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Macroeconomic policy in developing countries: Questioning the new protectionist turn

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The benefits of further internationalisation have vanished for most countries, regardless of whether they are developed or developing. The drawbacks range from the deterritorialisation of value added to new uncertainties brought about by the worsening of environmental issues. Trade deficits and surpluses also seem increasingly difficult to reduce. Tariffs are back and a phase of detrimental trade wars seems in the offing. Can contemporary protectionism, basing its legitimacy on the SDGs (Sustainable Development Goals), be a way out, particularly for emerging economies?

Towards a new protectionist trend?

The international trade system that has prevailed since the creation of the World Trade Organization in 1994 is in a major crisis. The brutal protectionist measures taken by Donald Trump are not the only cause. This system has appeared increasingly unsustainable in the wake of the global financial crisis of 2008.

Major flaws have not been corrected over the last decade and the consequences have worsened. The existence of the World Trade Organization (WTO) itself is at stake and a major restructuring of the world trade system needs to occur. Such warnings should be taken seriously because of who they are coming from. Pascal Lamy, the former director-general of the WTO, raised such concerns at a meeting of the International Economic Forum of the Americas hosted by the OECD in October 2018.

Restructuring the trade system on a new basis will involve all the main trade actors. This includes not only a redefinition of the standing of China and the European Union countries but also the positions of emerging economies. Indeed, a large part of the weaknesses of the current trade system stems from the fact that it did not adjust to structural changes that accompanied the emergence of developing economies.

But the transformations that have occurred since the creation of the WTO are not the only causes of unsustainability. When assessing the risks of the present situations for all trade partners, with a special emphasis on emerging economies, it is necessary to take a longer-term perspective. The structure of this paper is as follows:

In the next section, I look back at the aftermath of World War Two, when the main characteristics of contemporary global governance took shape, and we can see that the trade issue appeared problematic and thus a source of major vulnerability during the “golden age of capitalism”, to echo the title of the Marglin and Schor book (1992).

The following section examines the WTO’s creation in 1994 after the neoliberal turn in the Western world of the early 1980s. This did not mean that the problems were solved and that the enlarged trade system had found a steady basis of development. It was clear from the start that this institution was not built to achieve such results.

The WTO assisted with major changes in the world economic system by increasing trade flows among developed and developing countries. But this transformation was accompanied by major structural changes that were soon to increase the threat of unsustainability.

The global financial crisis of 2008, which cast a light on the importance of financial flows, underlined that the creation of the WTO was a Pyrrhic victory for economic neoliberalism. The WTO has been increasingly unable to overcome its limitations and has instead become more likely to provoke a major return to some form of aggressive protectionism.

In the final section, I look at the the new context in which international exchanges are taking place, one in which we need to explore alternatives to trade wars and their accompanying tariff rises, which could turn into a major economic crisis. In these scenarios emerging countries could play an important role, especially if one takes into consideration the new global challenge that the environmental threat poses.

Building up a post-war international regime

In the aftermath of World War Two, global governance did not rely on trade arrangements but on a common set of social and economic aspirations as development objectives for the common man. The basic principles of these conventions stem from a conference held in Philadelphia in May 1944, organised by the International Labour Conference, a United Nations institution.

Altogether, 41 member states were represented and the resulting Philadelphia Declaration set the tone for the various employment conventions established in the aftermath of World War Two. The applications of these resolutions were as diverse as the levels of development and the cultural specificities of the countries involved.

Many countries were developing (from China to most of South America), while others were dependent territories (such as those of the British Empire). The declaration had a worldwide ambition, even if this world remained divided into three: a Western world much attuned to the objectives of the declaration; a socialist world moving towards a communist ideal that could be read as an interpretation of the declaration; and a third world, often far from realising the objectives and balancing between western or socialist methods in order to improve the economic and social conditions of the common man.

