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Multilateralism is in Crisis[1]

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Abstract

There is a crisis in multilateralism. No major new binding rules relating to international commerce have come into force in more than 20 years. Demands by some nations for rules in new areas are not being met. The negotiations in the WTO of trade rules and the negotiations under the UN Framework Convention on Climate Change to devise rules restricting the annual emissions of greenhouse gases have not been concluded. The US-led unipolar structure of the world economy has ended. The world is now multipolar. The biggest change in relative economic size is the emergence of a large and rapidly growing Chinese economy. Equally important, the US-led intellectual consensus, known as the Washington Consensus, that inspired post-Second World War multilateralism has ended. In the absence of a common or shared vision of the gains from binding multilateral rules for the world economy, multilateralism is stagnating.

1- This paper draws upon the analysis in Lloyd (2012). I would like to thank the referees for their suggestions.

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1. Introduction

The development of the rules under which international commerce is conducted has lagged behind the integration of national economies as world trade in goods, services and capital expanded almost continuously since the end of the Second World War. With economic integration, the economic policies of one nation spill over the markets of other nations. New issues have emerged. These effects led to a movement to improve the multilateral rules relating to commerce in order to ensure a more open, transparent and equitable environment for international commerce after the Second World War. This drive, however, has petered out since the creation of the World Trade Organization in 1993. No new binding rules operated by a multilateral institution in the area of international commerce have come into force in more than 20 years. In September 2012 the WTO annual Public Forum was devoted to the question of: "Is Multilateralism in Crisis?"[1]

Section II presents evidence of a crisis in multilateralism. Section III outlines the scope of two current efforts to devise new multilateral rules binding all nations; the negotiations in the WTO of trade rules and the negotiations under the UN Framework Convention on Climate Change to devise rules restricting the annual emissions of greenhouse gases. These un-concluded negotiations provide insights into the problems of obtaining a consensus on multilateral issues in Section IV. The US-led unipolar structure of the world economy has changed. The world is now multi-polar.

1- In fact, the Forum was devoted almost entirely to problems of the WTO. In a summary of the core themes, the WTO declared "The political, economic and social aspects of the world we live in today are very different to those that existed a decade ago. While the nature of trade has changed radically over the past two decades, economists' and governments' thinking about trade governance has not. As a result, there is a widening gap between existing trade rules and the current realities of the new century." (WTO website, WTO Public Forum 2012, Core Themes).

The biggest change is the emergence of a large and rapidly growing Chinese economy. But, equally important, the intellectual consensus, known as the Washington Consensus, that inspired post-Second World War multilateralism has also ended. Section V concludes. What is needed before new rules can be designed is a common or shared vision of the gains from binding multilateral rules for the world economy. In the absence of this vision, multilateralism will continue to languish.

2. The Crisis in Multilateralism

In the present context, multilateral rules are rules which apply to all nations or are at least open to all nations. Therefore, they exclude regional trading agreements. They also exclude many-nation organizations with a membership restricted by some criterion; for example, the OECD group of rich nations, the G-20 group of major economies and OPEC group of oil exporters. I shall also restrict my coverage further to multilateral organizations that have binding rules. Rules are bound in order to prevent members from defecting or not abiding by their agreed responsibilities. Bound rules are enforceable by treaty obligations whereas non-binding rules can be broken with impunity.

Historically, in the area of international commerce, multilateral organizations with binding rules have been very difficult to create. The list of major multilateral organizations which regulate international commerce divides into two main groups. There is a UN Group (the UN itself, ILO, WIPO and UNCTAD) and the Bretton Woods Group (The World Bank, the IMF, WTO[1]). All of these, aside from the ILO, were created under the special conditions that prevailed after the Second World War, a time when there was a strong universal desire for better global governance. The ILO is a carry-over from the League of Nations before the Second World War.

1- The predecessor of the WTO, the GATT, was created in 1947 after the Bretton Woods proposal for an International Trade Organization fell through.

Since the 1940s, some new binding rules have been introduced. WIPO was created in 1967 as one of the specialized agencies within the UN but international organizations to administer intellectual property laws have existed since the 19th century. The last major multilateral institution with binding rules to be created was the WTO, which began operation in 1994. Although the WTO was a replacement of the GATT, it did extend trade law to new areas such as service trade and trade-related investment measures. Apart from extensions of the scope of rules in existing multilateral organizations and the creation of those dealing with a single sector (such as the Codex Alimentarius[1]) or particular markets (such as environmental agreements), it has proven very difficult to introduce binding laws into new areas of governance.

In 1992 the UN set up the United Nations Framework Convention on Climate Change (UNFCCC). The Kyoto Protocol was adopted as an attachment to the Framework Convention in December 1997 and came into force in February of the next year. The Protocol is a binding international agreement but it only provide a more detailed framework for a set of rules which might eventually control how much Greenhouse Gases (GHGs) can be emitted by each signatory and how these limits are to be enforced. Attempts to devise these rules have so far failed.

There have been two major attempts to establish new multilateral organizations to regulate major areas of international commerce which did not succeed. The first was the attempt to establish a New International Economic Order in the 1960s. The United Nations Conference on Trade and Development (UNCTAD) was created in 1964 as a permanent organ of the UN. At that time there was much discussion of a New International Economic Order, inspired by the writings of the Argentinian economist,

1- The Codex Alimentarius harmonized international food standards in 1963. It was established by the FAO and WHO and derives its binding nature from the fact that its standards are recognized by the WTO.

Raul Prebisch. He proposed a grandiose set of new trade rules for commodity marketing and price stabilization. This was debated for years but did not eventuate. UNCTAD is now an advocacy group for the interests of Developing Countries. It has no regulatory functions apart from those related to international maritime services.

