TRANSATLANTIC TASK FORCE ON TRADE

Working Paper

The multilateralism conundrum: international economic relations in the post-hegemonic era

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STRENGTHENING TRANSATLANTIC COOPERATION

As this paper was being drafted in mid-April, many experienced observers were reading the last rites on the Doha Development Agenda. After more than nine years of negotiations, punctuated as much by violent disagreement and repeated breakdowns as by a convergence of national positions, the world's ninth trade round appeared destined to become the first to be consigned to oblivion.

Even a miraculous last-minute resurrection, should one be possible, seemed unlikely to restore the DDA to glowing health. At best, the most probable result would seem to be a minimalist outcome that was intended to draw a line under the exercise and fell well short of the substantial improvements in market access and advances in rule-making that proponents of this round had originally hoped for.

Such an outcome might avert the stigma of outright failure of the negotiations. But it might not be enough to erase concerns that the DDA's long and unhappy history also marks a troubling failure of the World Trade Organisation as an institution. Far from developing into the pre-eminent body for managing global economic integration, as it was once proclaimed by Peter Sutherland, its first director-general, the WTO's most pressing priority in the foreseeable future may be to avoid the threat of its own marginalisation and the gradual erosion of the multilateral rules-based system over which it presides.

No doubt, a period of post mortems is now in prospect. These have already been anticipated in the numerous diagnoses and prescriptions advanced by trade policy experts since it first became clear that the DDA was in trouble. Many of the proposals for breaking the logjam have tended to focus on procedural and mechanical changes in the WTO, notably abandoning the single undertaking in favour of selective plurilateral agreements among "coalitions of the willing".

Such changes might make the WTO motor run a little more smoothly. However, they cannot supply the fuel needed to make it fire on all cylinders that has been so conspicuously in short supply during the round. After all, much of the DDA negotiations has in practice been conducted in sub-groups composed of self-selecting delegations –de facto plurilaterals – that have been no more successful than specialised WTO committees or the full membership in narrowing differences.

Those who continue, nonetheless, to vaunt the efficacy of the plurilateral format often base their case on the success of the agreements on IT tariffs, telecommunications and financial services concluded in the 1990s. However, it is important to remember that all three agreements had other, powerful, underlying forces operating in their favour.

The first two responded to irresistible economic and technological changes that made liberalisation desirable or inevitable, while the coincidence of the 1997 Asian crisis with of the third set of negotiations made their failure unthinkable. While the plurilateral format may have facilitated these agreements, the evidence suggests that they succeeded as much or more because of serendipitous timing and economic and market developments extraneous to the WTO as because of the procedures employed to negotiate them.

That suggests that if plurilaterals are now to offer a way forward, it will be necessary first to identify issues sufficiently compelling and urgent to persuade "willing" parties to coalesce around them. The least that can be said is that if such issues and willing parties exist today, they have yet to make themselves known.

A central thesis of this paper is that the problems of the DDA and of the WTO, far from being sui generis, are part of a broader systemic malaise – possibly even a crisis – besetting multilateralism more generally. The malaise stems from profound shifts in geopolitics and the structure of the world economy that have accelerated during the life of the DDA. It is against that background that consideration of any initiatives to re-invigorate international trade policy needs to be set.

That the malaise surfaced first in the WTO has, in the author's view, less to do with the organisation's particular role or with the substance of its deliberations than with the fact that it is in many respects the most highly-evolved of all multilateral bodies: through the breadth of its membership, its consensual decision-making system and, above all, through its capacity to make and enforce common rules. Furthermore, as a relatively new institution, launched when the onward march of globalisation appeared to be sweeping all before it, the WTO had exceptionally high hopes invested in it. Its failure to fulfil them made disappointment all the greater.

Many of the symptoms of the WTO's condition – diverging national priorities, unwillingness to compromise and obdurate assertion of narrow self-interest over the collective good - have also become increasingly evident in other multilateral forums and organisations: in the Group of 20, in the global climate change talks, in the European Union and in the North Atlantic Treaty Organisation.