The centrality of this declaration did not have implications for how relations among countries should be organised as far as most countries were concerned. In the West, a system of fixed exchange rates based on the convertibility of the dollar underpinned the trade system. This was partly governed by a set of international Institutions – the World Bank and the International Monetary Fund (IMF), founded at Bretton Woods in July 1944 – to adjust to the changes provoked by growing differences among countries, be it in terms of productivity or solvency.[1]

'Partly governed' is an appropriate description as trade flows from 1947 onwards operated under the auspices of a series of General Agreements on Tariffs and Trade (GATT), that worked hard to progressively reduce tariffs across successive negotiating rounds, even with little hope of ending up with a large declaration on international trade. After some three decades of sustained growth in the West, the system effectively met its first global crisis following an external deficit in the United States that affected the credibility of the dollar and led to the end of its convertibility to gold.

A sharp rise in oil prices followed. This fuelled high inflation as all developed economies had become significant consumers of oil over the three previous decades. As the 1970s wore on, this resulted in the end of the 'golden years of capitalism' for Western economies which had to curb inflation by increasing price competition and compressing public spending.

This set the scene at the turn of the 1980s for economic neoliberalism, which claimed that consumer surpluses, brought about by decreasing prices, would compensate for the slowdown in wages. A general turn towards trade liberalisation accompanied the creation of a new floating exchange rates regime.

Trade liberalisation was somehow welcomed by countries of the third world, although they had contrasting experiences with it. Some benefitted from supplying agricultural products and natural resources to Western countries, even with the drawbacks in terms of

[1] After the Philadelphia Declaration, a similar number of states (44) participated in the Bretton Woods conference.

wealth concentration that such export activities encompassed. Other developing countries either remained underdeveloped or struggled to cast off the shackles of the colonialist era.

As for socialist countries, they suffered comparisons to the living standards of the West. Their ultimate embrace of free market economy principles was already well on its way and eventually occurred at the turn of the 1990s. A new era of economic liberalism was thus opening up in the 1980s.

The emerging limits of globalised capitalism at the end of the 20th century

The worldwide diffusion of neoliberalism saw the creation of the WTO in 1994. This would have been a major event if something like a charter or declaration, ensuring coordinated welfare development of all member countries, had emerged. With the demise of the socialist alternative block in the 1990s and the turn to the market economy in China, first in agriculture at the turn of the 1980s, then in the other activities in the 1990s, the odds were in favour of such a charter or declaration coming into play in international relations.

The Bretton Woods institutions were attuned to the free market credo, by then referred to as the Washington Consensus. This recommended that developing countries reduce the importance of the state and of their public sectors, among other structural adjustments. By the turn of the century, two of every three countries had joined the WTO.

Sometimes joining involved an extended process, as countries had to comply with rules regarding the role of the state in the economy. This was the case for China, which became a member in 2001, and Russia, which entered only in 2014. Lowering trade barriers for all members was the first, if not the only objective. Multilateralism, that is, the fact that the conditions were to be the same for all members, was also a key prerequisite.

The ideology of economic neoliberalism that the free market was the best institutional mechanism to ensure mutual benefits to trade partners was a cornerstone of the time. This was fervently adhered to despite all criticisms (see Alan Kirman, 2016) of the unrealistic features of pure and perfect market competition.

Practically the WTO had to admit differentiation of status, distinguishing between developed and developing countries and as well between 'market' and 'non-market' economies, a category which initially seemed to only apply to China. Such distinctions are understandable as a more realist consideration of the conditions of trade competition.

In the same spirit there was a sectoral dimension: agriculture and services have specificities of their own that demanded special negotiations. Agriculture is the most peculiar sector as farmers are not only producers of agricultural products but also in charge of the maintenance of the land, which has important political implications. This led countries to develop special conventions or compromises with farmers, involving – among other things – subsidies that were reduced if not actually suppressed under the logic of the WTO.

This illustrates how trade liberalisation is a difficult, lengthy process and why it has been a subject of discord between developed and developing countries. The WTO is not equipped to overcome such obstacles.

Service networks, for instance in trading, have also acquired diverse political dimensions that are difficult to overcome. Countries each have their own set of norms concerning health and education services, so trade liberalisation requires lengthy adjustments in these areas. Even in regional unions, such as the EU, setting common rules for these sectors has been a hard process.

These issues were already evident in GATT negotiations. Unlike the Philadelphia Declaration, which echoed strong and more widespread political support for its objectives, the WTO did not benefit from any special political mobilisations or new means to solve issues more rapidly and efficiently. The only new tool was an arbitrating procedure, the Appellate Body, established in 1995 as a court hearing appeals in disputes between WTO members. Compliance with judgements is supposed to be prompt. The truth is that, since the installation of the WTO, the world economy has changed largely due to the expansion of trade flows that have multiplied the number of potential disputes and unresolved cases.