The second unsuccessful attempt was the launch in 1995 of negotiations to create a Multilateral Agreement on Investments (MAI). The OECD Ministerial Council aimed at a “broad multilateral framework for international investment with high standards for the liberalization of investment regimes and investment protection with effective dispute-settlements procedures.” In terms of the scope of investments, the agreement was very broad as it covered portfolio investments and other assets as well as direct foreign investments. The negotiations were conducted among the OECD countries but the intention was to allow non-OECD nations to accede. However, the negotiations were suspended and then terminated in 1998.

Another area of lack of progress relates to the demand for rules in new areas of commerce. In the WTO alone, there are demands for the WTO rules to be extended to cover so-called 21st century problems. These include trade-related aspects of climate change, food security, trade in natural resources, commodity price volatility, currency alignments and labor standards. Of these food security is, partly at least, within the DDR agenda. The others are outside this agenda and unlikely to get consideration in the Doha Development Round.

Finally, there is a need to reconstitute two existing multilateral organizations, the IMF and the World Bank. However, it is as difficult to change existing multilateral organizations as it is to create new ones.

The IMF was designed for the era of fixed adjustable exchange rates. Although its charter was changed to allow flexible exchange rate regimes, its focus on lending in the event of a balance of payments crisis is woefully inadequate. Largely as a result of the liberalization of capital movements across national borders, asset bubbles and foreign exchange market crisis have affected nations in recent decades. The transmission of financial market crises rapidly across national borders in the Asian Crisis of the 1990s and on a much bigger scale in the Global Financial Crisis of 2007-09 have posed new systemic threats to what is called these days the "global financial system". This is a system of interconnected national financial markets where national governments pursue various policies of financial market regulation.

The World Bank was initially created to fund the reconstruction of war-devastated Europe. It is today an agency making development loans and providing advice to Developing Countries. However, this role has become less important as the focus of international capital movements has shifted to foreign direct investment as the main vehicle for providing technology and management skills as well as finance to Developing Countries.

New rules of global economic governance are not desirable in themselves. Some economists are skeptical of the need for new rules. For example, Dani Rodrik (2011) of Harvard University has declared: "The quest for global governance is a fool's errand." There has to be a strong justification for new rules.

An attempt to establish new rules may not succeed because either the arguments in support of them do not command general acceptance or because, despite general acceptance of the need for rules, an agreement is not concluded. The next Section outlines the scope of two ongoing but so far unsuccessful efforts to devise new multilateral rules binding all nations; the negotiations in the WTO of trade rules and the negotiations under the UN Framework Convention on Climate Change to devise rules restricting the annual emissions of greenhouse gases. Considering these two sets of negotiations together increases our understanding of the current problems of multilateralism.

3. The Current Negotiations in the WTO and the UNFCCC

The analysis of a multilateral organization should begin with the question – what is the rationale for the existence of the multilateral organization and its powers to conduct multilateral trade negotiations? Why is national action insufficient?

Both the WTO and the UNFCCC are member-driven and make decisions by consensus. The central problem in designing a consensual multilateral regime is the allocation of commitments among countries. This can be called the Allocation Problem. In the case of negotiations to reduce barriers to trade, this is the allocation of commitments by each member to reduce national trade barriers. In the case of climate change, this is the allocation of commitments by each party to reduce annual GHGs emissions.

4. The WTO and the Doha Development Round Negotiations

The GATT was created after the Second World War as the third Bretton Woods institution. The motivating force was a desire to avoid a repetition of the growth of protectionism and the disastrous contraction of world trade during the Great Depression.[1]

This rationale is provided by the "theory of the GATT". Each individual country is subject to political economy pressures that constantly seek increased protection or assistance for domestic industries but this increased national protection harms other countries (see Ethier, 2004 and WTO,

1- After the Second World War, the Bretton Woods Conference sought to establish a new world order that would prevent the mistakes of the Great Depression era. The period from 1932 to 1939 saw an ever-escalating level of trade restrictions due to beggar-thy--neighbor tariff hikes followed by retaliatory tariff wars and a round of competitive devaluations of national currencies (For a brilliant survey of this period, see Condliffe, 1951, chapter XV. This contains the famous "contracting spiral of world trade" for the period 1929-33).

2012b, p. 165)[1]. Individual countries do not take account of the harm their actions impose on other countries. The GATT/WTO system exists because nations recognize that unregulated actions by each nation pursuing its perceived national interest make them all worse off. GATT/WTO rules - such as the binding of tariff rates and the prohibition of quantitative restraints and export subsidies and the restrictions on subsidies - limit the possible policy actions of members. They provide a commitment to more liberal trade.

The preamble to the Marrakesh Agreement setting up the WTO, like the preamble to the GATT before it, has two proximate objectives; the first is "reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade" and the second is "the elimination of discriminatory treatment in international trade relations". The WTO has three main functions; it is a set of rules, a dispute settlement body to enforce its rules and a negotiation forum.

I shall concentrate on the third function. This provides for periodic negotiations to lower barriers to world trade on a reciprocal basis. The negotiations may also extend or modify the existing body of rules.

There is general agreement that GATT negotiations have served the world economy well. Past rounds of GATT negotiations have greatly reduced barriers to world trade. There was a common vision shared by members that lowering trade barriers would benefit all nations and propel the world economy on a faster growth path. This vision was based on the principle of reciprocity. That is, all nations were expected to offer reductions though in practice some made few commitments.

1- Bagwell and Staiger (2002) proposed an alternative theory based on a terms of trade externality which leads countries to use tariffs to improve their terms of trade. But even the largest countries such as the US, Japan, the EU and China have significant market power in few, if any, markets.