As far as the G20 and the climate change talks are concerned, that should be no surprise: after all, many of the most intractable differences in those forums are between the same governments that are also most deeply at odds in the WTO – notably the US, China, India and, to a degree, Brazil. No surprise, either, that kicking conflicts and unresolved issues in the WTO "upstairs" to G20 summits has produced fine words but no substantive action.

The disjuncture between the growth of global economic integration and the development of effective international mechanisms to manage it is striking. That disjuncture is not new. As the concept note for this project recalls, as long ago as 1971 the Williams Commission observed that "the core of our present difficulty is that government policies and practices, and international arrangements for collective decision-making, have not kept abreast of the high degree of international economic integration which has been achieved since World War II." Though the world economy is far more highly integrated than four decades ago, the challenge of achieving effective global governance is at least as great, if not greater, today.

Why is this so? For an answer, it is necessary to re-trace history back to the mid-1940s. Though the world has changed dramatically since then, our concepts of multilateralism are still heavily influenced by the model that emerged during that period. To many minds, that model, suitably modified and updated, remains broadly the basis on which the global governance architecture of tomorrow should be patterned. Indeed, for many western observers, it represents the most highly developed system of ordering international relations.

However, the post-World War II model was not the product of some smooth evolutionary process of constant refinement. It was, rather, the result of a singular combination of circumstances – some of them highly disruptive - that were in many ways extraordinary, that have ceased to obtain and that seem most unlikely to recur in the future.

- First, a devastating global conflict, from which the US emerged not only victorious but in a position of overwhelming and unchallenged economic, financial, military and diplomatic strength.

- Second, a weak and highly fragmented world economy, still divided by the high barriers to trade and capital that had arisen between the two world wars.
- Third, an over-arching geopolitical imperative. Its aim, initially, was to prevent a return to the ruinous conditions that fuelled the rise of militarism, and subsequently to counter Communism and Soviet expansionism.
- Fourth, a far-sighted commitment by the US, not only to promoting its own interests, but to propagating around the world a near-evangelical belief in the inherent superiority of its own national values, notably democracy, free-market capitalism, the rule of law and individual liberty.

The architecture of international relations that arose from the wreckage of war was very largely a US creation: the United Nations, the World Bank, the IMF, the Gatt, Nato, the OECD and many of the regional development banks. In most or all of these institutions, the US long had the decisive say, while reserving the right to exercise its exceptionalism when it chose to. An early example was the Senate's refusal to ratify the planned International Trade Organisation, of which Washington had been the principal proponent.

At its core, however, the post-war model was based on a paradox that ultimately made it unsustainable. It was designed to foster voluntary co-operation and collective action between a community of independent, sovereign, nations (or the most advanced among them). Yet it depended crucially on a – relatively benign and, at best, visionary – hegemon to direct, uphold and maintain it.

So long as the US was in a position to supply the necessary leadership, the model flourished. But leadership imposes heavy costs, economic, financial and political. By the early 1970s, those costs were starting to strain US resources and its capacity to support the grand design. The first fissure appeared in 1971 when, economically and financially weakened by the burden of the Vietnam War, the US suspended the convertibility of the dollar into gold and imposed a temporary 10 per cent import surcharge. That step marked the beginning of the end of the fixed exchange rate system, and with it a drastic change the role of the IMF, which had been set up to manage it.

In the mid-1980s, US commitment to the non-discriminatory principles of the multilateral trade system gave way to a yet more explicitly nationalistic interpretation of its economic interests, based on bilateral reciprocity. Washington bludgeoned other nations, above all Japan, into "managed trade" arrangements, notably "voluntary" restraints on their exports and promises to purchase more American products – or face the implicit threat of US trade barriers - while a torrent of protectionist legislation poured out of Congress. Only after the launch of the Uruguay Round, itself largely inspired by international concerns about those trends, did those pressures abate.

Originally, US promotion of the multilateral trade system was, of course, just one element in a far broader geopolitical strategy: the containment of Communism and maintenance of security through the development of prosperous and stable economies in the non-Communist world. At the close of the decade, the end of the Cold War weakened that overarching rationale – and with it, the once robust bipartisan support in Congress for the GATT and trade liberalisation.

