



New Challenges to the Liberal International Economic Order

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1. Introduction

A. What is the liberal international order ?

- Like many other concepts and ideas in international relations, it is not easy, if not impossible, to succinctly define the liberal international order without any contradictions or omission. There are several similar but distinct definitions on the liberal international order.

- In the 20th century, the U.K., at that time called as the British Empire, and then the U.S. has sought an international order which is constituted of “open markets, international institutions, cooperative security democratic community, progressive change, collective problem solving, shared sovereignty, and the rule of law” and this order is widely considered as the origin of the current liberal international order.

※ G. John Ikenberry, “The Future of the Liberal World Order.” *Foreign Affairs*, May/June 2011, pp56-68

○ Some scholars define it as an "open and rule-based" international order that is enshrined in institutions such as the United Nations and norms such as multilateralism.

※ Dani Rodrik, *The Globalization Paradox: Democracy and the Future of the World Economy*. New York: Norton, 2011.

○ Some other scholars trace the origin of the idea of the liberal international order back to the Atlantic Charter, a joint declaration by U.S. President Franklin D. Roosevelt and British Prime Minister Winston Churchill on August 14, 1941.

- The charter sets out some principles for the world after the WWII like self-governance, rule of law, and free trade and the preservation of the global commons.

○ Furthermore, it is not sure either in what sense the liberal international order is "liberal."

- Does it refer to political liberalism in opposition to authoritarianism or monarchy?

- Or economic liberalism or free market/trade?

- Or liberalism in international relations theory in opposition to realism and constructivism? Actually, it seems that liberal can mean any of these three different liberalisms.

※ Hans Kundnani, "What Is the Liberal International Order?" Policy Essay 2017-17, The German Marshall Fund of the United States.

○ However, it is largely agreed that the current liberal international order is established in the aftermath of the World War II and free international trade and collective security of liberal democracies are the two pillars of the liberal international order.

B. Scope of This Policy Briefing,

- Only the economic dimension of the liberal international order will be discussed as space is limited. Namely, its security dimension will not be discussed in this policy briefing.
- The liberal international economic order, especially its institutions, has evolved over the last 70 years to cope with new developments in economy and security.
 - Thus, the meaning of the liberal international economic order has been changed over the time.
- The developments in the liberal international economic order over the last 70 years will be first briefed.
- The following three challenges to the liberal international order will be discussed and possible solutions to preserve the current liberal international economic order will be suggested.
 - Trump's American First policies
 - Brexit
 - Xi's nationalistic China

2. Developments in the Liberal International Economic Order

A. Nature of the Pre-WWII International Economic Order

1. Bilateralism (MFN)

- Before WWI and WWII, international trade between two nations

was based on bilateral trade agreements with the principle of the Most Favored Nation.

- There was no single international institution regulating international trade.
- However, the Great Depression and the subsequent tariff wars showed that international trade based on bilateral trade agreement is fragile and easily yield to domestic economic pressure when there is a economic recession. Thus, there was a desire among nations for an international organization to promote and regulate international trade

2. Trade Protectionism

- Between WWI and WWII, international trade was largely restricted to each imperial trading system (trade block).
- Colonies' trade was largely restricted to its empire state. Thus, rising powers had to challenge the old great powers as they were not allowed access to the markets of old power's colonies. The two world wars taught nations the importance of open markets to everyone for peace and prosperity.
- Even democratic countries without colonies like Canada was inclined to trade protectionism.

3. Power-based International Relationship

- While Imperialism dominating the pre-WWII world, "might" outweighed "logic and norms." Power-based international relationship is practiced over rule-based one.
- Not surprisingly, there was a voice from less powerful countries for rule-based governance.

B. The Birth of the Liberal International Order

- Institutional settings: Bretton Woods System
 - International trade was regulated by GATT and exchange rates by IMF. World Bank (IBRD) was established for (economic) reconstruction and development in Europe.
 - This system is called Bretton Woods System, which substantively collapsed in the 1970's when the U.S. finally gave up its long-troubled gold-standard principle.
- Multilateralism, which was embodied in international economic institutions like GATT, IMF, IBRD and others, was adopted to promote free trade but the ideal of multilateralism was not fully practiced .