The scope of the current WTO Doha Development Round negotiations is set out in the November 2001 Doha Declaration that set up the negotiations (WTO, 2001). The two pivotal areas on which the negotiations have turned so far are those relating to agricultural trade and non-agricultural market access (NAMA) products. I shall focus on these and in particular on the question of reciprocity.

For NAMA products, Paragraph 16 states:

"The negotiation shall take into account the special needs and interests of developing and least developed country participants, including through *less than full reciprocity in reduction commitments*" (italics added) (WTO, 2001).

There is similar wording in the paragraphs relating to market access for agricultural goods and for services. There are supplementary provisions for Least Developed Countries. The most notable is Paragraph 42 of the Doha Declaration, under which the Members committed themselves to the "objective of duty-free, quota-free market access for products originating from LDCs."

The current state of the market access negotiations for agricultural and for industrial goods are still based on the draft modalities set out in the revised Chairpersons' texts of December 2008 (WTO, 2010a and b). These are the Chairpersons' judgments of what Members might be able to agree upon.

For agricultural market access, there are separate modalities for each of the three areas of trade measures, or "pillars" as they are known - market access (tariffs and other border measures), domestic support and export competition. With regard to tariffs, the proposed cuts for Developed Countries are arranged in tiers, with higher percentage cuts for higher tariff rates. With regard to domestic support, there is also a tiered formula with different cuts for products in different boxes. With regard to the third area of export competition, export subsidies would be eliminated by the end of 2013, half of this by the end of 2010. For Member Developing Countries the cuts in each tier of the tariffs and in the Amber (trade-distorting) Box for domestic support would be two-thirds of the cuts made by Member Developed Countries and those without Amber Box reduction commitments would not have to cut overall distorting support. Least Developed Countries and some smaller recently-acceded members (excluding China and Chinese Taipei) would not have to make any reduction commitments in most of the parameters of the two pillars. The group of small vulnerable Developing Economies got additional concessions. All Developing Countries as a group would also be able to make smaller cuts in some circumstances.

In contrast to agriculture, the negotiations on NAMA are centered on tariffs. Here, they chose to use the Swiss formula which automatically gives a higher percentage cut, the higher the tariff rate (expressed in ad valorem terms). The extent of all cuts depends on the coefficient of the formula. The coefficient is in fact the maximum tariff rate after the cuts have been carried out. For Member Developed Countries, there is a proposed coefficient of 8, meaning that all (bound) tariff rates would be below 8 per cent in these countries. For Member Developing Countries, the coefficient is in the range of 20 to 25, meaning that maximum rates would be somewhere below 20 or 25 per cent in these countries. Again, there are exemptions or weaker commitments under a number of provisions but, unlike agriculture, there is also provision for deeper tariff reductions, possibly to zero, in a number of sectors. Least Developed Countries and some smaller recently-acceded Members would not have to make any tariff reduction commitments, small and vulnerable economies have reduced reduction obligations and, as in the agriculture sector, there were additional concessions for Member Developing Countries under various flexibility provisions.

Thus, all Least Developed Countries, most small vulnerable economies and many recently-acceded members would be required to make very few reduction commitments in the agriculture and NAMA commodity groups.

When combined, there are 69 members in these three groups, who receive special group treatment over and above the general differential treatment for Developing Countries. For Developing Countries outside these three groups, “less than full reciprocity” has evolved during the Doha Development Round to mean they too should make small commitments. This is more important because of the larger size of the trade and GDP of these countries. That is, “*less than full* reciprocity” means something between virtually zero for a large number of countries and a maximum of two-thirds, with the average across all Developing Countries being a *little* reciprocity. The notion of reciprocity has essentially been abandoned in the Doha Development Round.

The draft modalities have not been accepted by Members. In NAMA, many countries are resisting the cuts and seeking either a more favorable formula or some exemption or weakening. And there is a host of non-formula issues to be resolved in agriculture and NAMA; in agriculture, these include the special safeguard mechanism, cotton, tropical products, preference erosion, tariff rate quota expansion and tariff simplification and in NAMA, they include sector reductions and preference erosion.

After nine years of negotiation, the Members failed to reach agreement on a package by the deadline set at end of April 2010. They had agreed on very little. The only final agreements related to a few areas, chiefly trade facilitation measures and new rules on transparency of regional trading agreements. The US is particularly dissatisfied with the latest package. It believes that the commitments other countries would make under the drafts are inadequate and would not sufficiently increase US exports. In particular, it argues that no package will be acceptable to it unless the large emerging economies, such as India, China and Brazil, improve their market access commitments well beyond what the current Chairpersons’ texts would deliver.

For their part, Member Developing Countries, including the large countries, wanted to make lesser commitments. For many, the questions of flexibility such as the selection of sensitive products, which would enable them to do this, are the most important negotiating items. On the export side, they want the US and EU in particular to increase their offers in agriculture. Developing Countries argued that actual US disbursements were already below the $14.46 billion level offered due to higher commodity prices than in the base period. Countries such as India stress that the round has officially been a “development round’ since it was launched.

There are many areas of disagreement in the WTO negotiations besides those relating to reduction commitments and in some Members are divided along the lines of Developing or Developed Country status. This applies to the Trade-related Intellectual Property (TRIPS) and service area negotiations. Another area which is particularly divisive from the point of view of Developing Countries is trade and the environment. Some Developed Countries would like to strengthen their ability to restrict imports of goods such as tropical hardwoods. Some Developed Countries, particularly the USA, would also like to introduce rules relating to minimum labor standards, though this is outside the Work Programme of the Doha Development Round.

