THE UNITED STATES IN MULTIPOLAR TRADING SYSTEM

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Abstract:

The United States is unquestionable hegemon in contemporary world. And it is not very likely that the US position will be replaced by other countries. The history of US trade policy amply demonstrates that dollar overvaluation, and the huge and growing trade deficits that it spawns, are by far the most accurate predictors of US protectionism. The risk of protectionism in times of the economic crises are real and much bigger than in times of economic prosperity. In 2009 the protectionism increased slightly in many countries. The fear is that with the continuation of the recession, unemployment continuing to rise in a lot of countries. The United States is likely to resume its leadership of global trade liberalization and to conclude the Doha Development Round. To that end the USA will use G – 8 and G – 20 summits for free trade policy realization.

JEL classification: F13, F15

Keywords: WTO, the United States, the world trading system

1. Introduction

The USA put the idea of GATT establishing in 1947 and then was the leader of the world trading system in the next decades of their 20th century. Together with European Communities, Japan and Canada made the most important decisions in GATT/WTO. Taking into account its participation in foreign trade, GDP level as well as market volume to the WTO establishing in 1995 in the world trading system two powers played dominating role: the USA and the European Communities (two poles). That is why GATT/WTO regime was referred to as bipolar system[1].

Director-General Pascal Lamy, in a speech at the Bocconi University in Milan on 9 November 2009, said: "The reality is that the end of the cold war caught everyone by surprise. It was the end of a bi-polar world. A new world order was being born. And yet there was not enough thinking and discussion about its governance structures. There was never a Bretton Woods Conference or a San Francisco Conference post 1989. As a result global governance structures did not adjust. And here lies the root of many of today's problems.

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[1] *Jorge Nef characterises the bipolar dominance*:

"Events in 1989 marked the end of the world order that began 45 years earlier at Yalta, Breton Woods, and San Francisco. The menus and priorities of world politics were thrown into disarray. Systemic boundaries are nowadays much less territorial or ideological and more functional than at any time since the emergence of the modern nation-state. They are also much more permeable and imprecise (Kaplan 1994). The notion of collective defence, as a system of alliances against a would-be external aggressor, was predicated on the solution of continuity between "passive" (deterrence and defence) and "aggressive" strategies (compellance and offence). This way of looking at the instrumentalities of global politics was challenged by the end of the Cold War. Increasingly, new issues such as those related to human rights, the environment, trade, and equity jumped to the forefront of agendas, making strategic studies less relevant to an understanding of the world. The pursuit of national security under the umbrella of collective defence, centred on a single actor, the nation-state, in a bipolar world, has been replaced by the need for a very different kind of collective and cooperative security. It is impossible to hope for a resurgence of pre-World War II multipolarity. The new type of security is much more complex, varied, and nuanced. Ethnic conflict, cultural diversity, national disintegration, civil war, and systemic and subsystemic restructuring have become paramount. Issues of poverty, trade, finance, health, environment, gender, communications, resource depletion, population, migration, technology, drugs, human rights, and refugees have also become part of the equation, and the list goes on". Jorge Nef, The Global Political Economy of Development and Underdevelopment, IDRC 1999

Global challenges need global solutions and these can only come with the right global governance, which today, twenty years later, remains too weak."

After the Uruguay Round conclusion some developing countries have gained big importance both in world economy and in the WTO. Now the world trading system is becoming actually multipolar trading system[2]. The objective of my paper is to point out that the US-position in the world trading system is not threatened. The USA will maintain its leadership in the multilateral trading system although the liberalization program will be discussed no longer with Japan and Canada but with Brazil, China and India.

2. American leadership and the end of the bipolar world trading system

The United States is unquestionable hegemon in contemporary world. And it is not very likely that the US position will be replaced by other countries. The European Union has not yet reached political unity and is a region with aging society. Russia is no longer imperial power. China, even maintaining its high economic growth rate is likely to become regional power, while the difference in income level is still very significant. Most people live nearly in poverty (figure 1). China with its obsolete infrastructure and depending greatly on foreign capital and technology has no chance to achieve the world dominance. The some is true for India, which to make things worse, is not sure in long terms to preserve its unity [3].

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[2] President of the United States Barack Obama described multipolar trading system*" However, the challenges have not become easier, they are just different. We had been accustomed to the relatively simple logic of a bipolar world in which relations to almost every country were a function of the East-West conflict. Now we are dealing with a multi-polar logic with many new players on the international stage and old players with new roles and new agendas. Among the new players are not only countries like India and Brazil, but also NGOs which have assumed stronger roles than ever before and are now sitting at the tables of major global conferences. After the end of the Cold War we have also seen ethnic and religious conflict destabilizing or breaking up countries like Somalia and Yugoslavia".* Speech on „Obama und die transatlantischen Beziehungen" by Consul General Edward Alford at event by the Deutsche Atlantische Gesellschaft June 15th, 7 p.m. Hessischer Landtag, Wiesbaden

[3] Zbigniew Brzezinski, Brent Scowcroft, and David Ignatius, America and the World: Conversations on the Future of American Foreign Policy by, Washington 2009