Still, the emphasis on trade liberalisation in the 1980s and 1990s gave an extra boost to the growth of trade: the ratio of trade growth to gross domestic product (GDP) growth at the world level grew from 1.5 to more than 2. The driving force of trade flows has been less clear after 2000 when this ratio seemed much less stable.

The first hint of trouble was the dot-com bubble of 2001, followed to a greater extent by the global financial crisis (GFC) of 2008, with modest trade growth over the last decade only matching the growth rate in GDP. The concern is that the world economy has deeply changed since the creation of the WTO.

The first phenomenon is the significant catch-up of many developing countries, led by the extraordinary growth of China, among other so-called emerging economies. A second phenomenon, as important but often neglected in reviews, is the rise of international financial flows. Finance was one of the first areas to seize the opportunities presented by neoliberal ideology and by the early 1990s had established a globalised sector.

A marked sign of financial globalisation was the Asian financial crisis of 1997, which started in Thailand following depreciation of Thai stocks on Wall Street, and then spread throughout Asia. This warning was followed by the dot-com crash. At the turn of the century it was becoming clear that the Washington Consensus could bring more harm than benefits.

In the first place, the more successful development trajectories were in Asian countries where state intervention in the economy remained remarkably active. In comparison, the drastic application of the Washington Consensus in Latin American countries had led to poor results. Meanwhile international financial flows continued to increase until the GFC of 2008.

This financial activity was linked to the transformation of productive processes in relation to foreign direct investment, particularly the role of mergers and acquisitions. These financial activities resulted in a revised system of productive processes, referred to as global value chains. As Gereffi (2014) noted, this completely changed international relations.

The issue was no longer only the management of exchange rates and tariffs, which could be changed overnight, but had to include management of investment and property rights, implying more lasting commitments. This restructuring of productive processes was at the heart of relations between developed and developing countries, as it aimed to take advantage of cheaper human and natural resources.

These new relations also saw multinational firms emerge as major actors and shifted the nature of partnerships. The internationalising of production processes then appeared more complex than just the monitoring of trade flows. It implied, on the side of developing countries, numerous partners engaging in long-term relationships.

Foreign direct investment (FDI) also brings about concerns related to technology transfers and intellectual property rights, which involve issues ranging from the valorisation of patents to international tax avoidance. These changes have been supercharged by ICTs (information and communication technologies) that largely bypass borders and diffuse standards internationally in production, consumption, and lifestyles.

The complexity of this new stage of internationalisation of the world economy offered room for developing economies to manoeuvre, which allowed some form of catch up in terms of various technologies. An example of this is the South-South cooperation identified in a 2012 report from the United Nations Conference on Trade and Development (UNCTAD). China played a leading role throughout.

Ironically, the acronym BRICS (Brazil, Russia, India, China, and South Africa), which speaks to the new role of these economies in global governance, was first coined as part of financial research by Goldman Sachs. Within five years it turned into a political grouping at the margins of general debate at the United Nation General Assembly and then into a fullscale diplomatic meeting with the first summit held in Russia in 2009 (although South Africa only joined in 2010).

By 2013, this BRICS Forum planned to challenge the Bretton Woods institutions with the creation of the New Development Bank, which aimed to support infrastructure investment, backed with a Contingent Reserve Arrangement to protect against global liquidity pressures. This South-South cooperation developed largely outside the WTO, although these countries strongly benefitted from the first phase of trade development driven by the WTO in the 1990s.

The WTO has proven inadequate in taming the globalisation of finance and its consequences in the diffusion of global value chains. It is also marked by a failure to reduce the rise in the number of unresolved conflicts and an increase in bilateral arrangements, such as in Asia where by 2013 there were 257 bilateral agreements. This is known as the 'noodle bowl' syndrome and the WTO has offered little prospect of any sizeable consolidation.

The big hope of new economic liberalism facilitated by an active WTO was short-lived. The post Washington Consensus appeared at the turn of the century when an economic slowdown indicated the world had clearly become prone to financial crises. The GFC of 2008 definitively closed this episode. It forced a turn to another phase of the world economy when the major challenge represented by the climate-change threat was acknowledged.

