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ECONOMIC VIEWPOINT

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Multilateralism Under Stress

Few doubt that the global economic order has shifted in the aftermath of the Great Recession. After all, the advanced economies are struggling as can be seen in their slow-growth recoveries and major challenges. The US is mired in a high-unemployment, high-debt situation with low levels of consumer confidence; Japan, even before the recent natural disaster and nuclear accident, was in a demographically induced low-growth trap; and Europe is struggling to find a way to accommodate the economic crises of Greece, Portugal, Spain and Ireland without sacrificing the euro or the principle of no debt default. This raises concerns for globalization in as much as these advanced economies have heretofore been the custodians of the multilateral system.

The New Economic Powers, prominently including China, Brazil and India, are becoming more important for world growth. However, they have yet to show a large appetite for taking up the multilateral gauntlet. As a result, cracks are appearing. The Doha trade round is dead. Capital import taxes are now tolerated, if not sanctioned. Development assistance is stagnant and is being offered on markedly different terms. At the same time, major global challenges—from climate change to migration to crime and drugs—are left unattended. The system is most definitely under stress.

Pundits have many views. These range from very high hopes in the G-20 to quixotic notions of a G-2 between the US and China. Others speak glowingly of the BRICs, four disparate countries united mostly by population size and their Goldman Sachs acronym rather than by major policy or political convergence. Still others, such as Professor Dani Rodrik of Harvard, see a trilemma in which countries must choose only two among three goals: national economic aims, democracy and global responsibilities.

We have moved in one tumultuous decade from irrational exuberance to great recession to uncertain expectations.

As we face what Mohamed El-Erian has dubbed the "new normal" in terms of growth, debt and uncertainty (and its greater burden on governments), it may well be multilateralism that takes the hit. Governments are, after all, being asked to both regulate increasingly unpredictable markets and to intervene more directly so as to promote national economic goals that are proving more elusive. This is accompanied by a multilateral system that is losing steam in terms of international governance. While the global system responded well to the H1N1 influenza, and did in the end manage to prevent a larger collapse with coordination of stimulus packages and agreements to strengthen the International Monetary Fund and the Financial Stability Board, it has not shown great resolve in other matters. Many countries seem preoccupied with national policy dilemmas.

The resulting partial withdrawal from multilateral responsibilities weighs heavily on the system and does not augur well for developing countries that still harbor export-led aspirations and seek to become globally competitive. It is complicated by new players who see development assistance in a different light and view the role of government policy in significantly more activist terms. This was less of a problem while advanced countries thrived. However, with high unemployment rates and high deficits in many advanced countries and less palatable policy options, global tolerances will diminish.

What is needed is a new and dramatic recommitment to multilateralism. National and international interests are so intertwined by globalization that policy externalities—impacts on others of national efforts—need to be considered and accommodated by all economic actors. Under current circumstances, this particularly applies to the emerging economic powers that hold considerable sway globally yet are still not in the rich country league on per capita terms. This ambiguity needs resolution within the G-20 if multilateralism is not to suffer and economic outcomes are not to suffer as well. ■

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