In May 2011, it was decided that the package could not be completed in 2011, the deadline which the Trade Negotiations Committee had set earlier in the year. Instead the Members would aim to complete Plan B by December 2011, which is a mini-package focusing on reforms that would benefit the Least Developed Countries. In July, the TNC announced that continued dissent among Members concerning the content of this mini-package has forced the WTO to abandon this goal. The current plan is to complete a package by the time of the Ministerial Conference in Bali in December 2013. The negotiations are now focused on three areas of “deliverables”–Special and Differential Treatment/Least Developed Country issues, agriculture and trade facilitation. These represent a small part of the original Doha Declaration.

The primary obstacle to the progress of negotiations is the lack of agreement as to which nations should make the reduction commitments. Mediating actions, in the case of the WTO by the Chairpersons of the negotiating groups and by the Director-General, have not broken through the impasses. After the last collapse of the Doha Development Round negotiations in December 2011, some members have described the whole process as a “soap opera”. The Director-General himself told members that: “What we are seeing today is the paralysis in the negotiating function of the WTO, whether it is on market access or on the rule-making. What we are facing is the inability of the WTO to adapt and adjust to merging trade priorities.” He added that members should return after the summer recess prepared “to engage in an ‘adult conversations’ over ‘what next’ ” (Bridges, 2011, pp. 1-2).

5. UNFCCC – the Climate Change Negotiations

As with the analysis of the WTO, we should begin the analysis of the UNFCCC with the question "what is the rationale for the existence of a multilateral organization creating and administering binding laws relating to the mitigation of climate change?"

The answer to these questions lies in the nature of man-made climate change. Climate change is an example of an externality due to the Problem of the Commons, that is, free access to a common resource[1]. The “commons” in this case is the atmosphere of the universe. The businesses and households of each nation contribute to climate change through production and consumption activities which emit greenhouse gases into the

1- Stern (2007, p. 27) classifies it as a public good externality because emissions have the dual characteristics of non-excludability and non-rivalry. But the atmosphere is not provided by the public sector of one or all nations. Similarly, it does not fit precisely into the category of common property resource externalities, partly because of its global character and partly because of the many ways of regulating emissions.

atmosphere but do not pay for the costs they inflict on others. Moreover, the problem is global in that it is the cumulative emissions of all nations over time that determine climate change and in the second sense that citizens of all nations are affected. Consequently, the citizens of any one country at any one time have little incentive to act against the consequences of their own actions as their reductions contribute a small, mostly a very small, part of the global emissions. This produces a policy failure. The policy problem of global mitigation of climate change clearly calls for a coordinated multilateral approach. Only if all (or most) nations agree to act in concert will the citizens of each nation receive benefits that warrant their nation's participation and emission reduction commitments.

The UNFCCC has a clear objective: "It is the stabilization and reconstruction of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system" (Article 2). The Copenhagen Accord specified this as the need to keep global warming to no more than 2 degrees Celsius above pre-industrial times, although some Developing Countries had sought a tougher target of no more than 1.5 degrees.

In the UNFCCC, negotiations have proceeded in a series of annual Conferences of the Parties (COPs). The framework has evolved slowly (for an account of its evolution, see Bodansky and Rajamani, forthcoming). These discussions led to the Kyoto Protocol as an attachment to the UNFCCC in 1997. The Protocol was adopted in December 1997 and came into force on February 2005. This Protocol is the document that now provides the framework for the negotiations. The Protocol is a binding international agreement. It has been signed and ratified by 193 nations. Importantly, the US has signed but not ratified the Agreement and it is, therefore, not bound by the Protocol.

The negotiations have been seeking binding rules relating to three areas:

- Climate change mitigation
- Adaptation, and
- Technology transfer and finance.

While all three areas are important, the pivotal area is that of climate change mitigation.

Climate change mitigation is to be achieved by setting national targets for annual gas emissions which will reduce aggregate global flows of greenhouse gases and eventually stabilize the stock. These targets were to be set initially for industrialized countries, called Annex I countries. Annex I signatories committed themselves to reduce their collective GHGs by 5.2 per cent from the benchmark 1990 level by 2012. Each of the countries sets its own targets. These countries made commitments for the first so-called commitment period until the end of 2012. Developing countries, or strictly the non-Annex I countries, have no emission restrictions but were to make general commitments to reduce their GHGs. The Protocol allows for several "flexible mechanisms" to allow Annex I countries to meet their GHG emission targets by purchasing GHG emission reduction credits from other Annex I and non-Annex I countries. These mechanisms include emissions trading, the Clean Development Mechanism (CDM) and joint implementation. In essence, the Protocol opted for quantitative targets for emissions reduction. These might be achieved by a "cap and trade" mechanism.

Efficient least-cost reduction in global GHG emissions requires a single common carbon price in all countries. Under a cap and trade mechanism, trade in emission credits across national borders could establish a global market for carbon. If there is not a single global carbon price, there are major problems through the loss of competitiveness in countries with a high carbon price and through carbon leakages to countries with a low carbon price. In addition, countries with lesser emission reduction plans have an incentive to oppose mitigation measures in their own country in order to gain a competitive advantage (as well as to avoid the costs of mitigation). This effect is evident in China. Differential carbon prices in the global economy are inefficient.

The central problem in devising a scheme to regulate global GHG emissions is again the Allocation Problem, the problem of determining the magnitude of the reduction commitments of each party needed to achieve the objective.

The main issue here is the differential treatment of non-Annex I countries in emission reduction commitments. The equitable treatment of lower income countries is a deep problem, partly related to arguments concerning Developed Countries responsibility for the historical accumulation of the stock of GHGs in the atmosphere, partly on the moral stance that all people in the world have an equal right to the global commons, and partly to issues of poverty and the need for sustained economic growth in poorer countries (see, for example, Joshi, 2008). Some acceptable distribution of the costs must be found before a multilateral scheme can be established. Developing Country participation in emission reduction is essential if the global effort is to be achieved but the terms must be acceptable to the Developing Countries. This may require large income transfers to them.