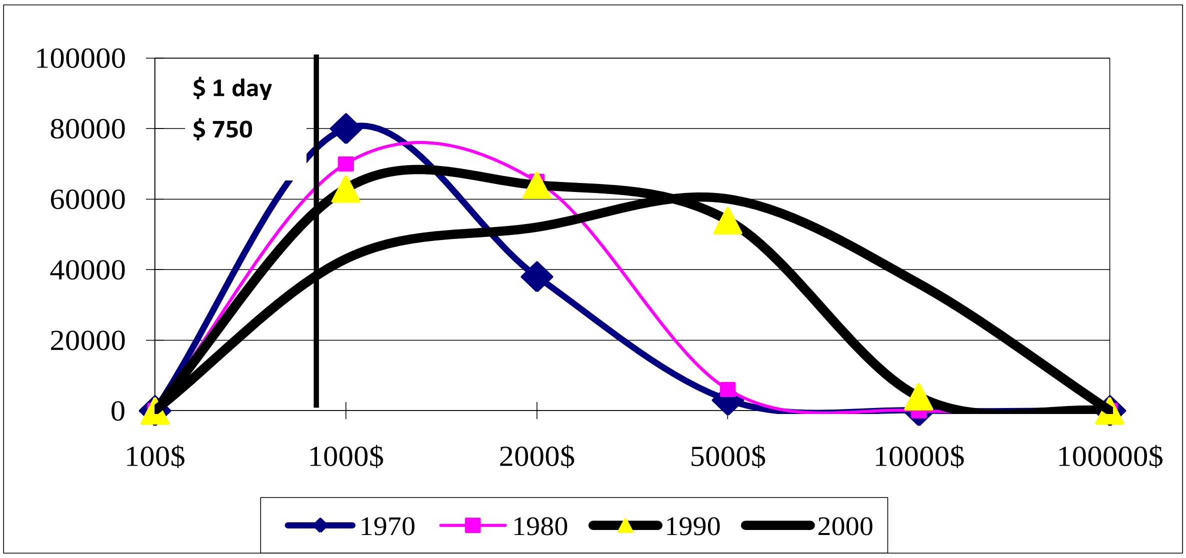
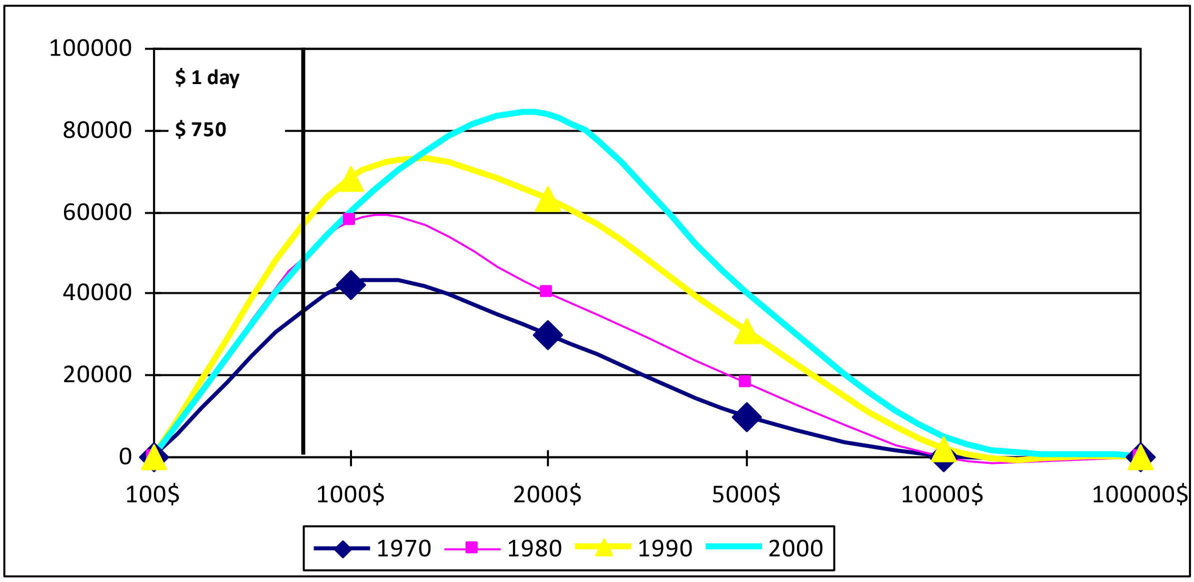


Figure 1 a Distribution of Income in China

Source: Xavier Sala-I-Martin, The World Distribution of Income: Falling Poverty and Convergence, Period, The Quarterly Journal of Economics, May 2006, Issue 2.

