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New ECIPE and GMF working paper:

International Economic Relations in the Post-hegemonic Era

The Doha Development Round and the WTO suffer from a broad systemic malaise that is besetting multilateralism, argues Guy de Jonquières in a new Ecipe/GMF working paper.

Procedural and mechanical changes are not going to fix the problems in the WTO, since these are related to profound shifts in the structure of the world economy. The rise of important new economic players has eroded US and European dominance. At the same time, no one is prepared to lead the multilateral system in the style of the US hegemon during the Cold War. Diverging national priorities, unwillingness to compromise and the primacy of self-interest over the collective good are symptoms of this current transition away from the familiar old structures that have governed international co-operation.

This current disequilibrium is stable but decreasingly efficient. Three scenarios are possible for the future. First, an unpredictable mode of muddling through as a means to manage international economic relations, implying shifting ad hoc accommodations and compromises with sub-optimal outcomes. Another scenario, although unlikely, is that China, and possible also India, may assume greater international responsibilities. Co-ordination between China and the US is a desirable third scenario, although the question remains whether this is politically possible.

A collapse of the Doha is likely to intensify the proliferation of PTAs. It is also likely to increase the risk of protectionist policies. Most PTAs have had no real liberalising effect, as they have been inspired by political rather than economic motives. Guy de Jonquières stresses the importance of domestic policy adjustment and pro-competitive reforms in order to unleash the full potential of trade liberalisation.

Creating a momentum for reforms remains an important challenge. Asian economies might ironically become the initiators of reforms, as they would no longer be able to rely on Western export markets, while simultaneously facing the challenge to move up the value chain in production.

Against the background of this profound shift in geopolitics, in the global economy, and in the pattern of international relations, the US and the EU need to re-think their approaches to trade liberalisation. It is imperative to return to the core argument of trade liberalisation - the biggest economic benefits do come not from exports but from removing barriers to one's own market, thereby increasing competition, productivity and innovation.

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by Guy de Jonquières

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