Multilateralism from an Argentine perspective

Demián Dalle
Enrique Aschieri

Abstract

Multilateralism may act as a deterrent when a state which has the capacity to embark on the path of development takes the necessary steps towards that goal. This is not an insurmountable obstacle, though. Maintaining a current account surplus—typically driven by a trade surplus—as a permanent objective is an entirely national decision. In the case of Argentina, for example, doing that entails implementing a trade administration policy that works as an essential complement to make the import substitution process conclude in a successful way. Due to general policy matters, states cannot do without the multilateral institutions to which they are members if they are to achieve such a goal. Thus, what states may and, in fact, must do is to recur to those institutions on the basis of what reality—rather than dreams—dictates.

The processes of development which have taken place in peripheral countries with different degrees of success over the last fifty years show that, in order to boost economic growth[1], the management of foreign trade flows is a key element to provide infant industries with the support they need to grow in their early stages, which is riddled with tensions. A good example of this is what occurred in Argentina from 2003 onwards.

With regard to the paths that have led to a GDP per capita growth, it is worth noting that decisions along these paths have been made within a regulatory framework which formalizes the underlying global power asymmetries. The tensions arising from said inequality refer back to the idea put forward by the German economist Friedrich List that developed countries have climbed up a ladder to achieve development and, once at the top, they have kicked away the ladder in order to deprive other countries of the means to climb up after them[2] (List, 1966).

After the Second World War, many of the policies that had proved to be efficient tools to get out of the survival stage—at that time used by the now so-called developed countries[3]—started to be gradually removed from the menu of options available for the governments of those countries which had still been unable to satisfactorily walk along the path of economic growth. A large number of these constraints that reduce governments' room for manoeuvre on international trade began to be imposed when the General Agreement on Tariffs and Trade (GATT) was established in 1947 and they have been subsequently imposed—following the same logic—by the GATT's successor: the World Trade Organization (WTO), created in 1994.

These contradictions had already emerged in the frequently forgotten debate between John Maynard Keynes (British) and Harry Dexter White (American).[4] It was then that the conflicting objectives and interests of the countries these two men represented were unveiled. The topics discussed at said debate were, among others, the way in which international trade, the world financial system, and the conditions for the issuance of the international currency should be organized. It should be born in mind that the performance of the international currency largely determines that of the remaining variables in question.

Therefore, the need to increase the room for manoeuvre in the current world order to achieve development goals leads us to analyse the relation existing between Argentina and multilateralism.[5] A brief overview of how the world got to the current situation after leaving aside the original ideas proposed in 1945 will articulate the analysis with the elements that help to examine multilateralism from an Argentine perspective.

[1] The economic history provides examples that show that export industrialization has not sorted out a fundamental problem: the addition of value. See Palley (2011).

[2] This idea has recently inspired the title of one of the most frequently cited books in terms of economic development: *Kicking Away the Ladder: Development Strategy in Historical Perspective*, by Ha-Joon Chang.

[3] Apart from the well-known case of the United Kingdom between 1721 and 1846, and that of the United States from 1820 until the end of the Second World War, almost every developed country has widely implemented policies articulated around subsidies and import duties in the early stages of industrialization. See Dobb (1983) and Chang (2003).

[4] See IMF (1981). For a historiographical approach of this process, see Ashworth (1978).

[5] Alternative views of multilateralism can be found in Cox (1992), Caporaso (1992), Martin (1992), Ikenberry (2003) and Keohane *et al.* (2009).

1. From the ITO to the WTO

The task of the architects who created the different organizations to institutionalise the post-war order was not easy at all, but that of those involved in the creation of trade-related institutions was even less easy. The impossibility of setting up the ITO (International Trade Organization) left an important gap in the structure of the international economic organizations originally proposed in 1945 during the Bretton Woods negotiations. As a consequence of this, in 1947 the only multilateral "institution" related to international trade was the GATT, which played a more important role at world level than expected.

