

# *Chapter 1*

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## The Global Economic Paradox: Deeper Integration, Shallower Support

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During the years of the GATT and through to the end of the Uruguay Round, the United States and the European Union dominated multilateral deliberations on trade policy. This bipolar system has now given way to a multipolar alternative in which Brazil, China, and India have asserted greater influence over the trajectory of the multilateral trading system. That trajectory is also being conditioned, as we will demonstrate, by a weakening in public support for open borders in the industrialised world, a worrying trend that generally speaking finds no counterpart in the developing world, where public support for the opportunities created by integration into the world economy remains high. This Chapter examines these trends and draws out their implications for a reciprocity-based multilateral trading regime where, in principle, each player has a veto.

### 1.1 Globalisation and the Shifting Politico-Economic Landscape

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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. The tables that follow illustrate their growing economic importance.

Table 1 shows that together, Brazil, China, India and Russia have substantially increased their share of global GDP. These four states now account for over one quarter (26.53 percent) of global GDP in purchasing power parity terms. Their share of global exports has risen from 4.14 percent in 1990 to 14.66 percent in 2006. On the import side the share has risen from 2.75 percent to 9.59 percent over the same period. Their share of global import trade has also risen by 4 percent in the same six-year period. China's economic rise has undeniably relied on its growing trade ties with the outside world. India has positioned itself as a major international services provider. Both countries have grown as important outsourcing destinations; manufacturing in China and information technology and business services in India. By contrast, Brazil's position as a powerful agricultural and commodity trader has consolidated its position. A principal feature of our evolving world is thus one of multiple centres of economic activity. As important as they are, it would be a mistake, however, to focus on the growth of China and India alone. Other larger developing countries such as South Korea, Mexico, Egypt, Turkey, and most recently Vietnam (see accompanying box), have had similarly impressive growth rates in recent years.

Not for the first time we are at a critical moment as a global economy. Continued trade liberalisation, financial deregulation and the possibilities brought about by new technologies and the skills revolutions, the

**TABLE 1: BRAZIL, RUSSIA, INDIA AND CHINA (BRICS) IN THE GLOBAL ECONOMY (percentages)**

**SHARE OF GDP (purchasing power parity)**

	1990	1995	2000	2001	2002	2003	2004	2005	2006
<b>BRICs</b>	12.85	19.28	21.54	22.28	23.05	23.94	24.75	25.66	26.53
<b>OECD</b>	63.14	61.81	60.18	59.43	58.63	57.53	56.48	55.36	54.37

**SHARE OF GLOBAL EXPORTS**

	1990	1995	2000	2001	2002	2003	2004	2005	2006
<b>BRICs</b>	4.14	7.76	9.38	9.97	10.81	11.68	12.73	14.01	14.66
<b>OECD</b>	74.80	72.13	68.91	68.60	67.90	66.97	65.32	62.77	61.32

**SHARE OF GLOBAL IMPORTS**

	1990	1995	2000	2001	2002	2003	2004	2005	2006
<b>BRICs</b>	2.75	5.61	5.60	6.06	6.59	7.44	8.05	8.59	9.59
<b>OECD</b>	76.24	70.78	73.48	73.12	72.30	71.58	70.44	69.30	68.00

Sources: International Monetary Fund, *World Economic Outlook Database*, April 2007  
International Monetary Fund, *Direction of Trade Statistics*, June 2007

hallmarks of contemporary globalisation, have yielded undoubted benefits for many in the industrialised world. But these benefits are no longer the preserve of the wealthier nations. Major developing countries are also increasingly the beneficiaries of globalisation and its shapers too.

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.<sup>6</sup> 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. 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 a surprising flexibility and adaptability of the system, especially when contrasted with the rigidity to be found at the International Monetary Fund (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 remains to be seen. The growing influence of Brazil and India has been accompanied by a degree of dissatisfaction among some weaker developing countries, which have sometimes questioned the ability and the willingness of these two major powers to represent fully their interests. Of course, the potentially limited consideration of the needs of weaker developing countries by Brazil and India ought to be evaluated in the light of the old regime, where developing countries’ interests were not represented at all in the Quad.

In sum, the bipolar multilateral trading system of old has given way to a multipolar alternative. Moreover, large numbers of flexible, and sometimes fluid, coalitions of WTO Members have been formed to assert more effectively national commercial objectives. 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, is 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 negotiating and concluding the DDA suggests that reaching accord is now particularly challenging. One critical factor that we believe is shaping the negotiating positions of WTO Members is public attitudes towards further opening up of national economies, a factor which we consider in the two sections that follow. In essence, we examine whether the national preconditions for successful reciprocity-based trade bargaining are under threat and, if so, what to do about it.

