. As for the socialist countries they suffered from the comparison with the standards of living reached in the western world and their adhesion to the free market economy principles that was going to happen at the turn of the 1990s was already well on its way. A new era of economic liberalism was thus opening in the 1980s.

III On the limits of the globalized capitalism emerging at the end of the XXth century?

In the context of the world wide diffusion of a neo economic liberalism the creation of the WTO (World Trade Organization) in 1994 could have appeared as a major deed, something like a Charter, ensuring a coordinated welfare development of all the member countries⁴. With the demise of the socialist alternative block in the 1990s and the turn to a market economy in China with Deng Xio Ping reforms, first in agriculture at the turn of the 1980s, then in the other activities at the turn of the 1990s, the odds were much in favor of such Charter in international relations. The Bretton Woods institutions (namely the World Bank and the IMF) were totally attuned to this free market credo, which by then was called the Washington Consensus, which among other structural adjustments recommended to developing countries to reduce the importance of the States and of their public sectors. . And indeed some 2/3 of countries joined the WTO by the turn of the century. Sometimes the adhesion took a long time as countries had to comply with some rules, in particular regarding the role of the State in the economy. Such were the cases for China which became a member in 2001 and Russia which entered only in 2014. Lowering the trade barriers for all members was the first, if not only objective, including certain common rights for the parties. Multilateralism, e.g. the fact that the conditions were to be the same for all members, was a key prerequisite. The ideology of neo economic liberalism that free market was the optimum institutional mechanism, ensuring mutual benefits to trade partners was the corner stone of this principle, unabated by all the realist critics that can be made to such stand⁵. Practically though, the WTO had to admit some differentiation of status, distinguishing developed and developing countries ... and as well between "market " and "non market" economy⁶. It is quite understandable as more realist on the diversity of the conditions of trade competition.

In the same spirit it is clear that there is a sectoral dimension: agriculture and services have specificities of their own giving way to special negotiations. Agriculture is the most particular, farmers being not only producers of agricultural products but also in charge of the maintenance of the territories with the political implications it has. This led countries to develop special conventions or compromises with the farmers, involving among other things subsidies that should be reduced if not suppressed in the WTO logic. This explains that trade liberalization is a difficult lengthy process that has for a long time been a subject of discord

⁴ The negotiators never add the impression to work on such a major document as the Philadelphia was, they were even surprise to reach an agreement when all the rounds of the GATT had been painfully ending with partial deals.

⁵ See Alan Kirman (2016) on the unrealistic feature of pure and perfect market competition.

⁶ A category that seems to apply in the first place to the case of China

between developed and developing countries. The WTO is not well equipped to overcome such obstacles. The liberalization of trade in some services present similar specific features. Thus service networks, for instance in trading, have also acquired diversely some political dimensions which are difficult to overcome. Not to speak of health or education services where countries have set their own norms and where then trade liberalization requires lengthy adjustments. Even in regional unions, such as the EU, to set up common rulings for these sectors is an hard process. These issues were already there with the GATT negotiations. The WTO did not benefit from any special political mobilizations or new means to solve more rapidly and efficiently these issues⁷. The only new tool it had was an arbitrating procedure, the Appellate Body, established in 1995 as a court hearing appeals on reports issued by panels in disputes between WTO members. The compliance to its judgements is supposed to be prompt. The truth of the matter is that, since the installation of the WTO, the world economy has largely changed, in large parts thanks to the expansion of trade flows but not only , all of which multiplied the number of potential disputes and unresolved cases.

Still, by and large the accent put on trade liberalization in the 1980s and 1990s gave an extra boost to the growth of trade: the ratio of trade growth to GDP growth at world level grew from 1.5 to more than 2. This driving force of trade flows has been less clear in the years 2000s and after, when this ratio seemed much less stable. It was first hit by the dot.com crisis of 2001 then to a large extent by the global financial crisis (GFC) of 2008. ...ending in the last decade slightly below the modest growth rate of GDP. This cause of concern is all the more serious that the feature of the world economy has deeply changed in the meantime, e.g. from the mid 1990s till today.

