

# SOCIAL COHESION, GLOBAL GOVERNANCE AND THE FUTURE OF POLITICS

## A vision about regional contribution to a more effective global governance: the case of the multilateral international trade system

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## Abstract

*The main idea of our vision is that, at least in the case of international trade, global governance architecture and its impact in social cohesion at the national level, could be improved through a higher degree of sustainable win-win governance approaches at regional geographic spaces. That means that the design of the future international trade order (institutions and rules), especially if it is based in a network of connected regional and interregional trade agreements, could be acquiring greater practical importance for the efficacy of global governance and for the trust of civil societies concerning the idea of opening national economies.*

## Challenge

Today is becoming increasingly clear that the international multilateral order currently governing global trade is going through a critical period that requires a policy approach at the G20 level. Having this in mind, an important question that requires analysis and policies recommendations would be: how to adapt rules and institutions of the multilateral international trading system to new realities of transnational trade and investment, on the one hand, and to the current distribution of world power, on the other? This will be one of the dominant themes of the global governance agenda for the coming years.

And it is precisely here that successful developments at the regional geographic level could, eventually, imply a positive contribution to strengthen the global international system and to improve its impact in social cohesion at the national level. This could be the case, particularly, if those developments are conceived as favoring “win-win” approaches to both reciprocal transnational trade and investment among regional countries, whatever its relative power could be.

Even when inequalities predominate in the distribution of power and wealth among countries of a geographic region, if there is a “win-win” approach to the idea of working together, each one of them –and their citizens- will perceive that they could win more by being member of a regional trade agreement than if they were not.

Perhaps this was the most important political impact of the European economic integration process to global governance at the post-war period, at least in its first decades. And perhaps this has been one of the weaker contributions of Latin American economic integration processes, to the governance of the region and to an effective trust of civil societies to the notion of a sustainable “working together pattern” among the different nations.



How to transform the actual global multilateral trade system to allow it to have a more equilibrated impact in the future development of all countries, is today one of the main challenges for global political governance, and not only for trade. The inequality effects of international trade are today one of the main reasons that could explain why citizens in many countries have become angry with respect to globalization

## Proposal

### The main challenges ahead

Global and regional governance should be related to the concept of a “multiplex world” proposed by Amitav Acharya (2014). His idea becomes more relevant to understand the future evolution of global order and governance, in light of the profound changes that are evident today in the international system and especially in the global multilateral trade system.

According to professor Acharya, in a “multiplex world” a plurality of actors with a range of cultural diversities and unequal relative power can compete simultaneously on multiple levels and scenarios. They are, among others, national states, but they can also be international organizations, companies, and other non-governmental actors, including different types of transnational networks. Sometimes they are geographic regions with a degree of institutionalization, such as the EU, or those regions who aspire to be similar. In a “multiplex world” each protagonist could have multiple options in their strategies with respect to whom they compete.

Unlike the international system that resulted from World War II, the one that we are facing now does not reflect the interests of a single stronger power, not even those of a small group of powers with sufficient clout to impose, in a sustained way, their will to the rest. Therefore, it is becoming increasingly difficult to identify who and how will create the new ground rules of the international power and economic competition of the future. As Ian Bremmer (2012) said, today is not possible to attach any number to the letter G, to know who should be invited to the table where key decisions could be adopted and then applied.

In a world of such characteristics, all the actors navigate according to what they believe are their own possibilities. This means having a correct diagnosis of the margins of maneuver allowed by the realities of the distribution of world power, including the knowledge of the spaces of agreement that exist with other players. This is valid both in the global space and in each of the regional geographic or sub regional spaces.



In a “multiplex world” the idea of “win-win” approaches to sustain global and regional governance becomes more important. Only the perception of a relative win scenario, as a result of concrete global and regional trade agreements, would produce the necessary civil society support for measures oriented to open the national economy to goods and services originated in other countries.

The G20 Summit of Hamburg (2017) as well as the MC11 in Buenos Aires (2017), were held against the backdrop of the questioning by US government senior officials of the rule-based global multilateral system of international trade (GATT-WTO). Such questioning is based on the realization that it is a multilateral system that originated in a global economic reality that has long been overcome and, therefore, many of its mechanisms and rules can be considered obsolete.

Specifically, the most critical references to the global trade system have been directed at the principle of non-discrimination, embodied in the unconditional most-favored-nation clause of Article I of GATT and how to conciliate trade preferences among different countries and regions, with the idea of a global multilateral trade system; the trade defense mechanisms and their limited effectiveness against what are considered dumping practices in sectors such as steel among others, and the characteristics and effectiveness of the WTO dispute settlement system.

But it should be noted that the objections to some of the rules of the global multilateral international trade system were originated almost at the moment of their creation and that they were raised for the most part by developing countries, including Latin American ones. Therefore, it is not only the current US government that has expressed dissatisfaction with the global multilateral system of international trade. The link between trade, development and inequalities, for example, was on many occasions at the heart of the critical arguments of Latin American countries with respect to the GATT and later the WTO. They were not perceived as having a real “win-win” approach in favor of developing nations. Latin American countries often raised the need to make such rules more favorable for the early industrial development of many developing countries, and to make the requirements for exceptions to the principle of non-discrimination more flexible in order to facilitate preferential agreements aimed at promoting economic development.