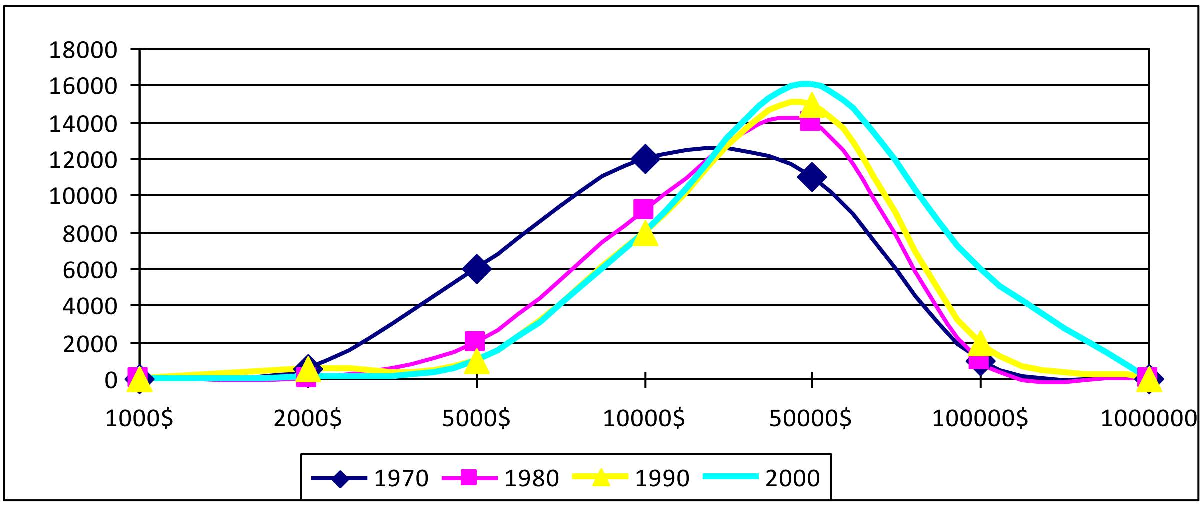
Over time, as the per capita income has grown, we can notice, that the incomes of the richest citizens increased more than inequality in China has increased. By the year 2000 the per capita income increased to 2400 dollars USD, and the fraction of the distribution below the one-dollar line is significantly smaller. Figure I b shows the income distributions for India, the second most populated country in the world. The positive aggregate growth rates of India in the given period have also shifted the distribution to the right, especially in the 1980s and 1990s. The total area increases rapidly over time (as the Indian population increases), but the area below the poverty line indicating poor people share declines. This reflects the fact that poverty rates have fallen.

Figure 1 b Distribution of Income in India



Source: Xavier Sala-I-Martin, The World Distribution of Income: Falling Poverty and Convergence, Period, The Quarterly Journal of Economics, May 2006, Issue 2.

Figure 1 c Distribution of Income in India



Source: Xavier Sala-I-Martin, The World Distribution of Income: Falling Poverty and Convergence, Period, The Quarterly Journal of Economics, May 2006, Issue 2.

Figure 1 c reproduces the incomes for the United States, the third largest country in the world in terms of 2000 population. To see the upper part of the distribution, the horizontal axis of Figure 1 c ranges from 1000 dollars USD to 100000 dollars (in the other parts of Figure 1 it ranged from 100 to 10000). As we can easily notice the fraction of the distribution below the poverty line is zero for all years.

After the conclusion of the Uruguay Round still had their dominance of the world trading system. But during the Doha Development Agenda the dominating role apart from the U.S.A. and European Union, will plain Brazil, China and India, too. This does not imply replacing the U.S.A. dominating role by those countries. The developing countries created a strong coalition, which was able to obstruct multilateral trade negotiations (table 1). These countries are not very satisfied with neither the TRIPS Agreement nor the Agreement on Technical Barriers to Trade, or the Sanitary and Phytosanitary Measures Agreement. The developing countries hoped to gain access to the European and American agricultural markets. But this was not the case. They have heavy costs of implementing the agreement and medicines are not available easily, after all. Although in those countries pandemics are not very rare. Both the US and the EU were willing to include Singapore issues to the WTO rules. But the US and the EU are not willing to reduce supporting their agricultural sector.

Table 1 Known Negotiating Groupings

Agriculture Offensive Coalitions, Cotton-4,Tropical and Alternative, Products Group, Cairns Group, (N/S), G20 (S/S), Defensive coalitions, G10, G33†,RAMs, SVEs	**Services** *ASEAN-1 (-Singapore), African Group, ACP, LDCs, SVEs* *Real Good Friends of GATS/Friends*
Non-agricultural Market Access (NAMA) NAMA-11, Friends of MFN, Friends of Ambition in NAMA, Hotel d'Angleterre, RAMs, SVEs	**TRIPS** African Group ["Disclosure" group of developing countries?], Friends of Geographical Indicators, Friends of Against Extension of Geographical Indicators
Rules SCVS, Friends of Fish, Friends of Antidumping, Negotiations (FANs)	**Environment** Friends of environmental goods, Friends of the environment and sustainable development

Source: Robert Wolfe, Can the Trading System Be Governed? Institutional Implications of the WTO's, Suspended Animation, The Centre for International Governance InnovationWorking Paper No.30, September 2007

The most likely candidate that may threaten the US-dominance seems to be China. Its ratio of total imports plus exports to GDP is nearly two thirds a level much higher than in the U.S.A. European Union, Brazil and India. That is why China can be recognized as a potential pole of the world trading system. Brazil and India are not so likely to be threatening the US position. However, these two countries have played an important role in agricultural trade liberalization. They hindered the DDA negotiations in 2006 and in Geneva in 2008.

Many developing countries saw potential labour and environmental provisions as both directly undermining the cost competitiveness of their exports and providing a pretext for protectionist measures by industrialised countries and consequently vigorously opposed these provisions. One casualty of this opposition was the WTO Ministerial Meeting in Seattle, held in 1999, where the American chair got a taste of more of what was to come: robust opponents willing to block progress in a system based on the consensus principle.