## 1.2 The Emerging Trade Powers and the Support for Openness in Developing Countries

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Even though several developing countries have simultaneously emerged as leading trading powers at the same time, 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. By 2007, China’s average imported-weighted tariffs had come down to 6.8 percent, representing a dramatic reduction from the level in 1992, when average tariffs were 40.6 percent. China has made strategic use of

## Vietnam: A New Global Player in the Making?

For critics of globalisation and sceptics of the benefits it brings, Vietnam presents major analytical problems. Most important and impressive has been the dramatic reduction in poverty, which in relative terms has been even more so than in China. Vietnam counted 61 percent of its population below the poverty line in 1993. By 1999 this rate had fallen to 35 percent and is now estimated to be below 20 percent. The country's output almost quadrupled over the past two decades from \$14.1 billion, in 1985, to \$52.4 billion, in 2005. In Vietnam's case, trade has been the locomotive of growth: from 1985 to 2004. As with China, trade has been Vietnam's locomotive of growth: from 1985 to 2000, exports increased from \$0.5 billion to \$30.4 billion while imports rose from \$0.9 billion to \$32.0 billion. In the process, Vietnam's export to GDP ratio rose from 32.8 percent, in 1995, to 66.4 percent, in 2004. Vietnam has hardly any external debt. Foreign Direct Investment (FDI), albeit still modest compared to China and a number of its neighbours, has increased from an annual average of \$1.3 billion in the late 1990s to over \$2.0 billion at present.

As with most countries in the recent decade, Vietnam is afflicted by rising inequality: by no means are all segments of the population benefiting equally from globalisation and the country's strong growth performance. Yet along with impressive economic indicators, Vietnam's social indicators reveal a broadly positive story: while ranked as a "low income country" (at a GDP per capita of about \$620), infant mortality, for example, remains extremely low when compared with other low income countries – 17/1,000 live births, as opposed to the low income country average (80/1000), and Asia-Pacific region average (29/1,000). Vietnam scores equally well in other human development indices, including school enrolment, literacy, access to water, life expectancy and gender empowerment.

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 irrespective of any resolution of the DDA. Indeed, according to one set of calculations, failure to conclude the DDA would only cost China the equivalent of three days of economic growth. For India, the gains from a successful conclusion of the DDA would be larger, but its expected gain of twenty-one days of growth would not be staggeringly high. Clearly, these numbers must be part of the explanation of 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.

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. Furthermore, China has become very active in the recent wave of bilateral PTAs in the Asian region, which have the potential to undermine the multilateral system (for a detailed discussion of the systemic effects of the rise of trade preferentialism, see Chapter 4).

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. However, there is a need to differentiate between these two powers as well as among institutions. As outlined above, China is supporting the conclusion of the DDA. By contrast, China's role in international finance is more difficult to interpret. The relationship between China and the IMF reflects a significant level of tension, not least in relation to exchange rates. India is much more active in the public debate on trade, partly because of its membership in the G4, but comparatively quiet in the discussions on financial affairs. Of course, this is not the only disconnect in the new economic geography. OECD countries also exhibit reluctance to accept the changing geo-economic realities of the 21st century. But it is the 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.

Their influence is not confined to the global trade regime but felt within the global economy generally. Clashes between China and the United States or the European Union over trade balances and exchange rates illustrate this point. For the USA, the two issues have become inseparable and, a trend that also has begun to take root in many quarters of the European Union. The second half of 2007 saw considerable pressure within the US Congress to pass legislation imposing special duties on Chinese imports to offset the competitive advantage thought to accrue to Chinese goods arising from the undervaluation of the yuan. These linkages between trade and finance are part of the contextual background of this Report. Apart from the noticeable weakening of support for trade liberalisation, we are seeing a similar resistance to the free flows of capital and demands for greater control over FDI.

Within the European Union, restrictions even on intra-European investment are rising, in manufacturing and services alike, notably in Spain (energy), France (steel) and Italy (banking). Instigated in part by the rise of

government-owned investment funds in China and elsewhere in Asia and the Middle East, governments in the European Union are discussing the introduction of limitations on foreign investment. In the United States, politically imposed restrictions on foreign ownership of certain industries have long been accepted and are now accompanied by increasingly frequent calls for greater control over the activities of Sovereign Wealth Funds on national security grounds.