Other developments contributed to the crumbling of that support. For several decades, trade liberalisation was a “no-lose” political proposition. On both sides of the Atlantic, it responded to strong demand by domestic producers for improved market access abroad, much of which would be met through increased production – and hence employment – at home. The dominance of the US and Europe in the Gatt enabled them to tailor its agenda to suit their interests and to ensure that other members went along with it.

However, profound shifts in the structure of the world economy have changed the political calculus. Technological advances and greater capital mobility have encouraged western producers increasingly to locate production, for domestic as well as foreign markets, offshore. At the same time, the rise of Japan, then of the Asian newly industrialising economies – which owed much to US support for their export-led growth policies - and subsequently of China, has confronted western producers with far stronger global competition. That, in turn, has increased the pressure on the latter to respond by replacing labour with capital at home and by transferring production to lower-cost foreign locations.

These changes in the international division of labour have made trade liberalisation a much harder sell to western electorates. Not only has public grown more sceptical of the argument that freer trade automatically translates into increased employment; in the US in particular, it has become more defensive and increasingly inclined to view open trade as a threat to jobs.

Meanwhile, the rise of important new economic players has eroded US and European dominance in the WTO. Ironically, that decline in influence is due, in one sense, to a triumph of American ideas and values. Free market capitalism, democracy and the rule of law, albeit in a wide variety of hues, have gone global. But in another sense, these developments have greatly increased the pressures on the multilateral model.

As the US has discovered repeatedly, increased prosperity and the establishment of democracy do not necessarily or automatically produce results that meet its perceptions of its national interests. Nor, in China’s case, has rapid growth, so far at least, brought greater political freedom. Instead, China’s ascendancy has led to increasing pressure points, frictions and rivalry with the US.

Today, a rising chorus of voices in competing power centres around the world is clamouring for a bigger say in the affairs of the WTO and of other multilateral organisations. However, the chorus is discordant. It has also failed, so far, to produce any plausible candidate or candidates to offer the leadership that the US once supplied to the multilateral system.

The European Union lacks the necessary vision, strategic purpose and decisiveness, while its lack of substantial ‘hard’ power inhibits its capacity to project influence far beyond its own borders.

Some of these shortcomings are long-standing and reflect the particular structure of the EU system. Formulation of trade policy requires forging support from 27 member governments, whose economic attitudes span a wide spectrum ranging from liberal to mildly protectionist and which sometimes make their assent conditional on obtaining special concessions and favours related to their national interest. Even when a strong trade commissioner is in charge, reconciling their views can be a time-consuming process, often requiring complex horse-trading. That has led to taunts by other WTO members that the EU spends as much time negotiating with itself as with its trade partners.

An advantage of the EU system is that it tends to commit member governments firmly to common policy positions, once these are reached. A disadvantage, however, is limited flexibility: it can be harder for the EU than for the US to adapt or depart from its positions in response to changing circumstances once negotiations are under way. These constraints have all long restricted the EU's aspirations to exercise leadership in international trade policy to playing second fiddle to the US.

Increasing strains on the EU's internal cohesion have further jeopardised its ability act purposefully on the international stage. There has for some time been a growing inclination in several national capitals to resort to informal inter-governmental decision-making in preference to working within the community framework. Though that trend has not so far been evident in trade matters, it inevitably raises doubts about the EU's determination to act as one. More recently, the Eurozone crisis, as well as hi-jacking the policy agenda, threatens to create a two-tier EU economy that could further fray the fabric of community co-operation. That risk has been increased by the populist electoral backlash in a number of prosperous northern member states against the cost of bailing out troubled economies in the south. The accumulation of so many challenges piling up on its own doorstep can only increase the temptation for the EU to take an inward-looking attitude to economic matters.