The GATT had not been conceived as an international organization, but rather as a simple multilateral agreement to reduce custom duties. Over the years, it gradually changed and turned into a *de facto* international institution. Since its creation, each of the members which are parties to the GATT elaborated a schedule of concessions indicating the maximum import duties. These import duties, which are known as "bound tariffs" in the jargon, were gradually reduced in the subsequent rounds of negotiations (Makuc, 1995).

It is worth mentioning that, although the tariffs applied to industrial products from developed countries have plummeted since the creation of the GATT[6], these sovereign states have never left the manufacturing sector unattended. The most sensitive industrial sectors have been protected for a long time through quantitative restrictions—as were the peculiar cases of the textiles and clothing sector[7]—and through voluntary restrictions on exports—as was the case of the Japanese cars, among other examples.

Nowadays, there are still significant market access barriers in industrialized countries, either in the form of tariff peaks[8]—which affect those products whose export is of special interest to developing countries—or in the form of tariff escalation[9] or other methods[10], which discourage the production of higher value added goods in developing countries and hinder both production diversification and industrial development.

In the case of peripheral economies, the major cut in tariffs occurred after the Uruguay Round, which finished in 1994. This enabled some developing countries to make an extensive use of this instrument. For example, in the eighties the average tariff on manufactured products was 31% in

[6] Before the creation of the GATT, non-agricultural tariffs in developed countries ranged between 20% and 30%, while at present they are at around 4%.

[7] The chaos observed in international trade in the textiles sector as a result of the accumulation of said quotas required the signing of an agreement to increase the predictability of trade, and finally, in 1974, the Multifibre Agreement (MFA) was entered into. This Agreement regulated and limited the different bilateral agreements which were in force until that date regarding the implementation of textile quotas. After the Uruguay Round, this agreement was replaced by the Agreement on Textiles and Clothing (ATC). The ATC was exclusively aimed at dismantling the special measures contained in the Multifibre Agreement over the course of a decade. For that purpose, the quotas allowed by the MFA which were in force by 31 December 1994 should be gradually phased out. Thus, trade in textiles became fully integrated into the GATT's general principles of free trade as from 1 January 2005.

[8] For example, in order to determine the tariffs of some processed agricultural products (PAPs) on the basis of their physical and organic composition, the EU uses the Meursing table, which lists these products according to their milk fat and protein content, and their sugar and starch content. Said table offers a total of 27,720 tariff combinations.

[9] Tariff escalation occurs when a given country, with the aim of protecting its manufacturing industry, sets low tariffs for the raw materials and imported components used by the industrial sector—thus reducing its costs—and higher tariffs for finished products.

[10] Subsidies for production, export subsidies or the so-called "buy national", which establish strict conditions when it comes to public spending allocation.

Taiwan and 21% in Korea. In turn, the take-off of China's economy in the nineties took place in the context of tariff averages which were higher than 30%, while in Vietnam—which had recorded high growth rates since the mid-1980s—the average of import duties ranged between 30% and 50%.

However, in spite of this major cut, the maximum bound tariffs set by developing countries in the Uruguay Round still constitute a key instrument, due to the strict constraints imposed to other instruments of industrial policy in said Round. In this context, the high level of ambition shown by developed countries with respect to non-agricultural market access during the Doha Round is particularly worrying (Low and Santana, 2009).

The corollary of this process, indicative of the constraints faced by the aforementioned public policies, becomes plainly evident when we compare the failed case of the ITO with the case of the current WTO. In this respect, it should be borne in mind that, in 1948, the Havana Charter for an International Trade Organization (Naciones Unidas, 1948) established as the objectives of this institution the quest for full employment and social progress and development, and, in order to achieve those goals, it procured—in cooperation with the International Labour Organization (ILO)—the establishment of "fair labour standards" and "the improvement of wages". Furthermore, the ITO provided for the distribution of skills and technology, and it determined that foreign investment should not be "used as a basis for interference in the internal affairs" of its members. In turn, in order to ensure their growth, the poorest countries were expressly authorized to resort to intervention and to reasonable measures in order to manage trade, and they were particularly encouraged to take special actions "to promote the development of a particular industry for processing a primary product of the territory" (Sacroisky and Rivas, 2012); all these actions were considered imperative to consolidate the required stability of the balance of payments.