The first phenomenon is surely some sizeable catching up of many developing countries and in the first place of those that were called the emerging economies, with the extraordinary growth of China. A second phenomenon, as important but often neglected in such review, is the rise of international financial flows. The financial places were the first to seize the opportunity of the neo liberal economic ideology and soon achieved by the early 1990s a globalization of the financial sector. A marked sign of this state of globalization of finance was given by the Asian financial crisis of 1997, that started in Thailand, following some reaction from Wall Street, and spread all over Asia. This warning was soon followed by the dot.com crisis of 2001 in Wall Street. At the turn of the 21st century it was already quite clear that the Washington Consensus could bring more harm than benefits. In the first place the more successful catching up trajectories were occurring in Asian countries, where State interventionism in the economy remained remarkably active while in Latin American countries more drastic applications of the Washington consensus led to rather poor results. Meanwhile international financial flows continued to increase until the GFC of 2008. This financial activity was also linked to real transformations of the productive structures as they concerned largely foreign direct investments (of which a lot of mergers and acquisitions). All these financial activities concurred finally to develop an entirely revised fabric of productive processes, referred to as global value chains.

It entirely changed the scene of international relations (see Gereffi 2014). The major issue was not anymore the only management of exchange rates and tariffs, which could be changed overnight, but had to include the management of investment and property rights, which implied more lasting commitments. This restructuring of productive processes came at the heart of the relations between developed and developing countries as by essence it aimed to take advantage of less costly human or natural resources. Still these new relations also shifted

⁷ When the Philadelphia charter echoed a stronger and more widespread political mobilization.

the nature of the partnerships with the introduction as major actors of the multinational firms. The whole process of internationalization of production processes appeared then more tricky than the monitoring of trade flows. It implied on the side of developing countries numerous partners engaging in long term relationships. FDI also imply technology transfers and issues of Intellectual property rights (IPR) on many accounts, from valorizing patents to avoiding taxes in shifting profits around the world. All these changes have been especially boosted by the diffusion of ICTs (information and communication technologies) which helped largely to by pass borders and diffuse internationally standards in all kind of activities, be it producing, consuming , and ways of life. The ensuing complexity of the new stage of internationalization of the world economy did also offer new rooms of manoeuver to developing economies, allowing some catching up in various technologies and hence some south-south cooperation (as rightly stressed in a 2017 UNCTAD report (2012). China as well as other developing continental economies played a particular role in that respect. Still, ironically, the acronym BRICS, which consecrates the new role of these economies in global governance, was first launched as a product of financial investment by Goldman Sachs chairman. It turned though within five years in a political grouping at the margins of a general debate of the UN general assembly .. and then in a full scale diplomatic meeting , holding a first summit in Russia in 2009⁸. By 2013 this BRICS Forum planned to challenge the Bretton Woods institutions (namely the IMF and the World Bank) with the creation of a New Development Bank, aimed to lend to support infrastructures investments, comforted with a Contingent Reserve Arrangement, thought to provide protection against global liquidity pressures. This South-South cooperation developed largely outside the auspices of the WTO, taking into account that their first phase of trade development strongly benefitted from the impulse given by the WTO in the 1990s. To conclude, the WTO showed its incompleteness, being unable to tame the globalization of finance and its consequences in terms of diffusion of global value chains, as well as to reduce the rise in the number of unresolved conflicts and the increase in bilateral arrangements, the famous noodle bowl problem⁹ , with little prospect of any sizeable consolidation driven by the WTO.