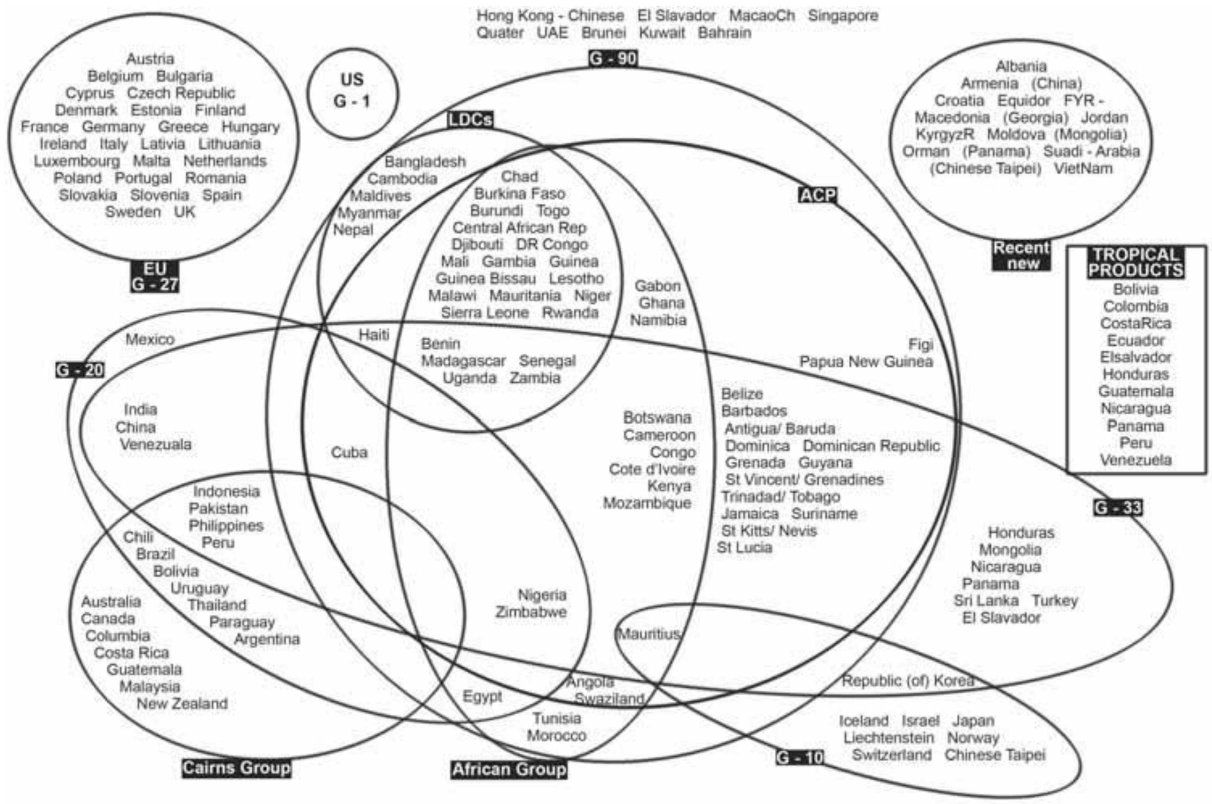
The United States has the dominating role in the World Trade Organisation (WTO). Being hegemon in the world, the US promote free trade and at the same time it determines world trading system rules. The market volume and American consumption give the U.S.A. a strong bargaining position. The American economy is the most modern and the most competitive one (2009 it was Number 1 again, taking into account both the Growth Competitiveness Index and the Microeconomic Competitiveness Index as well. The United States spend on research and development more and has much greater share in modern technology global market than other countries. American international companies control foreign estate which is billions of US-Dollar worth and the US-economy is much greater and more varied than any other – it is the engine of the world economy.

The Unites States can afford to officially state, that it does not need to obey the WTO-rules: id est. to change its regulations, lower trade barriers or to pay compensations to other countries. Due to its inner political reasons it still maintains high tariff barriers on agricultural products and fix rigid contingents in case of steel and textile imports from poorer countries, that desperately wish to get access to the American market. Developing countries still insist on lowering customs tariffs but they cannot reach their goal.

The US-leadership in the WTO is not under threat in the world trading system because of growing importance of China, India, Brazil or South Korea. Those countries have been invited to decision – making during recent Ministerial Conferences, but China does not represent other developing countries positions in DDA. Many developing countries still fear the competitiveness of Chinese products in world markets. Brazil and India are principally known because of their positions concerning agricultural trade liberalization and South Korea is not engaged in multilateral trade negotiations.

Also, a joint US-EU proposal on the agricultural trade liberalisation was rejected as inadequate by a group of G 21 developing countries led by Brazil and including China and India (Figure 2).

Figure 2 Membership in Agricultural Clubs



Source: Robert Wolfe, Can the Trading System Be Governed? Institutional Implications of the WTO's, Suspended Animation, The Centre for International Governance InnovationWorking Paper No.30, September 2007

A third development at the Cancun Ministerial Conference and afterwards was the formation of different groups of developing countries keen to influence deliberations at the WTO.

As the data reported in Table 2 indicates, in purchasing power parity terms, after 30 years of fast growth China now has an enormous economy, whose gross domestic product (GDP) is two-thirds that of the size of the U.S. economy.[15] Underlying China's phenomenal economic growth has been an export boom that has seen it become the third largest exporter of merchandise goods in the world (see Table 2). China's growing clout has been recognised by its trading partners and, indeed, some have contended that fear of competitive Chinese exports has made some WTO members more reluctant to liberalise under the auspices of the Doha Round. Their inclusion as potential poles is more of a reflection of this fact than because of their prior economic performance. Having said that, both countries (and India in particular) may in the future become global economic powerhouses but they probably do not replace the US position.