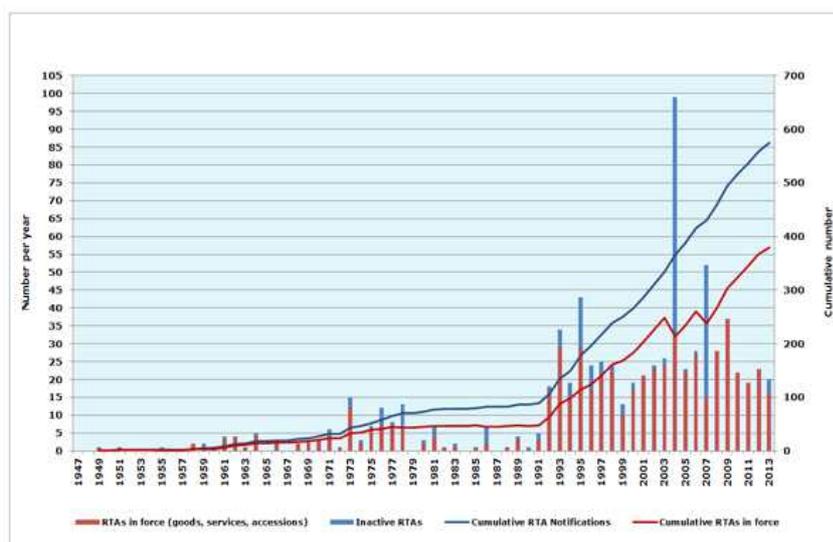
C. Developments in the Liberal International Order

1. Expansion of the Liberal Intranational Order

- The liberal economic institutions have evolved since their inception and many non-Western nations including authoritarian have joined to various liberal economic institutions.
- The GATT started with 23 member countries in 1948. The GATT was replaced by the WTO in 1994. As of October of 2017, there are 169 WTO member countries.
- Countries belong to the former second and the third world have joined the WTO, the liberal international trade order. China joining the WTO in 2001 and Russia in 2012.

2. Regional Economic Integration

- The number of RTAs exploded in the 1990's.



< Figure 1. The Number of RTA from 1948 to 2008 >

- 454 Regional trade agreements (RTAs) are currently signed to promote free trade.
- Moreover, regional economic integration has been accelerated, through RTAs, since the 1990's.
- 143 economic integration agreements are signed by 2016.

※ RTAs list: <http://rtais.wto.org/UI/PublicPreDefRepByEIF.aspx>

3. Rule-based Governance

- The principle of rule-based governance of international trade has been considerably enhanced under the WTO regime due to its functioning trade dispute settlement body.

- Unlike the GATT, the WTO has a active judicial body ruling on trade disputes. Many small countries have brought their trade dispute cases to the WTO trade dispute settlement body and won the cases over more wealthy and powerful countries like U.S., EU, Japan, and others.

4. Free flow of service, capital, and human power

- As trade barriers had been largely destroyed by the 1980's, the focus has moved to liberalize service, capital, and human power sectors from the 1990's.
- Developed countries tend to emphasize this agenda.

3. New Challenges to the Liberal International Economic Order

- The rise of isolationistic protectionism in developed countries.
 - Recently the public resistance to free flow of products, services, capitals, and human power, has become “**unprecedentedly**” strong to the extent which the liberal international economic order is partially denied by the majority of people in developed countries.
 - ex) Trump's America-Firstism and Brexit
 - This kind of protectionism is closely associated with isolationism.
 - This mentality is especially strong among ordinary workers.
 - These are not just new challenges but also a new kind of challenges to the liberal international order in sense that these are the countries who propagated the ideal of the liberal international order.

A. Rise of isolationistic protectionism in the U.S. and Trump's Electoral Victory in 2016

1. Trump's American-First policies

○ Power-based Trade Protectionism

- He believes FTAs are not good for the U.S. Other countries cheat the U.S. with unfair trade practices.
- Thus, he is pressing other FTA partner countries to renegotiate their FTA with the U.S. There is no negligible chance that free trade could be shrunk in the era of the Trump administration.
- Trump prefers bilateral agreement over multilateralism.
 - ※ Trump withdrew from the TPP.
- More importantly, his tool for re-negotiation is power-based unilateral actions rather than rule-based negotiation, which challenges the spirit of the liberal international order.

○ Anti-immigration

- Trump issued an executive order to ban people from certain countries, mostly the Middle East countries, from traveling to the U.S. He is also trying to rip up DACA, the dreamer program, immediately, and makes the deportation of the 11 million undocumented persons a top priority. He has repetitively promised to build a wall along the entire border with Mexico.
- During the Trump administration, free flow of human power between countries will be seriously hampered.
- it is obviously isolationistic and protectionistic for the Trump administration to aim to reduce the number of immigrants to protect native workers.