The present state of play in regard to emission reduction commitments was laid down in the Accord of the Copenhagen Conference. Paragraph 4 of the Accord states that Annex I countries would submit new quantified economy-wide emission targets for 2020 to the secretariat by 31 January 2010. All current 42 Annex I countries (including the United States) have done so. The commitments range widely from 5 per cent to 40 per cent emission reduction by 2020, with most in the range of 15-30 per cent. But the base years differ and almost all of the commitments are conditional on other countries setting up a comprehensive global agreement or taking sufficient action.

Paragraph 5 of the Accord states that non-Annex I countries will submit plans for mitigation by 2020 to the Secretariat by 31 January 2010, also known as NAMAs (Nationally Appropriate Mitigation Action plans). They too have done so. In contrast to the targets of the Annex I countries, the non-Annex I countries mitigation actions are framed in terms of reductions in emissions intensity (emissions per unit of GDP) or relative to business-as-usual scenarios: for example, the China plan is for a 40-45 reduction in emissions intensity and the India plan is for 20-25 per cent reduction in emissions intensity by 2020.

This differential treatment of Developed and Developing (or Annex I and non-Annex I) countries derives from the Framework Convention. This laid down the principle of "*common but differentiated responsibilities*". In the Kyoto Protocol this was interpreted as requiring no specific emission reduction commitments from Developing countries. At the Copenhagen Conference this was modified in the Accord, which asked non-Annex I countries to make mitigation plans as nationally appropriate.

The "common but differentiated responsibilities" principle has set off a fierce debate about which countries should carry the burden of emissions reductions. The Kyoto Protocol interpretation of differentiated responsibilities to mean that all the heavy lifting should be done by Developed countries alone was not acceptable to the US and some other Annex I countries, especially as China has replaced the US as the largest emitter. The UNFCCC Parties have been searching for some middle interpretation which would give non-Annex I countries lower but real emissions reduction commitments.

A comparison of the post-Copenhagen 2010 commitments of Annex I and non-Annex I countries is not straightforward because the former are expressed in terms of reductions of the total flows and the latter in terms of reductions in emissions intensity per unit of GDP or from a business-as-usual base. In any one country, total emissions are equal to the emissions intensity per unit of GDP multiplied by the GDP. Hence, the rate of changes in the total emissions flow over time is the sum of the rate of change (decrease) in emissions intensity plus the rate of change (increase) in the size of the GDP. If one looks at emissions intensity, the commitments of the Annex I and the non-Annex I countries are remarkably similar (Jotzo, 2010, Figure 4). The reductions in emissions intensity planned by China and India are a significant policy commitment. However, their cumulative percentage growth of GDP by 2020 is expected to be considerably greater than the planned reduction in emissions intensity per unit of GDP in percentage terms. If these post-Copenhagen commitments were implemented, their total emissions will increase substantially (Jotzo, 2010, Figure 1). This would occur at a time when Annex I countries are all expected to reduce total emissions.

COP-17 in Durban South Africa produced a set of documents collectively called the Durban Platform. In the interim and after intense negotiations, the Kyoto Protocol has been extended into a second commitment period from 1 January 2013. Agreement was reached by all parties to develop a new legal instrument, applicable to all parties, for the post-2012 period. Work on this is to begin in the first half of 2012; the new treaty is to be completed by 2015 and is to come into effect by 2020. But only the EU and some other smaller Developed Countries (Switzerland, Norway, Australia and New Zealand) made new commitments. Together they account for only about 17 per cent of global emissions. The others, including US, Canada[1], Japan and Russia, refused to make new commitments. Compared with the commitments made by Annex I countries under the first commitment period, there are some steps forward and one big step backward.

1- Canada has formally withdrawn from the Kyoto Protocol.

At Durban, the US declared that all parties should be treated equally and there should be an end to the "firewall" in the Protocol which excluded Developed Countries from having to make emission reduction commitments. This would mean the abandonment of the principle of "common but differentiated responsibilities" as we have known it. In the lead up to COP-18 in Doha the four BRIC countries have said that the climate agreement now being negotiated will not be a "new regime" with new principles and provisions, that is, they intend to continue the present division of responsibilities. At Doha this conflict was not resolved.

There have been 15 years of annual negotiation since the Kyoto Protocol was adopted in 1997 and seven years since the Kyoto Protocol came into effect in 2005. Huge differences among the Parties persist. At the past rate of progress conclusion of a binding agreement is years away.

What reduction in emissions has been achieved to date has been achieved at a high cost. At present only the EU-30, New Zealand and Australia are operating an economy-wide emission trading scheme and each of these schemes has major sectoral exclusions. A handful of countries operate a national carbon tax, all of which are restricted to a subset of fossil fuels. Both of these market-based schemes yield an explicit price for carbon. However, emissions which are traded or priced in a carbon market account for less than 10 per cent of aggregate global emissions[1]. Instead, most national emission reduction schemes use subsidies and emission standards which yield a variable implicit price of carbon. Productivity Commission (2011) provides evidence of the wide variation across a sample of countries in the implicit prices of carbon.

1- EU-30 emission trading accounts for 97 per cent of global emission trading (World Bank, 2011, p. 9) and covers about 40 per cent of total EU emissions and the EU-30 account for around 16 per cent of global emissions. Thus emission trading covers around 6.5 per cent of global emissions. There is no estimate of the total emissions covered carbon taxes but it is a small fraction of that covered by the EU emission trading.

