

“Multilateralism under Threat”

by Prof. Anne Krueger



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Addressing a select gathering of trade economists and policymakers at the ICRIER seminar on “Multilateralism under Threat”, Prof Anne Krueger, visiting Professor ICRIER, said that “Multilateralism has been the key to the huge economic successes of the past half century. However, the achievements of the multilateral economic system, especially that of the IMF, World Bank and the erstwhile GATT (now WTO), have been underappreciated and ever more taken for granted, while the need for a well-functioning multilateral international economic system is greater than ever as globalization proceeds.” She was of the firm view that these institutions need to be reformed and strengthened rather than abandoned.

Prof. Krueger retraced global economic experiences since the World War II and considered some of the many reasons why multilateralism is so important, mostly since MFN is a guarantee against the competitive devaluations that arise when countries take measures designed to boost exports which get nullified when others retaliate (third country effects). She outlined some of the successes of the multilateral financial institutions over the past sixty years and then turned to the reasons why support for the system is not as strong as one would expect in light of its accomplishments. In her view the four key concerns regarding the prospects of multilateralism today emanate from (a) recent proliferation of PTAs; (b) the absence of a multilateral regime to govern private capital flows; (c) short-term protectionist moves of world economic powers which undermine the multilateral system; and (d) lack of leadership from the rapidly growing middle income countries like India and China.

While discussing the importance of multilateralism she mentioned that in a non-rule based scenario, compliance would necessarily have to be ensured through economic sanctions, which however is not easy to implement for the developing countries and cannot be effective unless all countries together agree to impose them. Even experiences with 'voluntary export restraints' and 'anti-dumping and countervailing duty administration' have proved inefficient. A non-discriminatory rule-based multilateral system, in her view, remains the only hope of the developing and least-developed countries to create out a level playing field in today's world. Multilateralism is the only guarantee against trade diversion and other market distortions brought about by preferential trade and investment agreements.

She also mentioned that the developing countries, with a few exceptions, failed to participate in trade liberalization in the quarter century after 1950, because they mostly erected high trade barriers against imports of manufactures as it was believed that protectionism for "infant industries" was the appropriate policy to achieve more rapid economic growth. Despite their failure to liberalize, however, developing countries grew at rates well above those that had been achieved in earlier eras, largely because of the ongoing multilateral liberalization resulting in relatively favourable terms of trade and growth of export earnings (although their share of world trade declined as the industrial countries' trade liberalization led to even more rapid growth there).

The seminar was chaired by Commerce Secretary Mr. Gopal K. Pillai while Dr. Rajiv Kumar, Director & CE, ICRIER delivered the vote of thanks. The lecture was followed by a detailed discussion of several contemporary problems afflicting the global economy. Mr Pillai pointed out that the agricultural policies of the world's leading economies needed to be rethought in the interest of multilateralism and its survival. Sustainability of growth and development policies in a multilateral context also merited paying closer attention to their environmental impact. Prof. Krueger's lecture was based on her previous work and experiences while serving as the First Deputy Managing Director of IMF.

An earlier version of the talk can be accessed at
<http://www.imf.org/external/np/speeches/2006/091906a.htm>