China, while generally abiding by the rules of the multilateral organisations to which it belongs, has shown no appetite for the burdens of global leadership, preferring instead to devote its energies to tackling its undeniably formidable challenges at home. Its proclaimed dedication to "non-interference" as the cornerstone of its foreign policy, though being increasingly tested by the widening geographic spread of its economic interests, appears in any case incompatible with a more active international leadership role. India's world view, meanwhile, still does not reach far beyond its own borders, and it is seriously handicapped by defects in its national institutions and governance.

Nor do the so-called Brics' shared objectives or interests extend far beyond a determination to assert themselves in the face of the industrialised world. Indeed, on many important issues, notably China's exchange rate policy and highly competitive exports, they are as divided by gulfs as deep as those that divide them and the west. The Brics show little sign yet of converging on any positive policy agenda, still less on the mechanisms for implementing it.

In sum, diffusion of power has emboldened more and more countries to resist external pressure. Yet none possesses the capacity to impose its will on others by non-military means. A Martian arriving on this planet might well ask: "Who, if anyone, is in charge here?" It is hard to know how what answer an earthling should give.

We appear, then, to be in a transition period of uncertain duration, away from the familiar old structures and frameworks that have governed international co-operation, albeit with decreasing effectiveness, for more than six decades. But a transition to what?

There appear to be three main possible scenarios for the future:

One is simply to muddle through by means of a series of shifting ad hoc accommodations and compromises that achieve sub-optimal outcomes but avoid serious inter-government conflict. In theory, at least, the rapid advance of economic integration, by fostering high levels of international interdependence, might seem to make that a more realistic and less perilous option than in previous eras.

It is sometimes argued that the dense intertwining of financial and economic interests between the US and China has created a form of Mutual Assured Destruction that will deter both countries from damaging the other because each knows that by doing so it would harm itself. Similarly, the rapid growth of trade, investment and technology flows between Japan and China – east Asia's two fiercest diplomatic adversaries - has repeatedly served as a restraining force that has inhibited them from pushing their numerous political disagreements over the brink.

However, muddling through as a mode of managing international relations carries significant risks. It is inherently both unstable and unpredictable, depending as it does on the serendipitous interplay of enlightened self-interest. By its nature, it also tends to breed reactive, rather than forward-looking, co-operation, thereby subjecting policy to the tyranny of events and rendering it more vulnerable to unforeseen external shocks.

Above all, it is based implicitly on a doubtful premise: that, ultimately, global integration is driven by market forces, not by politics and policy. Yet all historical evidence, and particularly experience between the two world wars, suggests otherwise: that globalisation is the result of decisions by governments, and that they can reverse the process if and when they choose – with potentially disastrous wider consequences.

A second scenario is that China, and possibly also India, may gradually assume greater international responsibilities commensurate with its economic importance. China's growing integration with the world economy is already obliging it to take greater account of the international implications of its own policies and of external pressures on it, at least in the economic field.

But for China to go much further and deliberately seek a leadership role, seems both unlikely and probably undesirable. For the foreseeable future, China's preoccupation with its own economic development is likely to mean that it continues to view foreign policy primarily through the prism of national economic need. Its priority will be, not to seek deeper involvement abroad, but to find ways of coping with the foreign entanglements imposed by that imperative. Furthermore, China suffers from a diplomatic trust deficit, due partly to the opacity of its government system. Rightly or wrongly, much of the rest of the world, including many of China's Asian neighbours, remains suspicious and fearful of its motives and intentions. These are not solid foundations for international leadership.

The third scenario is that expediency, necessity and calculations of national interest will impel the US and China to seek together to reach the basis for agreements that could become rallying points around which others coalesce. That would not only be desirable; it is almost certainly a prerequisite for any substantive progress in international co-operation – just as effective co-ordination of US and EU positions has historically been a necessary (though not always sufficient) condition for advances in past trade rounds.

Whether it is politically possible is another matter. Relations between Beijing and Washington are infected by mutual suspicion, hostility and mistrust. Both governments must overcome powerful resistance from vested interests and nationalistically-minded constituencies at home if they were to make the compromises and concessions that enhanced co-operation would necessarily entail. Furthermore, China is as wary of being locked into any relationship that could expose it more directly to unilateral pressure from the US as it is of inviting accusations that it is siding with western interests at the expense of other developing countries. These will not be easy circles to square.