Table 2 World merchandise trade

	Value 2008 (billion dollars)		Rank Exporters	Rank Importers	[% world Total Export]	[% world Total Import]
	Exports	Imports				
United States	**522**	**364**	**3**	**1**	**10,7**	**13,2**
European Union	**1738**	**1516**			**15,9**	**18,4**
Germany	**235**	**285**	**1**	**2**	**9,1**	**7,3**
United Kingdom	**283**	**199**	**10**	**6**	**2,8**	**3,8**
France	**153**	**137**	**6**	**5**	**3,8**	**4,3**
Italy	**123**	**132**	**7**	**8**	**3,3**	**3,4**
Brazil	**29**	**44**	**22**	**24**	**1,2**	**1,1**
China	**137**	**152**	**2**	**3**	**8,9**	**6,9**
India	**106**	**91**	**26**	**17**	**1,1**	**1,8**

Source: World Trade Report 2009, World Trade Report 2009 - Trade Policy Commitments and Contingency Measures Trade Policy Commitments and Contingency Measures

The U.S. and the EU together create (in purchasing power parity equivalent terms) nearly $25 trillion of value-added each year, nearly double the combined national outputs of Brazil, China, and India. Moreover, the EU and the U.S. hold first or second place in the world as traders of both goods and services. The EU, for example, currently exports more in a month than India does in a year[4]. The amount of trade per capita in both the EU and the U.S. is seven times that of Brazil, and the comparable ratios are even higher for China and India. Without doubt the precise predictions of such models should not be taken too seriously. Nevertheless they can provide approximate information about the relative economic size of different nations. For instance, these projections suggest that almost 10 years from now Brazil, India, and China's combined economic clout (as measured by their GDPs) will likely exceed the comparable total for the four largest EU economies (France, Germany, Italy, and the United Kingdom.) The current size of the U.S. economy will prevent it from being

[4] S. J. Evenett, EU Commercial Policy in a Multipolar Trading System, CEPR, April 2007

overtaken for decades after that. In sum,then, it seems reasonable to expect that Brazil, India, and China will continue to expand their shares of the world economy and will relatively soon have in aggregate roughly the same economic footprint as the European Union. This development does not imply that the EU and the U.S. will cease to be significant forces in the world economy. Indeed, both seem certain to retain considerable influence in the world trading system.

The first factor that is likely to be important is that all three economies have turned to external demand to stimulate economic growth (through exports) and are, therefore, relatively dependent on open markets abroad. Indeed, China has been sensitive in recent years to the amount of restructuring that its exports are causing its trading partners and is seeking to shift demand growth towards more domestic sources (including consumption growth and growing demand for non-traded services.) Approximately 40 percent of each of the new trading powers exports are shipped to the United States or to Europe; a percentage that, if current trends are to go by, is likely to increase.

The second factor to take into account is that, despite all of the trade reforms undertaken by Brazil, China, and India, to date there is still plenty of room for these countries to liberalise access to their markets further. The average applied rate of tariffs on agricultural and non-agricultural goods is multiples of the comparable numbers for the U.S. and EU. In addition, comparatively fewer products enter Brazil and especially India duty free. Moreover, with the possible exception of China (which went through the one sided WTO accession process) there is plenty of room for these countries to expand their commitments to open their service sectors to international competition.

3. The US in the Doha Development Round

Yet it was not the United States, that was the driving force behind the launching of the DDA. It was the European Union that provided the greatest impetus towards new negotiations. The U.S. was in that case only a willing partner. The trade deficit has had a significant impact on the structure of the negotiations and their results.

The negotiations started on 14 November 2001 and at that time the US negotiators did not have fast-track authority yet. It was passed by the House of Representatives by only one vote on 6 December 2001. The negotiators were then in a position in which the agreement that they eventually put forward for Congressional approval will have to be of clear large-scale benefit to the US, just as the Uruguay Round was.

The Doha Round was originally intended to be a “Development Round”, in which the inequities of previous Rounds, particularly the Uruguay Round, were to be redressed. It was therefore supposed to be skewed towards the interests of developing countries in the way in which the economic benefits of the Uruguay Round were skewed towards the interests of the industrialised countries, as noted above. Originally it had a target completion date of the end of 2005, but as with past negotiations, that deadline has proved to be unrealistic. The real deadline is taken to be expiry of fast –track authority in May 2007 – even though this now looks optimistic.

While there is still some way to go with the negotiations, the overall content of the final package is taking shape, particularly after the agreement at the Hong Kong Ministerial Meeting of December 2005[5].

Trade officials initially had hoped that the Hong Kong ministerial would provide a broad outline of how far countries were willing to go in liberalizing agriculture, manufactures, and services. Agreement on these “modalities” would then enable Geneva negotiators to flesh out specific commitments for the final WTO package by the end of 2006. The United States tried to accelerate the Hong Kong preparations by offering, in early October 2005, to substantially reduce its farm subsidies and import barriers, if other major trading countries did the same. But the European Union countered that its position on farm reform was sufficient and that other countries first had to improve offers on NAMA and services. As a result, the negotiating impasse continued since most countries regard the EU offer as insufficient.