It was not just the questioning of certain rules of the system. It was also a disagreement with the predominance of an elitist vision of its negotiation mechanisms, reflected in the so-called “Quad” (US, the EU, Japan and Canada), and the lack of transparency of some of its procedures.

How to transform the actual global multilateral trade system to allow it to have a more equilibrated impact in the future development of all countries, is today one



of the main challenges for global political governance, and not only for trade. The economic and social inequality effects of international trade are today one of the main reasons that could explain why citizens in many countries have become angry with respect to globalization. As a result, they reject the idea of opening their economy to global trade and investments. They perceive the global multilateral trade system –and in some case also the regional and inter-regional trade agreements- as not guaranteeing a “win-win” pattern in international trade relations. Their argument is political by nature, even if it is related to trade issues.

## Some issues that deserve special attention

The XI WTO Ministerial Conference (Buenos Aires, December 2017) was an opportunity for a discussion about how to adapt the global multilateral trade system to new realities. It wasn't part of its formal agenda. However, it was present on what could be considered an informal or parallel agenda, which in the political perception might be regarded as the real substantial agenda of the meeting. But nothing came out of the Buenos Aires meeting, perhaps confirming the idea that there were substantial differences among the main partners of the system.

In any case, at least from a Latin American point of view, the main question to be further discussed could be related to what changes in the design of the global multilateral system of international trade and its rules, would be more relevant from the point of view of the countries of the region, especially taking into account their strategies for global commercial insertion, the requirements of their regional integration processes, and their own processes of economic and social development. In which aspects of this redesign could positions be articulated with other WTO member countries, including the US?

Any progress in the future –including the Buenos Aires 2018 G20 Summit- should result from a trade-off between the political need to recognize the importance of a global multilateral international trade system based on rules, whose fulfillment is not simply left at the discretion of each nation and, at the same time, to the redesign of those institutional mechanisms and ground rules that the member countries consider necessary. Political need understood in terms of international trade governance and, therefore, the need to neutralize tendencies towards a new experience of international disorder, such as those that led to the two great wars of the last century.

From a Latin American regional perspective, it seems that among others, at least three issues deserve special attention in the political discussions related with the future of the rule-oriented multilateral global trade system, including its impact in global order and governance. Those issues are relevant for the concerted action of



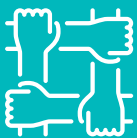
Latin American countries at the global level. But, at the same time they could imply a positive contribution of regions to strengthen the global trade system.

***A balance among global and regional trade rules.*** The first issue relates to how to achieve the necessary balance and convergence between global rules and institutions -such as those in the field of trade of the GATT-WTO- and those resulting from the multiple modalities of regional and interregional preferential agreements -such as, for example at the regional trade level, the Mercosur, the Pacific Alliance, the LAIA, the EU and the ASEAN, among many others, and, at the interregional trade level, the new TPP, the RCEP and the eventual agreement between the Mercosur and the EU-.

Although the lack of consensus on what a regional agreement is specifically enabled to do -according to Article XXIV- have locked the WTO “reviews” of RTA’s, at least in the Latin American integration experience, global rules or their interpretation has been one concrete obstacle to adopt more flexible methodologies for working together at the regional or at sub-regional levels. Rigid interpretations of the rules (especially of GATT’s article XXIV), have had a concrete impact in the original approach of what was first LAFTA (1960) and then LAIA (1980). Moreover, the RTAs notified under Article XXIV of WTO are rigid because they must ultimately cover substantially all trade while other kind of agreements such as South-South in which the inclusion of goods and services can be more limited (UNCTAD, 2017). On the contrary, flexible interpretations of those rules -eventually through a dispute settlement case- could have a positive impact on economic integration, and should not be always necessarily contradictory to the demands of predictability of those adopting investment decisions to take advantage of the opening of regional markets. For example, a flexible framework such as the one suggested by Joost Pauwelyn (2012) could be beneficial. In particular, he suggested that the WTO acceptance of agreements that are “not subject to WTO dispute settlement or even mere guidelines with flexibility for domestic implementation and future adaptation subject to peer review and less adversarial monitoring mechanisms”. Even if they are not subject to “hard law”, the inclusion of this kind of agreements would not inhibit incentives to comply.

Given the proliferation of RTA’s since 1990, it is necessary to improve WTO rules to both better accommodate RTAs and FTAs while also maintaining oversight over rules of play and to maintain its own relevance.

In any case, the current trends towards the fragmentation of the international trade system through several modalities of preferential trade agreements, with the ensuing impact on the effectiveness of the world political order, could have negative systemic consequences. The fact that any country of any region -and not only the Pacific region- could eventually become member of the TPP, requires a careful analysis about its potential implications with respect to the future of WTO (chapter 30, article



4, of the TPP Agreement). Nevertheless, RTAs do not necessarily represent a threat to the centrality of the WTO tariffs, as with RTA's powerful states cease to be the only actors that impose the rules to follow as the regional powers become involved. Eventually, this process increases equity (Baldwin, 2011).