While there has always been political opposition to the sale of 'national assets' to foreigners, the bulk of regulatory change in investment regimes across the globe remains favourable to FDI. Of 205 regulatory changes in FDI regimes reported in 2005, 164 were liberalising, as opposed to restrictive, in nature. The political clamour to impose restrictions on foreign investment has, indeed, picked up noticeably in recent years. With it comes the risk that such pressures lead to greater inward-looking and discriminatory practices against foreign capital and, over time, foreign goods.

In contrast to growing public fears about globalisation in industrialised countries, which will be the subject of the next section, 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. According to a 2006 Gallup Poll, 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. 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, especially when one looks at the positions taken at the WTO by the largest developing economies in recent years.

### 1.3 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, both large and small. 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. In Germany, for example, trade liberalisation enjoyed overwhelming support whilst real wages were rising during the immediate post-World War Two decades. But as real wage growth has stalled since 2000, a weaker level of support for globalisation has been observed.

In the 2006 Gallup Poll, 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. This is in sharp contrast to the wide ranging positive assessment of globalisation in developing countries reported in the previous section of this Chapter.

Looking at polls on a country-by-country basis, the emergence of a globalisation backlash in OECD countries becomes even more obvious. A FT/Harris poll, in July 2007 saw only a minority of respondents in the five largest European countries and the USA thinking globalisation had 'a positive effect in their country'. This figure was lowest in the United Kingdom, Spain and the United States (15 to 17 percent), and was, not surprisingly, highest in Germany, the world's biggest exporter (36 percent). However, the fraction perceiving the negative effects of globalisation was much higher in all six countries. Even in Germany, which has taken advantage of the trade opportunities created by globalisation for decades, 42 percent of respondents thought that globalisation was having negative effects on the country.

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 weakening political support for globalisation in OECD countries is explainable. Concerns in the North appear to have little to do with demands of workers or with ill-founded xenophobic fears. Workers in OECD countries are simultaneously confronted with greater risks due to a new international division of labour, particularly in service industries, a cutback in social security systems, a rising inequality due to rising incomes of the richest 5 percent of the population, and reduced efforts of policymakers to counter inequality by redistributing income. The policy implication is that without state measures to influence labour market outcomes, declining support for globalisation in OECD countries can be expected to continue.

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. After World War Two, trade liberalisation enjoyed wide political support in most industrialised countries. In the decades after 1945, most workers enjoyed both improved employment opportunities through export-led growth and an increase of their standard of living due to cheaper imports. However, this has begun to change. Although workers still enjoy the benefits of cheap developing country, especially Chinese, imports their real wages are no longer rising. In the United States, for example, more than 96 percent of all workers saw no increase or, in some cases, a decline in their real earnings between 2000 and 2006. At the same time, earnings have risen sharply for a very small elite of highly qualified people and corporate executives.

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 services, and immigration. Although off-shore out-sourcing has received much attention, it is still small in relation to the overall size of the world economy. For example, off-shore inputs make up only about 5 percent of gross output in industrialised countries. 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.

Integrating workers from emerging market and developing countries into the global labour force has produced big benefits for industrialised economies where, contrary to fears that globalisation is driving down wages, total labour compensation has grown by a cumulative 60 percent on average since



1980. This is in part due to greater export opportunities while productivity and output have benefited from lower input costs and better production efficiencies. The decline in traded goods prices over the past 25 years has generated an estimated 6 percent increase in both output and real labour compensation on average in industrialised economies.

Despite these benefits, 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*. OECD research has shown that countries adopting reforms to lower the cost of labour to business, by lowering the 'tax wedge' – the difference between the payroll cost to a firm and the net take-home pay of workers – and improving labour market flexibility, have generally had a smaller decline in labour share. There is little denying, however, that 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.

Openness to merchandised commerce may well be a vital force sustaining world growth. But policymakers need to ensure that all people benefit by strengthening access to education and training, adopting adequate social safety nets, and improving the functioning of labour markets. This includes providing adequate income support to cushion, but not obstruct, the process of change, making health care less dependent on continued employment and increasing the portability of pension benefits in some countries. This last measure would enhance the flexibility of the economy by facilitating

the movement of workers from declining sectors to expanding sectors and regions.

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 in 2004, Nobel Laureate, Paul Samuelson, 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 with 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. 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.