2. Background of Trade Protectionism and Anti-Immigration

- Blue-collar workers in the U.S. has been hit by imports and immigrants from other countries.
- Blue-collar workers in the U.S. has been hit the most by more competitive imported goods from other countries. International trade has destroyed manufacturing jobs in the U.S. and brought adverse changes to U.S. physical workers.
 - Proper financial aids were not given to the affected workers
- US-born workers, whether they are white, black, or Asian, do not welcome illegal immigrants who they think steal their job and keep their wages low.
- Many Americans believe that immigrants also threaten the traditional American way of life.
 - Trump received a large number of votes from better-educated and more well-off voters, who were not victims of increased free trade and immigration of cheap labor force. They feel uncomfortable with immigrants who bring their own culture and religion which is strange to themselves.

3. Causes of isolationistic Protectionism in the U.S. and Trump's Electoral Victory

1) The mortgage sub-prime crisis of 2008

- The U.S. working class took the brunt of the 2008 sub-prime mortgage crisis.
 - The costs of these failures were much more heavily borne by many ordinary workers than by the elites. The crisis exacerbated

the living condition of the working class. Unfortunately, People believe that the congress and the president Obama did not do enough to help ordinary workers after the mortgage sub-prime crisis.

○ The bailout of trouble financial institutions to help the Wall Street made the average people furious and frustrated with politicians.

- Worker's distrust on the Washington establishment has been greatly increased. The average people did not understand the importance of keeping the financial market afloat. They believed that it is evidence of connection between the Wall Street and the Washington establishment for the government to save the trouble financial institutions.

2) Failure of the Democratic Party to help ordinary workers

○ From the 1980's, the Democratic party lost its focus on economic issues for blue-collar workers and has become the party of identity politics.

- A coalition of ethnic minority groups, pro-choice movement, environmentalists, the LGBT community. The workers, especially white workers, find themselves in conflict with the Democratic party policies on environmental, abortion, LGBT issues and feel distance from the Democratic party.
- For example, coal miners in West Virginia oppose strict regulations on coal mining and promotion of green energy.

○ Of course, the Republican party did not represent the interests of the working class.

- So, ordinary workers were looking for a new alternative who sympathize with them and emphasize economic issues.
- It is well-known that the rust-belt states voted for Trump.

B. Rise of Isolationistic Nationalism in the Britain: Brexit

- Brexit is a major setback against the recent trend of regional economic integration.
 - The liberal international order favors regional economic integration which allows free flow of goods, services, capita, and human power within the economic community. Before the Brexit, the EU had been expanded to include former communist countries. Brexit is a major setback to the efforts of building a European community and the liberal international order.
- Isolationistic Nationalism
 - Some people believe that probably the greatest benefit of Britain being outside the EU would be the freedom to rescind EU laws and regulations.
 - They also suspect that the EU will continue to stretch its tentacles wider and deeper into every nook and cranny of national life. Immigrants from the third world who have heterogeneous culture, religion, and ethics were considered threats to the British way of life.
- Financial Burdens
 - The UK's net contribution to the EU is about £9bn a year.
 - For example, the cost to reduce working tax credits, which was rejected, would be just over £4bn. Britons believe that the U.K. should use money for its own people not for foreigners. Furthermore, most Britons opposed the bailout of Greece in the

aftermath of the financial crisis of 2007–08 which faced with such a crisis because of irresponsible borrowing and spending. Many Brexit supporters insisted that the U.K. would do better economically without the EU membership.

○ Failure of Political Elites

- British politicians did not realize how strong is the public resistance to the economic integration.
- Brexit is supported by older, more rural, poorer, non-college educated Britons who are negatively affected by the dark-side of globalization. Globalization has widens wealth inequality, lowered median wages, and destroyed blue-collar jobs.
- The British elites, especially labour party failed, to assuage the anger of the working class and did not understand their strong economic and cultural resistance to the economic integration