Taking into consideration that developing countries are becoming more active participants in regional trade agreements, the institutional framework of LAIA and some of its rules have all the potential necessary for the development of a Latin-American regional strategy of “working together” among nations that in many aspects have strong differences. It offers a concrete framework for the implementation of the idea of “convergence in diversity” launched by Heraldo Muñoz (2014), the former Minister of Foreign Affairs of Chile and accepted by members of LAIA.

In this sense, one of the main themes to be addressed in the discussions should be how to achieve a balance between the requirements of flexibility of the rules and institutions operating in dynamic and complex contexts, with those of the predictability necessary for the adoption of decisions for productive investment by firms that could generate sustainable trade and employment.

***Make the benefits of international trade reach more of the world's population.*** The second issue concerns how to make the benefits of international trade reach broad sectors of the populations of the WTO member countries, in particular because of their positive effects with respect to social inequalities, through the generation of sustainable jobs and social wellbeing. At the regional level it would be possible to develop success stories about social participation at the decision-making level, that could be then extended to other regions or to the global level.

This includes ways of involving all social sectors in the decision-making process, both at the level of each country and of the different international institutions and, in particular, ensuring greater transparency in the international trade negotiating processes.

For example, the fact that negotiating offers are not disclosed in time or that their real scope and the “small print” are only revealed when the negotiations are at an advanced stage -as is the case in some ongoing negotiations, such as those between Mercosur and the EU-, or have already been concluded -as happened in the negotiations of the TPP-, are practices that today can be considered obsolete. In any case, they contribute to the skepticism and even the bad mood of citizens regarding such negotiations, something that can be observed today in many countries.

Moreover, an UNCTAD study (2017) shows not only that lower levels of within-country inequality can be attributed to RTAs but also that if combined with some particular





policies trade may result more inclusive for all participants. One example given is the European Commission's Sustainability Impact Assessment in the frame of the WTO. According to Vidal-Leon (2013) this tool fostered "more socially sustainable trade". Consequently, she considers the plausibility to introduce corporate social responsibility disciplines on the WTO and other organizations.

Also, a study on Mercosur (Borraz, Rossi & Daniel Ferres, 2012) trade impacts on Uruguay and Paraguay (the smaller economic partners of the RTA) points that in order to enhance distributional outcomes of RTA's it is necessary to pay due attention to regional asymmetries (size of the economies and negotiating power) first and then "identify policies and actions to ensure a more even spread of benefits". They also show that it would be profitable to research the different internal impacts on trade in the countries' economies so to implement policies to reduce unintentional negative distributional effects of trade.

***Facilitate global growth in micro, small, and medium-sized enterprises (MSME's).***

The third issue is how to apply policies and rules that facilitate the projection of SMEs to the world, especially those from developing countries.

The image of an international trade system perceived as only benefiting large firms from the more developed countries does not help with the necessary social support for the world trading system.

On the contrary, what is needed is a WTO that is perceived as the place for promoting rules and institutions that facilitate and encourage the growing internationalization of SMEs, for example, through their insertion in transnational productive chains that include SMEs from other countries. The settlement of win-win alliances between RTA could also foster the creation of deeply integrated multilateral protocols. Capri (2017) argues that in the XXI century this has the advantage to "make digital trade for MSMEs a virtually borderless experience, across a broad swath of geographies". In addition, from the perspective of the developing countries, it would be also beneficial to further develop the infantry protection argument. This would allow some protection to SME at the early stage of development on the local market from the competition of international corporations, including mix of free trade and state intervention given the development stage of the country as has been suggested by Dani Rodrik (2012)

In this perspective, it would be possible to discuss how to achieve a growing interaction between the WTO and institutions such as the ITC, the FAO, the ILO and the UNCTAD, as well as global and regional development financing institutions, and those of the corresponding regional integration processes. Such coordination could favor the promotion of different modalities of sectoral agreements to encourage and facilitate the development of productive networks and value chains among SMEs in



different countries. The experiences, for example the EU and ASEAN, could be of great interest for other regions, including the Latin American countries.

## Conclusions

The G20 Buenos Aires Summit should explicitly recognize the need to strengthen the rule-oriented global multilateral international trade system and at the same time, to open a process for the redesign of some of the rules and institutions of the global system.

Even if this cannot be accomplished because US position –given its recent stance on the G7-, the clear recognition of this fact by all the other parties would also mean the resilience of the multilateral approach and the plausibility to promote win-win alliances between RTA's.

Then the WTO and eventually the G20 and also the G77, could progressively become forums for a necessary deep debate about how to adapt the rules and institutions of the system to the new global economic and social realities, in such a way that could have a positive impact in the global economic governance and, specially, in the participation of the people of all member countries in its decision-making process and in its social benefits.

Several alternatives could be elaborated about how to strengthen the rules of the global multilateral international trade system, taking in account experiences at the regional level.

This would imply rules that enable the development of networks of regional preferential agreements that could strengthen the trend toward a more connected global trade system, and that could assure the predominance of “win-win” approaches to international trade and investments perceived as friendly for social cohesion both at the global and national level.



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