Rightly or wrongly, agriculture has become the linchpin of the WTO negotiations—not because of its importance (less than 10 percent of global merchandise trade, and growing slowly) but because it is the sector with the highest trade barriers and the area where product-specific reforms are essential to command the support of LDCs for the overall agreement. To date, the farm talks have lagged due to concerns that (1) the major industrial countries would not reduce their subsidies and/or import barriers, and (2) key developing

[5] Hufbauer G. C., Schott J.J. (2006), The Doha Round after Hong Kong, Policy Briefs in International Economics, Peterson Institute for International Economics, Number PB06-2

countries, such as Brazil, China, India, Indonesia, and Thailand, would not lower their own import barriers. Developing countries—some for tactical reasons, others because they face severe pressure from their own farm lobbies—have hesitated to table meaningful offers on industrial products and services absent hard-and-fast commitments on agricultural reform on the part of OECD nations. But Mandelson insisted at Hong Kong that other countries should move ahead on NAMA and services before the European Union considered changes to its negotiating proposals.

The United States has long advocated fundamental reform of all trade-distorting measures by all WTO Members. In 2002, the United States made specific proposals to phase-out all tariffs, trade-distorting domestic support, and export subsidies in the Doha negotiations. The United States submitted a comprehensive and ambitious proposal in October 2005, consistent with the 2002 U.S. proposal and the 2004 WTO framework, calling for the elimination over 15 years of tariffs and trade-distorting domestic support in two phases, with substantial reductions in the first phase. Pursuant to this proposal and the agreed framework, higher tariffs and Members with higher subsidy levels would be subject to deeper cuts phased-in over a five-year period for developed country Members, with developing country Members making lesser cuts and having more time to implement those cuts. In the second five-year phase (to commence five years after the conclusion of the first phase), all tariffs and trade-distorting domestic support would be eliminated. Under the U.S. proposal, export subsidies would be eliminated within the first phase of reform, with parallel commitments undertaken on export state trading enterprises, export credits and food aid programs.

The long-lasting negotiations, when taking into account the great number of countries and topics, do not mean any loss of reputation of world trade system or an off chance for further trade liberalization. As there are so many member countries in the WTO present, it is essential to work out an appropriate program of trade liberalization and then of its implementation. It is remarkable, that the programme of trade liberalization covering interests of developing countries has not been implemented.

As suggested by previous experiences of the course of rounds within the framework of GATT/WTO, frustration caused by the suspension of multilateral trade negotiations may be deemed a rule, not an exception. Time frames for another round of negotiations adopted in November 2001 during the Ministerial Conference in Doha were not quite realistic from the beginning. There were no reasons to assume that during the 9th round of WTO negotiations these quite ambitious postulates of trade negotiations will be running faster that the previous ones.

The understanding of the balance of interests of the agenda of the Doha Ministerial Declaration underlies the problem of the slow pace of negotiations. Singapore issues become the foundation for the Doha Round of WTO negotiations. WTO ministerial conference fails to reach agreement on the Doha Round. Developed countries relatively quickly abandoned some Singapore issues (government procurement, trade facilitation, trade and investment, and trade and competition). During the Ministerial Conference in Cancun (2003) they only left one issue on the table: trade facilitation (customs issues).

This issues were pushed at successive Ministerial by the European Union, Japan and Korea, and opposed by most developing countries. The United States was lukewarm about the inclusion of these issues, indicating that it could accept some or all of them at various times, but preferring to focus on market access. Aspirations of the European Union concerning realization of Singapore themes became the source of internal conflict in WTO and stopped a significant development in other areas of establishing trade concessions. However, it does not mean that aspirations of the European Union were only subject to criticism of other participating countries of negotiations, i.e. they were not important from the point of view of interests of other countries. Regulations of WTO forum regarding the investments, competition policy, transparency of public procurement and facilitations in trade could have important meaning for economic development of developing countries. Facilitations for investors from developed countries, introduced by developing countries, could make the implementation of concessions in international agricultural trade much easier.

However, when forcing the implementation of Singapore topics, some industrialized countries misjudged the obstacles, many developing countries ran up against when it came to the implementation of existing WTO agreements from the Uruguay Round.

4. Possible Consequences of U.S. Withdrawal from the WTO - Economic Costs and Benefits of the WTO

Since 1948, the establishing of GATT the more predictable environment for trade as well as the reduction in trade barriers, which were a result of multilateral trade rules, have contributed to unprecedented economic prosperity for the majority of countries. The value of world exports in 2008 was 266 times that of 1948, while world gross domestic product (GDP) in 2003 was 8.3 times that of world GDP in 1950[6].

During the 1994-2010 period (the WTO was established in 1995): U.S. industrial production also rose 50% and GDP rose 50% productivity rose at an annual rate of 4.4% or 70% for the period for manufacturing (2.5% per year or 40% for the economy as a whole in the period) compared with 1.8% annually in the 1984-1994 period. The US membership in the WTO brought about many benefits "productivity growth is among the most important factors influencing how rapidly real incomes grow and living standards rise, it appears that increases in productivity have not been matched by rising real wages during the period. Real hourly compensation increased 21% during the period, or 1.3% per year, and 22.8 million new jobs were created. Yet, manufacturing employment declined 21% during this period to just about 10% of the labor force".