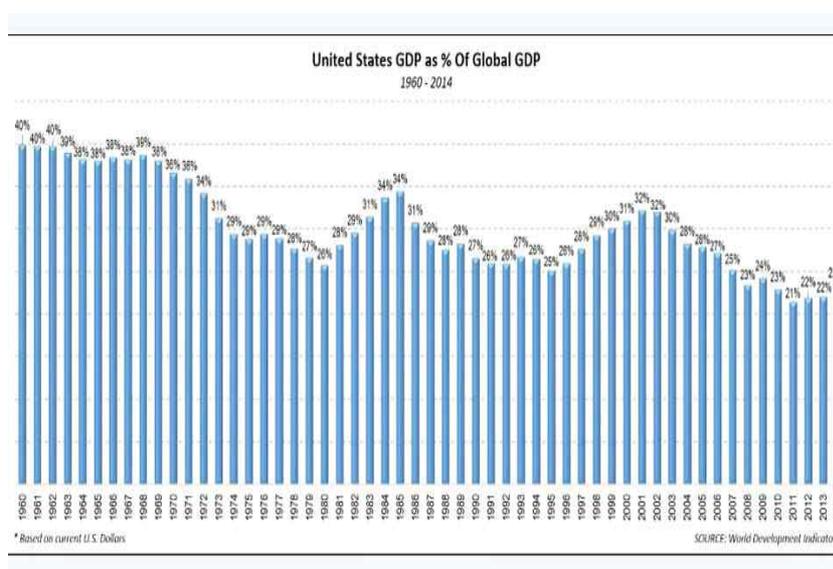
C. Xi's Nationalistic Protectionism China

- Xi's China aggressively pushes for its own nationalism with its much increased economic powers.
- China seem to have no reluctance to wield its economic clout for territorial and security issues.
 - For example, China has imposed heavy economic sanctions on South Korea for the installment of the THAAD system in South Korea.
- China adopts strong protectionist international trade and finance policies.
- China seems to consider trade surplus as a synonym of economic growth. In this sense, China seems to believe the traditional protectionism or mercantilism.

- China also seems to have little understanding of the liberal international economic order and has no intention to uphold the liberal international order when it becomes a hegemon in the future.
- More importantly, China will use a power-based world economic policies not rule-based. This will be a major setback on efforts building up rule-based governance in international trade.

4. Conclusions and Suggestions

- The liberal international order has been challenged by totalitarianism and anti-globalism as well as nationalism in developing countries. However, it faces a new challenge from rising isolationistic protectionism in developed countries.
- The fundamental source of the recent rampant isolationistic protectionism in the U.S. is the economic decay of the U.S. over the half century.
 - In 1960, U.S. GDP was 40% of global GDP. But in 2014, it dwindled to 22%.



<Figure 2. U.S. GDP as Percent of Global GDP from 1960 to 2014>

- John F. Kennedy declared confidently in 1961 that America was strong enough to “pay any price, bear any burden” to ensure the success of liberty. More than five decades later, the U.S. is in less of a position to bear the burden of maintaining the liberal international order.
- However, political failures to deal with dissatisfaction and frustration among ordinary workers from increased globalization have also greatly contributed to the new isolationistic protectionism.
- The Trump's electoral victory in the 2016 election suggests that the future U.S. governments, due to domestic economic interests, may not be so committed to preservation of the liberal international economic order, especially rule-based governance in the world economy, as their predecessors in the late twentieth century.
- The U.K. has a high chance not to be so different from the U.S. in withdrawing their supports and commitment for the liberal international economic order.
- Replacing the U.S., China "might" rise up to the hegemon status in the future.
 - However, it is not sure whether China has a good understanding of the role of the hegemon in the world economy.
 - More importantly, there is much concern about whether China will pursue rule-based governance eagerly and sincerely.
- A more realistic expectation of the future international economic order is that with the U.S., China will become one of the hegemons in the world economy.

- EU may function as the third hegemon.
- Namely, we may need to prepare ourselves for a transition from a unipolar system to bipolar or multipolar in international trade and finance where rule-based governance is likely to be substantively dwindled.
- In the new bipolar or multipolar system in the international economy, middle-powers should take a more political and financial responsibility in maintaining the liberal international economic order to keep the (aggressive) hegemons in check and balance to preserve and support the rule-based governance of the international economic order.
 - As Kissinger said in *Diplomacy*, an aggressive and powerful member of the international community should be in check by a combination of the others. If protectionism goes too far, international cooperation should be sought.
 - We have been too accustomed to the unipolar system that the U.S., more generally one super power, bears the burden of maintaining the liberal international order. However, the U.S. is not the only country enjoying the benefits of the liberal international order. Other countries should share the burden of maintaining the liberal international order. Middle powers like G20 should think of sharing the burden with great powers through the U.N. and WTO.

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