Under the scenario of the 2010 targets/plans, the carbon price is likely to be much higher on average in Developed Countries than in Developing Countries, and also to vary within both groups. Differential carbon prices create adverse incentive effects. There is an incentive for Annex I countries to reduce the loss of competitiveness by introducing border tax adjustments[1] or to carve out emission-intensive trade-exposed industries, both import-competing and exporting, from their carbon emission reduction plans. There is an incentive for their emitters who lose competitiveness to shift the location of plants to countries with a lower carbon price.

Overall, the present hotchpotch of national emission control programmes under the Kyoto Protocol is expected to fail to achieve the reduction in aggregate global GHG emissions which is necessary to keep the increase in global temperatures within the target range of 2 degrees Celsius. This is confirmed by a number of reports that have been prepared In the lead up to COP-18 at Doha; for example, that prepared by the Potsdam Institute for Climate Change Impact Research (2012) for the World Bank.

6. The Causes of the Failure to Reach Consensus

What are the causes of negotiation failure in the WTO and UNFCCC? There are remarkable parallels in the two negotiations. Both sets of negotiations involve very complex issues and have been made more complex by the choice of modalities. The modus operandi of both the WTO and the UNFCCC negotiations are very similar. Both organizations evolved in the early 1990s. However, the modus operandi of the WTO is that of the former GATT, apart from the Single Undertaking feature which was introduced in the DDR. Special and Differential Treatment goes back to the creation of Part IV of the GATT in 1979. It is likely that these GATT negotiation

1- It is not certain that border tax adjustment would be WTO-compatible (See WTO, 2009).

procedures influenced the modus operandi of the UNFCCC. Some commentators blame the method of negotiation.

In the WTO negotiations after the July 2008 failure, in a keynote address to the 2008 WTO Public Forum, the Director-General outlined the negotiation problem in the following terms:

"Three principal constraints today represent a challenge to our work: the first is the bottom-up approach, under which members must themselves always take the lead in tabling negotiating proposals and compromise solutions; the second is the concept of a "single undertaking", which implies that in a round of negotiations with 20 different topics, nothing is agreed until all is agreed; and the third is the decision-taking by consensus, which is reasonably close to unanimity" (Lamy, 2008).

The first allows Member governments to pursue their own objectives which are generally mercantilistic, pushing for improved export access and resisting all attempts to lower their own import barriers. The last two give a veto to those members who do not agree with a result in any area.

These difficulties are compounded by the modalities that emerged in the critical areas of agriculture and NAMA. The formula used in agriculture and NAMA have been greatly complicated by flexibilities, exemptions and other exceptions. Nevertheless, this modified formula approach is still much simpler than the old request-and-offer strategy used as the dominant modality in previous GATT rounds.

In the climate change negotiations, Green, McKibbin and Picker (2010) blame the rules of the negotiations. They point out that the decision-taking of the UNFCCC operates on a consensus basis, meaning again a no-dissent rule. This gives any party a veto power over the whole package. They too describe the negotiations as "bottom up" with each country making proposals and note that the negotiations are seeking a large package of measures to which all parties are being asked to agree. These three features parallel the three features of the WTO negotiations highlighted above. Furthermore, the UNFCCC doctrine of "common but differentiated responsibilities" is very similar to the WTO principle "special and differential treatment". Both have led to a major division in the negotiations between Developed and Developing Countries.

Yet, the problems are much deeper than the scope and methods of negotiations in both the WTO and the UNFCCC. Seven earlier GATT rounds of negotiations proceeded with much the same modus operandi yet reached a conclusion, and the UNFCCC negotiations began under similar modus operandi with great promise. There have been big changes in the global economy since the negotiations began.

One thing that is different today is the relative importance of different groups of countries in the world economy. Table 1 shows the share of all Developing Countries as a group in global GDP. It reports GDP measured in current prices and at nominal (market) exchange rates and GDP measured at purchasing power parity rates (this table is reproduced from Lloyd, 2012). The figures are reported for the decadal years 1980, 1990, 2000 and 2010. Developing Countries are taken to be all Emerging and Developing Countries, that is, all countries except the "advanced economies", as classified by the IMF.

These figures show clearly the steady growth in the importance of Developing Countries in global production in the last two decades. This holds for both series. The share of Developing Countries is considerably greater when GDP is measured at purchasing power parity rates because goods and services prices are consistently lower in Developing Countries when converted at market exchange rates. In terms of GDP measured at PPP rates, China is now the second largest economy in the world and India is the fourth largest.

Table 1 also shows that the rapid growth of output from the Developing Countries has been accompanied by a growing share of world trade in goods and services in the last two decades. Indeed, in the latest year (2011), China is the largest goods exporter in the world and the second largest importer (after the USA) (WTO, 2012). Developing countries as a group now account for a much higher proportion of world imports than they did one or two decades ago (Table 1).

Similarly, Developing Countries have become much more important in world asset markets. In some markets, they account for more than 50 per cent of global total assets; for example, in foreign exchange reserves and assets held by sovereign debt funds. This dimension is relevant to some aspects of the debate about reforming the international monetary system.

The changes in the relative size of economies have changed the nature of the allocation problems in the negotiation of reduction commitments in the WTO and the UNFCCCC negotiations discussed above. At the time the UNFCCC was drawn up, Developing Countries were small emitters. This situation has changed drastically. China and India are now the largest and third largest emitters and other Developing Countries such as Brazil and Indonesia are substantial emitters on the world scale (See Table 2). If recent trends continue, Developing Countries will account for more than 50 per cent of global annual emissions within a few years. There can be no reduction in aggregate global emissions unless the rate of growth of emissions in developing countries is reversed or at least greatly slowed. The change in size has affected the WTO commitments allocation problem too though less dramatically. The faster growth of imports in Developing Countries, now account for a much larger share of world imports of merchandise, more than 40 per cent.