In the field of trade policy, other challenges confront international co-operation. Supporters of the DDA have long warned that its collapse would be likely to spur an intensification of the race to complete preferential trade agreements (PTAs) and could weaken the defenses against a lurch into protectionism in the event of another economic crisis.

At this stage, the second possibility remains speculative. However, PTAs have continued to proliferate worldwide throughout the Doha round. Washington pursued them particularly aggressively during Robert Zoellick's tenure as USTR. The EU, which in 1999 placed a moratorium on new negotiations until the DDA was completed, lifted it in 2006 and launched a range of initiatives, focused particularly on Asia, which itself has been the centre of much recently PTA activity. Whether the PTA bandwagon will accelerate further is unclear; but there seems little prospect of it slowing down.

This paper will not rehearse familiar arguments about whether PTAs are stumbling blocks or building blocks to freer international trade. It will, rather, offer some observations about some of the forces that are driving the trend and try to draw some lessons about its implications.

Most PTAs have been heavily inspired initially by political, as opposed to purely economic, motives and considerations. The European Coal and Steel Community, the progenitor of the EU, was created as a practical means of cementing peace and enhancing security in Europe. Similarly, the creation of Mercosur, the Latin American customs union, was preceded by the settlement of de-stabilising political differences between Brazil and Argentina.

In Asia, no such political grand bargains have been struck; indeed rifts between many countries in the region still run deep. For most of the past three decades, economic integration in the region has been overwhelmingly market-led and powerfully promoted by the development of regional supply chains that link multiple production centres in different countries. A shared interest in rapid export-led growth has induced governments not so much to resolve their political differences as to sidestep them.

However, politics has been an important driver of the rash of Asian PTA initiatives. To a large extent, these have served both as "signalling" devices that communicate a readiness to keep putting economic interests above mutual differences and as channels for developing diplomatic dialogue between governments that have long viewed each other with mistrust, if not outright hostility. In a number of cases, such as Singapore's PTA with the US, enhanced security has been an important, if unstated, goal.

The US during the past decade has also linked a number of its PTA initiatives to foreign policy objectives. The most explicit case in point was the clear insistence by Robert Zoellick, while USTR, on basing the choice of prospective partners at least partly on their willingness to support the planned US invasion of Iraq.

How far PTAs have actually contributed to the removal of barriers to trade and investment between participants is another question. Critics, such as Razeen Sally of Ecipe, argue that many agreements involving Asian partners have little liberalising impact, being limited in coverage, littered with product and sectoral exemptions and often weakly enforced. The available evidence suggests that the preferential access they offer is so small – and the regulatory costs of complying with their rules of origin so large - that much trade within them continues to be carried out at MFN tariff rates.

Some PTAs, nonetheless, have been largely inspired by genuine economic motives, particularly when intended to counter an actual or threatened loss of commercial advantage to competitors: the EU's PTA with Mexico and Japan's agreement with Malaysia both fall into that category. But such cases appear to be exceptions, rather than the general rule.

There is another reason for questioning the likely liberalising impact of PTAs on international trade and investment flows. Axiomatically, all genuinely liberalising trade agreements require adjustment of domestic policies and a readiness to accept more intense competition. Indeed, there is much evidence to suggest that liberalisation of external trade generates beneficial pressures for domestic structural and micro-reforms, and that the greatest gains are achieved when the two processes are integrated.

However, there is evidence in many – even most – of the world's leading economies of waning appetite for full-blooded pro-competitive reforms. There have been few notable examples in the US since the 1980s, when the combination of deregulation instituted by the Reagan administration and the Federal Reserve's strict anti-inflationary policies produced a massive restructuring of the productive economy.

In the EU, momentum behind the single market programme has stalled. Proposals for the removal of internal barriers to competition in services, for reforms of energy policy, for the creation of an EU-wide patenting system and other important liberalising initiatives have all stumbled on opposition or obstructionism by member states. The Lisbon competitiveness agenda proved dead on arrival, and it is uncertain that the political will exists to implement its reincarnation as the Europe 2020 programme.