The reduction of tariff rates after the Uruguay Round changed the dynamics of US trade volume. Bound tariff rates were lowered an average of 40% for developed countries and 25% for developing countries by the Uruguay Round. U.S. exports of goods and services increased 112% from 1994-2008, from $703 billion to $1.83 trillion. U.S. goods exports increased 197% to developing countries and 117% to developed countries. Just over 50% of U.S. exports now go to developing countries, compared to 43% in 1994. Imports of goods and services increased 143%, from $801 billion to $2.52 trillion during the WTO period. U.S. goods imports from developed countries increased 129% and by 334% from developing countries. Whereas 57% of U.S. imports came from industrialized countries in 1994, now nearly 60% of imports come from developing countries. Moreover, the composition of imports from developing countries has changed since 1994 from primarily raw materials increasingly to manufactured products.

After the Doha Development Round negotiations have been launched many countries consider trade liberalization as not beneficed. Thus they resist against continuing open economy. Practically all the countries participating in the Doha Round are expecting the USA to take its leadership. Yet, it seems, that a concrete trade, liberalization program that should be put forward by the United States, will not be presented as long as this country will be convinced of the benefits to its own. In these studies, a gravity model (an econometric

[6] World Trade Organization, *International Trade Statistics 2009*

model in which different phenomena such as GDP, population, distance, common language, or membership in trade arrangements are isolated to attempt to determine the importance of each to trade flows) was used to attempt to isolate the effect of WTO membership on the trade flows of various countries, both members and non-members. The first study (Andrew K. Rose 2002), using some 50 years of trade statistics from 175 countries, found that the existence of the GATT/WTO, by itself, did not have a significant positive effect on trade flows. Although these findings were not confirmed by another study conducted by the WTO. The authors postulated that this result is due to developing countries largely being given a "free ride," due to special and differential treatment provisions that has exempted them from many GATT/WTO obligations. These studies show that the potential exists for WTO liberalization to have a beneficial effect on trade, but the differences in their findings show that this issue has not been settled.

Some other studies conducted in the USA also abound on the value of prospective WTO liberalization to the United States and the world economy. In 2005, the now-Peterson Institute for International Economics (IIE) released a report (Scott Bradford, Paul Grieco, and Gary Hufbauer 2005) attempting to quantify the gains from global integration using trade liberalization as a proxy for globalization. The study compiled different studies measuring the increased income resulting from increased exposure to trade, the 'sifting and sorting' effects of competition resulting from open trade, potential lost trade from not implementing trade liberalization in the post-war period, and the use of intermediate imports. As the IIE estimated the present benefit of all past trade liberalization after World War II to the U.S. economy is on the order of $1 trillion annually, and this translates to a U.S. per capita income gain of $2,800 to $5,000. In this study not only trade liberalization within GATT/WTO was taken into account, but market opening resulting from signing preferential trade agreements.

The conclusion of Doha Development Agenda will bring about great benefits to the US economy. A 2009 study by the Peterson Institute for International Economics that seeks to quantify the proposals made by chairs of the various negotiating committees at the Doha

Round as of August 2009[7]. The study covered 22 countries—7 advanced and 15 developing—that account for about 75% of world trade. The study found that agriculture and industrial market offers would increase trade among the sample countries by $133.8 billion ($67.1 billion in exports and $66.8 billion in imports) resulting in an increase in GDP of $63 billion. The study found that proposals on the table would result in increased U.S. exports of $7.6 billion and imports of $14.3 billion. It notes that the modest U.S. gain would be partially due to existing FTAs with many partner countries. The authors also modeled a 10% tariff equivalent liberalization in services, and sector liberalization in electronics/components, environmental goods, and chemicals, and drew on previous work on quantifying trade facilitation proposals. If these are included, the Doha Round could lead to a much more substantive increase of $592 billion ($280.4 billion in exports and $311.6 billion in imports) resulting in GDP gains of $248.8 billion among the sample countries. Under this scenario, U.S. GDP would increase by $36.4 billion and would result in additional trade flows of $85.3 billion ($39.4 in additional exports and $45.9 billion in additional imports). A study of Doha Development Round conclusion results was also conducted by the EU. This study also suggests that DDA conclusion will bring benefits to both developed and developing countries. This study conducted for the European Commission Trade Directorate used a dynamic computable general equilibrium model to simulate the impact of the July 2008 negotiating proposals found an increase in world exports of goods of $226 billion, resulting in a increase in world GDP of $57 billion by the base year 2020[8]. Adding what the authors term a "modest" 3% liberalization in services barriers results in an additional $36 billion in trade. Increased trade resulting from trade facilitation reforms would bring gains of an additional $99 billion, primarily to developing countries. Overall, world trade would increase by $383 billion as all the provisions are phased in, resulting in a gain of $167 billion

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[7] Adler, Brunel, Hufbauer, Schott, and Wong, "Figuring Out the Doha Round," Peterson Institute for International Economics, 2010, http://www.wto.org/english/res_e/reser_e/dialogue_paper_schott_e.pdf The United States has not agreed that these proposals form the basis for negotiations.

[8] Decreux and Fontagné, "Economic Impact of Potential Outcome of the DDA," *Centre d'études prospectives etd'informations internationales*, May 1, 2009. http://www.cepii.fr/anglaisgraph/reports/pdf/2009/2009_01.pdf

in world GDP. The study estimates that $10.3 billion of that GDP gain would accrue to the United States.

Probably the USA will come back to the leadership in the world trade system (WTO) because; first the US-economy as above mentioned will benefit from the globalization. Second, the USA would not have influence on important international trade issues. The USA would lose its control over its interests. And this in turn would mean the loss of political interests. Third, the USA would lose its influence on the WTO dispute settlement.