Moreover, the Developing Countries’ barriers to imports of NAMA products are much higher than those of Developed Countries, though the opposite is true of trade in Agricultural products (Table 1). Consequently, Developing Countries account for a larger proportion of barriers to trade in merchandise than they did one or two decades ago.

This change in the relative importance in the world economy of groups of countries is sometimes described as the replacement of a unipolar world dominated by a single pole, the USA, in the last century by a multi-polar world (for example, World Bank, 2011). The distribution of world output and the contributions of groups of nations to the growth of aggregate world output is much more diffuse than in the previous century. In particular emerging economies, and most particularly China, have become much more important as drivers of the path of the world economy.

This change in relative economic size has changed the power relations among members in the multilaterals. In the WTO, the US chiefly and also the EU, which shaped the earlier packages of bargains in GATT, are much less dominant in the world economy after more than two decades of growth rates which have been lower than those in the rest of the world collectively (see, for example, de Jonquières, 2010). Developing countries are no longer prepared to take a back seat. Developing countries as a group have increased their demands for improved market access to the markets of Developed Countries and other forms of development assistance. They have offered very little in the way of increased access to their own markets under the doctrine of Special and Differential Treatment at the time when Developing countries, especially the US are requesting greater reciprocity. The BRIC group, which have emerged as a new rapidly growing segment of the world economy, have new ambitions.[1]

A second change in the global environment is that there are new disequilibria in global markets. Since the onset of the global financial crisis in 2007, unemployment rates have risen around the world. High unemployment rates in labor markets and unutilized capacity always make trade negotiations more difficult by increasing adjustment costs and

1- Collier (2006) argues that the new demands in the WTO of developing countries have introduced a development objective into the WTO that has changed the nature of the bargain, with Developing Countries expecting a large transfer from Developed Countries.

therefore home country resistance.

This situation is greatly aggravated by new large trade imbalances in the world economy. The US trade imbalance went from 1 per cent of GDP in the early 1990s, when the Uruguay Round was completed, to more than 6 per cent in 2007. On the other side of the ledger, China has the largest current account surplus of any country.

These trade imbalances mean that a given formula applied equally to all countries has a very different effect on countries with a balance of trade deficit than it has on those with a balance of trade surplus. For a deficit country, the increase in imports will be greater than the increase in exports while the opposite will hold for a surplus country. This is shown by the calculations of Hufbauer, Schott and Wong. They calculate that, for the US and the EU, the increase in imports under the draft modalities for Agriculture and NAMA combined is roughly twice the increase in their exports. Hufbauer, Schott and Wong (2010, p. 8) conclude that the imbalance between the increase in exports and imports contributed to the lack of US support for the multilateral negotiations in the Doha round. US concern over trade imbalances is heightened by a widespread view that there is fundamental misalignment in currency markets as China has refused to revalue the Renminbi despite increasing surpluses.

Alongside these changes in the relative size of countries, there has been a breakdown in the consensus view of global policymakers. In the last 25 years of the 20th century there were a set of common policy views that guided debate in the IMF and the World Bank. These are known as the “Washington consensus”. As originally stated by John Williamson (1989), they were ten relatively specific economic policy prescriptions. They began with “fiscal policy discipline” and ended with “legal security for property rights”. These principles guided the World Bank, the IMF and the US Treasury in their policy advice and assistance to the Latin American economies which were recovering from their crises of the 1980s. They are sometimes, somewhat inaccurately, presented as a right wing *Laissez-faire* view of economic policy and governance. Williamson himself, in Williamson (2004), says that the three core ideas were disciplined macroeconomic policies, the use of markets and trade liberalization. Ultimately they derive from British-American liberal economic convictions.

These principles were widely accepted among economists. The GATT/WTO negotiations are also based on the principle of trade liberalization, although this predates the Washington Consensus by about three decades.

The conditions imposed by the IMF in particular on loans to Asian economies during the Asian Crisis, to Argentina and to other Developing Countries have been heavily criticized in Asia and Latin America and by some academics such as Joseph Stiglitz. The Washington Consensus is now considered dead. In the World Bank it has been replaced by more flexible tailored policies with greater emphasis on institution-building and assistance to the poor. The US has moved from being a strong supporter of trade liberalization to a less liberal stance in the WTO and outside it (see Hildebrand, Lewer and Zagado, 2010).[1]

The global financial crisis of 2007-09 and the current ongoing crisis in the world economy have also produced disillusionment with standard policies relating to macroeconomic management and financial market regulation in both OECD and emerging economies. There is a widespread view that financial markets need to be more tightly regulated. One of the G-20's main tasks is reform of the international financial system. Failure of national markets causes a policy externality effect on other countries through the transmission of cyclical variations in output and demand in one country, such as the US or Japan, to other countries. When a large country such as

1- Agur (2008) attributes US lack of support for the current state of negotiations, which contrasts strongly with its championing these negotiations in previous rounds, solely to the surge in the US trade imbalance.

the US decides to boost aggregate demand in a period of downturn, it considers the effects only on the domestic economy, ignoring the substantial (positive) benefits of stimulation that flow through to other economies. This provides the rationale for some kind of coordinated multilateral action in this area of global governance. But there is no agreement on how this should be done. Lack of consensus in this area is hampering the G-20 goal of reforming the international financial system. Reaching agreement is not helped by the proliferation of multilateral organizations in the area of international finance governance with overlapping responsibilities and various powers – the IMF, the BIS and the Financial Stability Board created by the G-20.