In China, the far-reaching reform drive rammed through under the leadership of Deng Xiaoping and Zhu Rongji in the 1990s has slowed to crawling pace and has been replaced by, at best, a philosophy of cautious incrementalism. Arguments by reformers that domestic liberalisation was necessary in order to meet WTO obligations have worn thin and are now met with cynicism and resentment. And in Japan, prospects for much-needed structural reforms of the domestic economy appear to be as remote as ever.

Indeed, the global economic crisis may have caused the momentum for reform in many countries to go, at least temporarily, into reverse. The crisis has certainly increased direct government intervention in many western economies, most obviously in the form of bail-outs of troubled banks and, in some cases, of industrial enterprises. In China, the biggest beneficiaries of the vast increase in credit that formed the basis of its crisis stimulus programme have been state-owned enterprises. In addition, in a number of countries, the crisis triggered a rise in trade barriers, though some have since fallen again.

In the absence of a renewed strong commitment to domestic structural reforms, international trade negotiations aimed at achieving substantial increases in market access and associated liberalising rules may struggle to gain traction. All successful trade negotiations require a political determination to overcome opposition from special interests that stand to be disadvantaged by them. While that determination appears to be lacking in many leading economies, prospects for action, both domestically and externally, are likely to be diminished.

What might change this state of affairs? One possibility is that the quest for improved national economic performance and competitiveness will rekindle policymakers' interest in productivity-enhancing reforms designed to meet those objectives.

Ironically, the pressures to embark on such reforms may well be strongest in Asia, the region where economies have displayed the greatest vigour and fastest growth since the crisis. Despite this impressive performance, there is a growing realisation, in some parts of Asia at least, that the development model that has served it so well in recent decades may be reaching the end of its useful life and require substantial re-engineering.

Several factors lie behind this reappraisal. One is that, for all the talk of economic "decoupling", Asia is still structurally highly dependent on demand from the industrialised world. Exports are still equivalent to about half of east Asia's aggregate GDP and, according to the Asian Development Bank, in 2007 the final markets for more than two thirds of those exports were outside the region, principally in the US and Europe.

With consumption and growth in many industrialised economic likely to remain weak for a prolonged period after the global crisis, Asian economies can no longer rely on them to support their growth as they once did. Over the longer term, they will need to find ways of generating more demand and employment at home by, for example, opening up their domestic services markets, many of which are ringed by restrictions and barriers.

Financial services markets, in particular, need to be developed if Asia is to allocate and utilise more efficiently the capital it generates, much of which in recent years has flowed into slow-growing economies in the west. That cannot be achieved without decisive liberalisation.

A second challenge Asia must tackle is to move up the industrial value chain. Much of east Asia's prosperity has been achieved through the mass-production in regional supply chains of parts and components for products that are also often assembled in the region, notably in China. Indeed, parts, components and sub-assemblies account for more than half of intra-Asian trade.

However, despite moves by the multinational companies that operate these supply chains to locate R&D centres in developing Asian countries, relatively little of the technology they employ originates there. In order to enhance the generation of new technology needed to rise up the value chain, ways will need to be found to stimulate greater innovation locally.

That calls for far more than simply pouring more money into R&D and education. It will also mean fostering a culture of innovation and the conditions in which it is diffused and applied commercially. Again, structural reforms will play an essential role.

China's leaders have gone further than those in any other Asian country in acknowledging the need and trying, rhetorically at least, to change its growth model. Spurred by the realisation that its massive dependence on fixed asset investment to generate growth is unsustainable, the country's latest Five Year Plan sets out a range of measures intended to "re-balance" domestic demand in favour of consumption and to foster "strategic", technologically advanced, industries.

There is a number of missing elements in the Plan, most notably the importance of financial market reforms and of liberalisation as a tool for invigorating services markets. However, the biggest question mark hanging over the programme is whether the leaders possess the courage, determination and firmness to implement it. It has been frequently pointed out that China's five-year plan set out broadly similar objectives but that many of them remain unachieved.