The damaging consequences of contemporary growth patterns had been identified as early as the 1972 with the release of the *Limits to Growth* report sponsored by the Club of Rome. Still, little attention was paid to this warning and the turn to neoliberalism in the 1980s assumed implicitly that market mechanisms would address environmental concerns by effectively taxing polluters.

By the end of the 1990s, it had become clear that markets were not up to the task. In the Kyoto Protocol of 1997, a follow-up of the third meeting of the Conference of the Parties to the United Nations Framework Conventions on Climate Change (COP3), developed countries committed to reducing greenhouse gases emissions by 2012.[2] State actions were back but a rigid divide between developed and developing countries hampered the second commitment period, 2012-2020, with some major developed economies such as the Canada, Japan, Russia and the United States dropping out of the process.

The fact that China, a major polluter, was listed as a developing economy was one reason for the failure of this second round. Meanwhile, during successive meetings of the UN Conference, it became clear that all countries should participate to the efforts to meet the threat of climate change. This was agreed upon at CPO21 in Paris in December 2015.

The basic instrument used to rally the 196 countries was ‘nationally determined contributions’ (NDCs) with the objective of keeping global warming under 2° Celsius. Differences in development levels were accounted for with developing countries asked to reach their peak emissions as soon as possible, while developed countries had to reduce greenhouses gas emissions by 2025 to below their 1990 levels.

This worldwide cooperation was unprecedented and showed a new potential turn in global governance. Beyond the agreement of the states, the Paris Agreement was supported by 2250 major cities, 150 regions, 2025 large companies, 424 investors, and 235 civil societies organisations. Three years after CPO21, the question is whether the potential shown in Paris for a new charter of rights to construct a more sustainable world is on its way, or if protectionist reactions may end this hope.

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[2] This process originated in the Rio Earth Summit in 1992.

How global governance can ensure a sustainable world

Three years after the Paris Agreement, some 170 countries have ratified the treaty and a set of 17 sustainable development goals (SDGs) have been developed that pay attention to the vulnerabilities facing the world. These are of particular relevance for inhabitants of developing countries where large shares of the populations are at risk of environmental change.

These SDGs address climate change and the state of the oceans, which are critical for the well-being of large populations in the South. The risks of such an accord is that talk is cheap. A first stocktake of results is due in 2023. The actions of large economies will be decisive if a momentum is to develop that would give SDGs a chance to avoid the catastrophes predicted by the Intergovernmental Panel on Climate Change (IPCC) if global warming exceeds 2° by 2050.

Consideration on the future of COP21 must take into account the hostility toward the Paris Agreement declared by President Trump. Similarly, the unilateral declaration of Trump to threaten large import duties on a range of products to reduce the US trade deficit is alarming. Many states and cities in the US are opposed to such policies. So are some industries that fear retaliation.

If the world enters into a tariff war, this will be detrimental for many developing countries, many of which have developed through export-led growth, made possible by trade liberalisation and the globalisation of production. But the rest of the world is rallying against the US position. Countries that are large exporters of natural resources, such as Brazil, may side with the US if only to avoid the Paris accord. The newly elected president of Brail, Jair Bolsonaro, is against COP21 as it harms the interest of the country’s big agribusiness. Oil producers may also side with the US.

An alternative to such a scenario could be led by China, which is trying with its Belt and Road Initiative to establish a network of trade routes by means of oil pipelines, power grids, ports, railways, and road and other infrastructural projects. The idea is to connect China to nearly 65 countries in Eastern and Western Europe, Southeast Asia, Africa, and Central Asia. While this network is still under construction, it presents an alternative that may tempt the EU to work towards a new hegemonic zone able to dictate its own rules, or more precisely, its own reading of priorities within the widely accepted framework of the SDGs.