2. Form and substance

According to its founding treaty, the WTO deals with the global rules of trade between nations. It serves as a forum for trade negotiations and provides a mechanism for settling disputes between WTO members. WTO's main goal is "to ensure that global trade flows circulate with the greatest possible fluidity, predictability and freedom"[11] . Thus, ITO's and WTO's objectives are undoubtedly contradictory. Whereas the ITO was explicitly interested in balancing the balance of payments as a condition to walk along the path of development, the WTO seeks to maintain a *statu quo* that cannot be preserved. The current process of fragmentation[12]—implied by every world-economy—is partly determined by the conditions established by the world monetary system and the world trade order brought about by the WTO.

This implies that peripheral and semiperipheral countries have no choice but to get into debt to maintain the current account deficits that any development process inevitably entails. Therefore, since incurring new debt would only worsen and increase the need to be indebted, a trade surplus becomes the only way to repay the liabilities corresponding to such increasing sovereign debt levels.

[11] http://www.wto.org/spanish/res_s/doload_s/inbr_s.pdf
[12] On the thesis of fragmentation, see Bull (2005).

Creditor (or developed) countries are thus required to go into trade deficit, which is unacceptable to them since output deceleration may cause either political or social conflicts, and the default of peripheral and semiperipheral countries becomes an inherent need of the world accumulation system. Then it can be concluded that the WTO is no more than an organization aimed at governing today's mercantilism.

3. The Argentine response

Taking into account today's international scene, it is very likely that multilateralism will adjust to meet current needs and evolve towards where the new balance of power will be. In any case, irrespective of the world order that will eventually result, the Argentine response will revolve around the objectives defined by our country. When the goal involves development and income distribution improvement, import substitution is no longer *an* option but *the* option of foreign trade policy. Thus, we can and must expect that the increase in the amount and quality of popular consumption will be feasible and sustained over time. If the strategy involving substitution is not implemented, a crisis in the balance of payments—with all that this implies in political and social terms—will be inevitable.

The room for manoeuvre Argentina[13] had resulted from the crisis, since nobody was—nor is—exempt from violating international rules under such circumstances.

Unless political violence is perpetrated, the international system cannot prevent a country which complies with certain conditions from developing; therefore, said possibility remains completely out of the question. In other words, multilateralism may act as a deterrent when a state which has the capacity to embark on the path of development[14] takes the necessary steps towards that goal. Multilateralism, however, is not an insurmountable obstacle, since maintaining a current account surplus—typically driven by a trade surplus—as a permanent objective is an entirely national decision.

In the case of Argentina, for example, doing that entails implementing a trade administration policy that works as an essential complement to make the import substitution process conclude in a successful way. Due to general policy matters, states cannot do without the multilateral institutions to which they are members if they are to achieve such a goal. Thus, what states may and, in fact, must do is to recur to those institutions on the basis of what reality—rather than dreams—dictates.[15]

The economic system in which we are immersed is undoubtedly worldwide-oriented; however, this does not imply that it is denationalized. Significant political concepts in the first place and important economic concepts in the second place, such as wages, are inconceivable outside the scope of states. For this reason, capitalist countries have to regulate their own economic relations by maintaining their political and social order.

[13] For more details, see Dalle and Lavopa (2010).

14 For more details on the capacities of Argentina, see Maddison (2002).

[15] World trade has never involved more than a relatively low—at times very low—percentage of world output. This has been so even in the case of countries which were or still are above the arithmetic mean (Bairoch, 1993).

References

Ashworth, William (1978). *Breve historia de la economía internacional desde 1850.* Madrid: FCE.

Bairoch, Paul (1993). *Economics and world history: myths and paradoxes.* London: Hemel Hempstead.