Finally the big hope of a new economic liberalism geared by an active WTO was rather short lived. The Post Washington consensus appeared strongly at the turn of the century with an economic slowdown in a world that had clearly become prone to financial crises. The GFC of 2008 definitively closed the episode. It was all the more a forced turn to another phase of the world economy that the major challenge represented by the climate change threat was by then fully acknowledged. The damaging consequences of the contemporary growth processes was denounced at least in the early 70s with the report on the limits of growth , sponsored by the Club of Rome (the 1972 Meadows report). Still little attention was paid to this warning and the turn to the neo economic liberalism of the 1980s assumed implicitly that market mechanisms will take care by means of taxes on the polluters. It became clear by the end of the 1990s, while the time of the Post Washington occurred that markets will not do the job. The Kyoto protocol that took place in 1997, as a follow up of the third meeting of the Conference of the Parties to the United Nations Framework Conventions on Climate Change (COP3) , a process originated in Rio Earth Summit in 1992, developed countries committed themselves in a first round to reduce green houses gas at the 2012 horizon. State actions were back but a rigid divide between developed and developing turned out to hamper the second round 2012-2020

⁸ South Africa only joined the group in 2010.

⁹ For instance, by 2013 Asia was muddled with 257 bilateral agreements !

as some major developed economies such as the US , Canada, Japan and Russia dropped out. The fact that China, a major polluter as a continental economy, was listed as a developing economy, was one of the reason for the failure of this second round, a state of affairs which rallied a lot of public opinions. Meanwhile along the successive meetings of the UN Conference of the Parties , it became clear to nearly all developed and developing countries that all countries should participate to the efforts to meet the threat of climate change. This was acted at the CPO21 in Paris December 2015. The basic instrument to rally 196 countries was to require “nationally determined contributions” (NDCs) to reach altogether the objective to keep global warming under 2°celsius. Differences in development levels were though taken into account ,with developing countries asked to reach their peak of emission as soon as possible while developed countries had to reduced their emissions of green houses gazes by 2025 below their 1990 levels. This worldwide cooperation between developed and developing was an unprecedented extremely encouraging event, showing a new potential turn in global governance which the WTO did not succeed to achieve. All the more so that beyond the adherence of the States , the Paris agreement was supported by 2250 major cities, 150 regions, 2025 large companies, 424 investors and 235 civil societies organizations. Three years after the question is whether the perspective opened in Paris of a major Magna Carta to construct a more sustainable world is on its way or if the recent protectionist reactions may put an end to this hope.

IV Scenarios for a global governance ensuring a sustainable world: questioning the role of emerging developing countries.

Three years after the Paris agreement some 170 countries have ratified the treaty. In the aftermath of the Paris accord a set of 17 Sustainable development goals (SDGs) have been retained paying attention to all the vulnerabilities of concern for all the inhabitants of the world. In that respect it is of central importance for the habitants of developing countries where large share of the populations are and may become exposed to such vulnerabilities, following changes in their environment to which they are more exposed than others. These encompassing SDGs pay attention not only to climate change but also to the state of the oceans which are also key in the well being of large populations in the South. There is evidently the risks that such accord remains some cheap talk without much actions. A first stocktaking of the results is due in 2023. It is clear that the actions of large continent economies will be decisive to see if a momentum is developing that would give to the SDGs chances to be reach in due time to avoid the catastrophes predicted by the GIEC if the global warming exceeds 2° by 2050. Any consideration today on the future of the COP21 cannot escape to take into account the hostility to the agreement declared by the President of the US. In the same vein the unilateral declaration of Trump, threatening of large duties on imports of diverse products and from diverse countries to reduce the US trade deficit is alarming. One can say that many US States and cities are against such policies. So are some industries that fear retaliation on their own exporting business. The affair is not settled and this President has in a recent past on various subjects changed his mind. If the world enters in a war of tariffs, this may be quite detrimental for a lot of countries, many of them developing on the basis of exports fueled by the trade liberalization and the globalization of productive processes that followed. Recent guestimates of the costs of such tariffs war stressed the magnitude of the blows, especially for developing countries. But clearly such strong stand of the US will rally against them the rest of the world and in the first place China. The position of countries which are large exporters of natural resources may be tempted to side with the US, if only to get out of the Paris agreement like the Brazil where the newly elected president is clearly against the COP21 in the interest of the big agro businesses. Oil producing countries may also try to

find arrangements with the US to be strong actors on the oil markets. An alternative to such scenario could be led by China which tries with its belt and Road Initiative to establish a network of trade routes by means of roads, railways, oil pipelines, power grids, ports and other infrastructural projects meant to connect China to a large part of the world : nearly 65 countries in Eastern and Western Europe, South-East Asia, Africa and Central Asia . It is still in construction and recalls the construction at the time of the British Empire. Still it presents an alternative that may tempt the EU to constitute a new hegemonic zone able to dictate its own rules, or more exactly its own reading of the priorities within the widely accepted framework of the SDGs .