Much will depend on the support that developing economies provide for the SDGs, which constitute a type of Magna Carta for them. The SDGs are comprehensive and COP21 is backed from 2020 to 2025 by a special development fund that will grant $100 billion every year. Whether this sum can be collected without the US (and other countries retreating from the Paris accord, like Brazil) remains an issue. But the support of some industries, such as insurance, and cities in the US can help.[3]

What could also help, and something highly motivating for small island developing states (SIDS), is a special *InsuResilience* scheme set up at COP23 in Bonn in 2017 to strengthen the resilience of vulnerable countries to a rise in the number and magnitude of disasters provoked by climate change. Developing countries in the South are more exposed to such disasters, so are likely to be attracted to such a scheme and broadly to the political agenda of the SDGs.

Sadly, the learning process will result from direct exposure to dramatic climate events. As Latour (2017) remarks, climate change is an abstraction until local populations experience its dramatic impacts in specific and direct ways. We can thus expect a process of mobilisation to take place in many developing countries affected.

Rising concerns over the environment will be reinforced by increases in the use of ICTs, especially mobile phones and the internet, in developing countries. Together, with a

[3] The support of the insurance industry is a sign that the financial world is realistic enough to understand that the insurance industry will not be able to cope with the rising cost of environmental disasters.

continuous rise in urbanisation and the development of the middle class, these structural changes should reinforce the mobilisation mentioned above (see Morin, 2015).

Part of the transition to more sustainable development paths will be helped by the fact that technologies to scale up low emissions and resilient investments already represent a rising share of imports. The OECD noted this in the 2017 *Investing in Climate, Investing in Growth* report. However, potentially growing support for the SDGs package will not lead to a straightforward, unique pathway.

One reason for the length and complexity of this transformation is that every population has a risk culture of its own (see Beck, 2001) and building local resilience is bound to be specific. To meet ethical and cultural issues raised by these changes will require new learning processes.[4]

But beyond the in-depth transformation of societies, more direct and rapid incentives are in place to enable specific transformations in developing countries. There is the special fund for developing countries that subsidises investment and industrial policies aimed at some SDGs. The *InsuResilience* scheme also illustrates the cumulative effect that can come from various global actors to support this mobilisation.

Another scheme, Loss and Damage, was introduced at COP23 to aid vulnerable places when they are severely impacted by dramatic climate changes. Even at a time of relatively low mobilisation of governments to increase their efforts to preserve the environment, as witnessed at COP24 (December 2018), there has been a noticeable pickup on the side of institutions. For example, the World Bank has doubled its commitment and now plans to gather $200 billion between 2021 and 2025 to help developing countries adjust to environmental changes.

[4] This is a challenging area for the social sciences, as detailed in a report of the *Comité consultatif commun d’éthique* (2016). See also Zaccai (2014) and Touraine (2018) to understand the importance of the ongoing transformations of social fabric.

Increasing attention to the needs of developing countries, despite the broad differences of their situations regarding environmental issues, constitute a basis to reconstruct multilateralism. It is an opportunity to channel and increase aid to creative sustainable development. Developing countries are and should take increasingly advantage of this to support various development plans.

Through these schemes they can claim easier access to new technologies and be pushed towards more ambitious policies to meet environmental challenges by the legal actions of their citizens. This follows a rising trend in developed economies of which the action of the Urgenda Foundation against the government of the Netherlands concerning CO^2 emissions is a successful example.

The coming years are crucial as to whether this trend will take shape and scale up to create effective, sizeable, sustainable development plans. Whether this support to development will also help to meet the overall target to stop the deterioration of the environment is another question.

Still for both issues, much depends on the relative standpoints of China, the EU, and the US. Will they cooperate in the spirit of the Paris Agreement? Will the US maintain the isolationist turn that Trump initiated, leaving China and the EU to prolong the new multilateralism that the SDGs suggest?

The EU appears weak, plagued by the growing power of a few populist governments and also by Brexit. EU countries have not yet suffered excessively from climate change. Many seem lost in the post-Washington Consensus era, complaining that free trade is not delivering the expected economic growth without realising that new international relations must be developed regarding the present phase of environmental challenge.

The massive uptick in migration experienced in recent years is an echo of the transformations underway, but this has often leads to reactionary measures that will hopefully disappear when the European population sobers up from the neoliberal dream and begins to contribute to the development of convivial, reasonably frugal, and open economies. In such troubled times, it is important to focus international actions around the SDGs because the alternative could be a spread of authoritarian nation-states, with a high accompanying risk of devastating conflicts.

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