Braudel, Fernand (1984). *Civilización material, economía y capitalismo: siglos XV-XVIII.* Madrid: Alianza.

Bull, Hedley (2005). *La sociedad anárquica: un estudio sobre el orden en la política mundial.* Madrid: Catarata.

Caporaso, James (1992). "International relations theory and multilateralism: the search for foundations". *International Organization,* 46 (3): 599-632.

Chang, Ha-Joon (2003). "Trade and industrial policy issues". In *Rethinkng development economics,* Ha-Joon Chang (editor). Chap. 12. London: Anthem Press.

Cox, Robert (1992). "Multilateralism and world order". *Review of International Studies,* 18 (2): 161-180. Dobb, Maurice (1983). *Estudios sobre el desarrollo del capitalismo.* Mexico: Siglo XXI.

Dalle, Demián and Federico Lavopa (2010). "In case of fire, break the glass: Argentina's border emergency kit in times of global crisis". In *Managed exports and the recovery of world trade. The 7th GTA report: a focus on Latin America,* Simon Evenett (editor). London: Centre for Economic Policy Research.

Ferguson, Niall (2006). "Empires with expiration dates". *Foreign Policy* (September/October): 46-52. Hobson, J. A. (1988 [1902]). *Imperialism: a study.* London: Unwin Hyman.

Ikenberry, G. John (2003). "Is American multilateralism in decline?". *Perspectives on Politics,* 1 (3): 533-550.

IMF (1981). *1945-1965, Twenty years international monetary cooperation.* J. Keith Horsefield (editor). Vol. III: Documents. Washington D.C.: IMF.

Keohane, Robert, Stephen Macedo and Andrew Moravcsik (2009). "Democracy enhancing multilateralism"*. International Organization* 63, (1): 1-31.

List, Friedrich (1966). *The national system of political economy.* New York: Augustus Kelley.

Low, Patrick and Roy Santana (2009). "Trade liberalization in manufactures: what is left after the Doha Round?". *Journal of International Trade and Diplomacy,* 3 (1): 63-126.

Maddison, Angus (2002). *La economía mundial: una perspectiva milenaria.* Madrid: OCDE/Ediciones Mundi-Prensa.

Makuc, Adrián (1995). "Comercio mundial: reglas multilaterales e intereses nacionales: la Ronda Uruguay, 1986 -1993". In *Hacia una nueva estrategia exportadora: la experiencia argentina, el* *marco regional y las reglas multilaterales,* Bernardo Kosacoff (editor). Buenos Aires: Universidad Nacional de Quilmes.

Martin, Lisa L. (1992). "Interests, power, and multilateralism". *International Organization,* 46 (4): 765-792.

Naciones Unidas (1948). "Carta de La Habana para la creación de una Organización Internacional de Comercio, y Anexos de la misma". In *United Nation Conference on Trade and Employment, which took place in La Habana, Cuba.* New York: United Nations.

Palley, Thomas (2011). "The rise and fall of export-led growth". Working Paper No. 675. The Levy Economics Institute. July.

Sacroisky, Ariana and María Sol Rivas (2012). "Globalización financiera y crisis: los límites que impone la OMC para la regulación estatal". Documento de Trabajo N° 42. Cefidar.

Strachey, John (1962). *El fin del imperio.* Mexico: Fondo de Cultura Económica.

Wallerstein, Immanuel (1979). *The capitalist world-economy.* New York: Cambridge University Press.

Wallerstein, Immanuel (1984). *El moderno sistema mundial II. El mercantilismo y la consolidación de la economía-mundo europea, 1600-1750.* Mexico: Siglo XXI Editores.

Wallerstein, Immanuel (2007). "Perspectivas de la reconstrucción de América Latina y el Caribe". *Revista Electrónica de Estudios Latinoamericanos* (e-l@tina), 5 (20): 3-15. At: http://iigg.sociales.uba.ar/files/2011/06/elatina20.pdf