Much in that perspective will depend of the support that the developing economies will bring to the Magna Charta that the SDGs constitute for them. The SDGs are very comprehensive as we stressed and in the first place the COP21 has announced that from 2020 till 2025 a special fund of development will be granted of some 100 billions dollars every year. Whether this sum can be collected without the US (and the other countries retreating of the Paris accord like Brazil) remains an issue. But somehow the support of some industries and cities in the US can help in that respect¹⁰. Second and highly motivating for small insular developing countries (SIDS) a special scheme *Insuresilience*, set up at the COP23 in Bonn in 2017, is planned to strengthen the resilience of the most vulnerable countries to a rise in the number and magnitude of disasters provoked by climate change. Developing countries in the South which are more exposed to such disasters that in the North are bound to be more and more attached to such scheme and broadly to political agenda proning the SDGs. Sadly enough this learning process will derive directly from the exposure of territories to such dramatic events. As B Latour () remarked, the climate change issue is much of an abstraction until populations have such dramatic experience in some specific direct ways. We can thus expect a process of mobilization to take place in the large number of developing countries concerned. This will be helped by another aspect of globalization which developed along the catching up move and the development of a middle class in these countries which have been getting used to information and telecommunication technologies (especially mobile phones), means of communication which have channeled some occidentalization of these populations, by means of films, TV shows and the like, practices which will also reinforce the mobilization mentioned above (see Morin 2015). Part of this transition will also be helped by the fact that new technologies to scale up low emission and resilient investment are already a rising share of imports¹¹. This potentially growing support for the SDGs package will not though lead to a straight forward unique pathway. One of the reason of the length and complexity is that every population has a risk culture of its own (see Beck 2001) and the adaptation means of the above scheme to build up local resilience is bound to be rather specific. To meet the ethical and cultural issues raised will require some experience, a domain social sciences should investigate while the SDGs are diffusing¹². Another scheme Loss&Damage has been introduced at the COP23 that would further fuels aid to the most vulnerable places, once severely impacted by some dramatic climate changes. These attentions to the needs of the developing countries, despite the broad differences of their situations regarding climate change and other environmental issues constitute some good basis to reconstruct some multilateralism. Still much depends on the relative stands of the US, China and the EU. Will the three end cooperating in the spirit of the Paris agreement ? Will the US keep the isolationist turn that

¹⁰ Somehow the world of finance is realist enough to understand that the rising cost of environmental disasters in a not too distant future cannot be faced by the insurance industry.

¹¹ See OECD (2017) *Investing in Climate, Investing in Growth*, OECD Publishing Paris

¹² Such issues are rightly stressed in a report of Comité consultative commun d'éthique INRA-CIRAD-IFREMER: Avis 10 Sur la dimension éthique des grands accords internationaux (objectifs de développement durable, climat). Paris . see also Zaccai E. (2014)

Trump initiated , leaving to China and the EU to accompany the new multilateralism that the SDGs suggest? The EU appears really weak in this process, being plagued by the coming into power of some populists governments ...and by the Brexit. EU countries have not yet suffered too much from climate change. Many seem lost in a post Washington consensus without any project, complaining that free trade is not delivering the expected support to economic growth, without realizing the new international relations that have to be developed in the present phase of the environmental challenge. Only migrations give them an echo of the transformations under way leading often to reactionary measures which hopefully will disappear when the European populations will sober up from the neoliberal dream and work to contribute to the development of convivial , reasonably frugal and open economies.

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