The views of the Chinese Government are going to have a major influence on multilateral organizations in the future. Despite thirty years of rapid growth and increasing importance, the Chinese Government has generally been quiet on issues concerning reform of the international economic governance. In the WTO, it has largely been reactive and has refrained from leading the debates. In the UNFCCC, it has been assertive in protecting what it sees as its national interests. At the ambitious Copenhagen COP-15, it resisted pleas for it to adopt an emission target in terms of total emissions, resisted the more ambitious goal of limiting global emissions to 1.5 degrees Celsius above pre-industrial levels, and opposed strict compliance measures. In the lead up to COP-18, it, along with others in the BRIC coalition of Developing Countries, is insisting on the maintenance of the old division of responsibilities between Annex I and non-Annex I countries. In the difficult area of reform of regulation of the international financial system, China has moved cautiously. It has become increasingly concerned over the use of the US dollar as the reserve currency. In their view the US is destabilizing global financial markets. It wishes to internationalize the Renminbi (meaning use of the Renminbi as a reserve asset by other countries) but this will require reforms within China to establish capital account convertibility. China proposes reforming the international monetary system by creating a new multiple currency reserve system [Governor of the Bank of China (2009)]. This could be based on SDRs issued by the IMF. China sees the reform of the international reserve system as a long-term process.

7. Conclusions

What has been done to advance multilateral negotiations and rule setting?

For example, at the WTO, most of the commentary has focused on the methods of negotiation. Different methods have been suggested. There has been much discussion about abandoning the Single Undertaking (see, for example, the Warwick Commission, 2008). There have also been discussions about reviving the “critical mass” method (the Warwick Commission, 2008) or plurilateral agreements used in previous rounds. The critical mass method was used in the negotiation of the Information Technology Agreement and the services agreements in the period after the conclusion of the Uruguay Round and before the start of the Doha Round. These approaches were again considered in the WTO in 2012. Negotiations began on an International Services Agreement, a proposed plurilateral agreement with 20 WTO Members participating. Similar proposals have been made recently regarding the methods of negotiation used in the UNFCCC (Green, McKibbin and Picker, 2010).

Yet, these approaches are tinkering with the present methods of negotiations. The root of the problem is in the absence of common or shared vision. The consensus that prevailed for most of the second half of the last century has collapsed.

In a multipolar world, China and the US must find common ground if there is to be progress in the multilateral negotiations relating to trade, climate change the international financial system and other areas. This will be difficult. After the last Presidential election in the US, the President has stated that he wishes to see a US-led *rules-based* and liberal international order. China has a different model of development and is challenging many of the western assumptions about good governance and democracy. In a book that is a best seller in China, Zhang (2012) foresees a conflict between the Western Model and the Chinese Model that may provide the end to Fukuyama's "end of history" (for a US view of China's vision for the international economic order, see Schweller and Pu, 2011).

The main division – but by no means the sole one – is that between Developed and Developing Countries. Many Developing Countries do not share the conviction of OECD countries that lowering their own barriers to trade for increasing their national welfare, and many do not see a need for Developing Countries to reduce their own GHG emissions. In Lloyd (2012) I considered ways of addressing this division in the WTO and the UNFCCC negotiations. I argued that Developing Countries should have a greater voice in multilateral organizations but this should be accompanied by their assuming more responsibilities in the form of a willingness to make greater commitments to reduce trade barriers and GHG emissions. They must offer more reciprocity if the negotiations are to succeed. I proposed ways in which this might be done in the WTO and UNFCCC so that Developing Countries still gain from the outcomes. But "Equally Developed Countries too need to re-examine the gains to them from their participation. In the WTO, Developed Countries should increase their offers of market access and changes in the rules in ways which will benefit Developing Countries…. In short, both groups of countries must move towards the middle of the negotiation gap which currently separates them (Lloyd, 2012, p. 18). This movement to the middle is not likely to happen in the present climate of diverging views and high macroeconomic instability and unemployment.

One might say multilateralism is in turmoil rather than in crisis. It is plagued by disagreements over what rules need to be created as well as by an inability to conclude negotiations.

All discussions of future multilateral rules should begin with a clear view of the rationale for new or extended rules. The root cause of failure to advance multilateral rules is a failure among negotiating parties to have a clear consensus on what the rules are designed to do and why it is to the benefit of all participants to agree on these rules. The Washington

Consensus, which guided the development of the multilateral organization in the post-Second World War period, collapsed at the end of the last century and the Global Financial Crisis weakened further the faith of Western countries in the liberal tradition of economics. This difficulty has been exacerbated by the rise of China and other major Emerging Economies. China has a different view of global economic governance. To date it has been fairly passive in the WTO and UNFCCC negotiations but it has been more willing to advance proposals in the area of reforming the international monetary system.

Until a coherent consensus view emerges on global economic governance, we may have to learn to live with multilateral organizations that are more divided than at any time since the Second World War and with little prospects of new binding multilateral rules.

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Appendix

Attached table 1: Developing Countries in the World Economy (%)

	1980	1990	2000	2010
GDP at current prices	23.8	20.4	20.3	34.2
GDP (Purchasing power parity)	31.0	30.8	37.2	47.9
Imports of goods & services	22.9	16.9	22.6	n.a.
Exports of goods & services	25.4	16.3	23.9	36.4

Source: Calculated from IMF, World Economic Outlook Database, September 2011.

Attached table 2: Fossil Fuel CO_2 Emissions Growth in 2010

Country/Group	Emissions (PgC)	Growth Rate 2010
Global	9.14	5.9
Non-Annex I	3.57	7.6
China	2.24	10.4
India	0.56	9.4
South Korea	0.15	9.2
Brazil	0.11	11.6
Indonesia	0.13	7.9
Saudi Arabia	0.13	7.3
Annex I	5.02	3.4
USA	1.44	4.1
Russian Federation	0.46	5.8
EU-27	1.01	2.2
Japan	0.31	6.8
Germany	0.21	4.0

Source: Global Carbon Project (2011) at www.globalcarbonproject.com