How, against this background, should the US and EU respond? Their starting point should be that profound shifts in geopolitics, in the global economy and in the pattern of international relations, call for a re-thinking of their approach to trade liberalisation. The chequered history of the Doha round, the uncertain future of the WTO and the very uneven success of PTAs in achieving real market-opening are clear evidence that the existing model is not working well, and that fresh ideas are badly needed.

Part of the task will be to devise diplomatic strategies equipped to deal with a world in which the traditional structure of post-war multilateralism is breaking down, in which multiple power centres are competing for influence and in which the priorities for liberalisation have moved far beyond simply removing border barriers to encompass regulatory issues that are both complex and often touch on sovereign sensitivities.

That will be a tall enough order on its own. However, arguably an even greater challenge will be to revive domestic public and political support for trade liberalisation within the US and EU. The picture here is not encouraging. On both sides of the Atlantic it is at best one of growing drift and indifference and, at worst, of outright hostility. Unless these trends are reversed, attempts by the US and EU to inject new momentum into international trade policy-making are doomed to fail.

Historically, public support for trade liberalisation has relied heavily on the mercantilist argument that it led to increased exports and thus to greater prosperity and employment at home. Thanks in large part to its enthusiastic deployment by the US and EU in past trade rounds, that argument has become deeply embedded in the collective psychology of the WTO. However, as a means both of reaching international agreements and of selling them to domestic constituencies it has become increasingly ineffectual and possibly counter-productive.

A return to first principles is needed. It should proceed from the recognition that trade liberalisation delivers its biggest economic benefits, not by increasing exports to other countries' markets, but by removing barriers around one's own. The pay-off is in the form of intensified competition that stimulates the improved productivity, lower costs and faster innovation on which prosperity and higher living standards depend.

Battle-hardened trade negotiators and policy pundits in the US and Europe – even if they privately accept the validity of that proposition – can be counted on to object that it is unrealistic as a political sales pitch, especially in the aftermath of the economic crisis. Yet it has been proven to work. It was the central argument underlying Europe's decision in the 1980s to create a single market by tearing down barriers around its members' economies. It has also been embraced by many developing countries, which have achieved most of their trade liberalisation since the early 1990s through unilateral action.

What is needed is a persuasive "story", a powerful set of arguments that demonstrate why liberalising one's own market is to one's own good. The European Commission skilfully – if a little speciously – created such a story in the early days of the single market by mounting an effective public relations campaign that included publication of the Cecchini report and imprinting 1992 on the public consciousness as a historic date with destiny.

Just as important as selling the benefits of economic reforms is creating awareness of the costs of not undertaking them. Europe's single market drive gained significant impetus from a pervasive sense of "Eurosclerosis" and fears that Europe was in danger of being left behind. Similarly, the economic restructuring of the Reagan era owed much to the spectacle of traditional American leadership across a range of manufacturing industries being humbled by superior Japanese competition.

Whether an equally severe jolt will be needed to restore the appetite for liberalisation and reform in the US and Europe is impossible to say, though President Obama's attempts to galvanise opinion by conjuring up a "Sputnik moment" hardly seem to have succeeded in doing so. However, unless reform is perceived to be a compelling domestic priority, the pursuit of international market-opening will be hobbled. Like so many good things, successful trade liberalisation starts at home.

That applies as much to any bilateral proposal to open markets on either side the Atlantic as to global liberalisation projects. But if the US and EU set out to pursue the latter, they need to bear other considerations in mind. The days are long gone when they – and, above all the US – commanded the economic strength and diplomatic firepower to be able to set the global agenda.

No credible multilateral trade initiative today can succeed without at least the tacit endorsement of China – and, quite possibly, of India, Brazil and others as well. By virtue of the sheer size of its economy, the volume of its trade and the importance of its domestic market, China has become the "indispensable nation" in any such endeavour. Whether they like it or not, that is an inescapable reality that US and Europe need to find ways to deal with.