In previous decades, workers in industrialised countries were partly protected from these negative effects of globalisation by social policies that mitigated the effects of the relocation of production processes in countries with lower labour costs. Thus, uneven distributional consequences of economic openness and trade liberalisation were mitigated by social safety nets and other forms of government support to assist firms and workers that were dislocated by trade

liberalisation, the so-called ‘compromise of embedded liberalism’. However, over the past twenty years or so, many such supportive policies appear to have been eroded in a number of OECD countries.

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 often poor politics. Some, but not all, 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. If knee-jerk protectionist or other 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. We have illustrated our argument by reference to the USA given its pivotal position in the global economy, but the general argument pertains to other countries, including the dynamic developing countries. When the middle classes in OECD countries see their fortunes wane, they become inward-looking. This does not bode well for globalisation, in general, and the prospects for further trade liberalisation, in particular. 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. The benefits from globalisation have to be distributed more equally if we are not to see a rise of protectionism in OECD countries.

#### 1.4 Conclusion

Trade liberalisation, a core characteristic of globalisation, was frequently disavowed by representatives of developing countries in the past, especially during the 1970s amidst calls for a New International Economic Order (NIEO). Today, conversely, we are witnessing a rapid rise in the number of globalisation sceptics from the OECD countries. There is a significant body of evidence suggesting that there has been a substantial weakening of the political constituency for globalisation, particularly in industrialised countries. Whilst many in industrialised countries fear further liberalisation, in recent years citizens in developing countries are increasingly sharing the benefits of globalisation. Rapid economic growth in China and India, coupled with the lasting boom in prices for primary products have contributed to this perception.

To be sure, there has always been opposition to liberalisation, in industrialised as well as in developing countries. But in the early 21st century, the traditional coalition of globalisation supporters in some key OECD countries appears to be weakening. With business groups no longer as outspoken in their support of trade liberalisation, particularly at the multilateral level, as they traditionally have been and with trade unions developing a strong critique of trade liberalisation, the balance of opinion is swinging towards a sceptical reading of globalisation. However, both the economic logic and empirical evidence argue for the abandonment of the simple, and simplistic, conviction that globalisation lacks a human face, but rather suggests that it can have one. There are adverse aspects of globalisation that, for sure, need mitigating. This is not a reason for governments to turn their backs on further trade reform at the multilateral level. Rather, governments of all political persuasions need to take adjustment assistance seriously.

Given that the liberalisation function of the WTO requires reciprocity between nations as they bargain over market access and new rules, the developments described are not encouraging. As the poll data has suggested, politicians on both sides of the Atlantic face

publics that have turned sour on multilateral trade reform in increasing numbers. Meanwhile, even in developing countries that favour globalisation, reciprocal trade reform is still tough for governments. As a result, nations such as Brazil and India have under taken little reciprocal trade reform, preferring unilateral trade reform, thus preserving notions of policy autonomy and sovereignty. Long-standing practitioners of reciprocal trade reform are increasingly prone to questioning its continued benefits and those in favour of globalisation do not see the need for it. Unless measures are taken in both the industrialised and developing countries to reverse these trends, then the prognosis for opening markets through the WTO looks bleak. If these national political constraints continue to be projected to the global level, deadlock is the likely result.

This political reading of the contemporary global economy provides much of the essential context for the Warwick Commission's Report on the future of the multilateral trade regime. The origin of much of the impasse in the DDA, for example, may well lie with inadequate national policies and the adverse public reaction to their failures, especially as they relate to labour market outcomes, and much less to the design or operation of WTO rules. 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 described in this Chapter.

## CHAPTER 1: AFFIRMATIONS IN LIEU OF RECOMMENDATIONS

- Waning public support for the further opening of economies, which is particularly evident in many industrialised countries, now seriously threatens the conclusion of future trade agreements and the maintenance of orderly, rules-based international trade relations. National political leaders have often failed to explain adequately to the public what is at stake. Instead they have preferred silence, or worse, the politics of blame and responsibility avoidance. Governments must look beyond the electoral cycle and confront more directly the vested interests that benefit from protection and the inefficiency it breeds. Enhanced efficiency is, however, but one element in the equation of economic change. At the same time, governments must pay more serious attention to the distributional consequences of change.
- Sustaining the WTO is the collective responsibility of all its Members, in particular both the long-standing, and the newer, poles of power and influence in the world economy. The parties concerned must reach an accommodation and act upon their common interests. We believe that failure to do so risks paralysis at the WTO and the *de facto* disengagement of some Members. While such efforts are clearly in the common interest, it will be the smallest and weakest members of the international community that will suffer most from this failure.