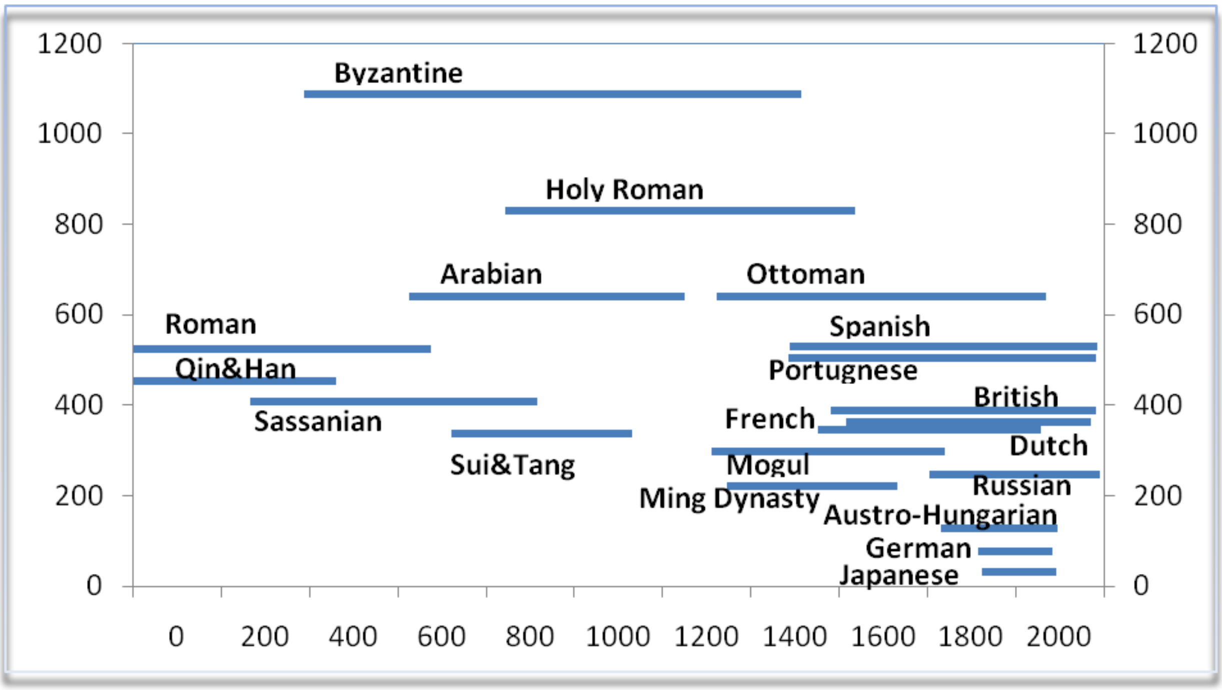
5. Global Political Awakening: Change of political powers

Global political awakening and the power shift is most evident in the increased economic power of the Asian states is the process, it is setting in motion a major shift in the global center of gravity. That in turn is altering the global distribution of power, with major implications for America’s role in the world.

The foremost geopolitical effect of global political awakening is the demise of the imperial age. In recent times American paramountcy has often been described as new global empire, but global leadership now must be accompanied by a social consciousness, a readiness to compromise regarding. The dynamism of a populist-nationalist awakening on every continent involving the empowerment of the hitherto largely passive majority of humanity signals not only that traditional empires have seen their day but that heavy-handed global domination by a single state will not historically endure.

It is revealing to contemplate Figure 3, which shows how the longevity of empires has shrunk dramatically of late. More importantly, is suggests that in our time the exercise of international influence is likely to be both too costly and eventually counterproductive, if it comes to be seen by others as involving a reversion to imperial domination. Therein lies an important lesson for the world’s currently dominant power: the only way to exercise leadership is through subtle indirection and consensual rule. America’s model is neither the Roman nor the British empire, perhaps in the future the Chinese may draw a more relevant lesson from their imperial past of how a deferential tributary system can work.

Figure 3 Declining imperial longevity



Source: Brzezinski Z., Second Chance: Three Presidents and the Crisis of American Superpower, New York 2009

East Asia will likely be the next region to define its economic and political interests on a transatlantic basis, either with China at the helm of an East Asian community and Japan somewhat marginalized, or less likely with China and Japan managing to contrive some from of partnership.But even the narrower version of such a grouping would represent a major change in world affairs and significant reduction of the Euro-Atlantic world's traditional dominance. In effect, a tripartite division of the United States, The European Union, and East Asia is emerging, with India, Russia, Brazil and perhaps Japan preferring to act as swing states according to their national interests.

6. The United States and new global Imbalances

Given America's growing global indebtedness (it now borrows some 80 percent of the world's saving) and huge trade deficit, a major financial crisis, especially in a atmosphere of emotionally charges and globally pervasive anti-American feeling, could have dire consequences for America's well-being and security. The euro is becoming a serious rival to the dollar and there is talk of an Asian counterpart to both. A hostile Asia and a selfabsorbed Europe could at some point become less inclined to continue financing the U.S. debt[9].

The global imbalance, increasing trade deficit, can lead to protectionism growth in the USA. The economy outcomes in 2009 and in 2010 during the great economic crisis suggest, that the U.S. has to engagen in G – 20 work, in order to economic reimbalance in the world economy.

In 2009, the deficit totaled $380.66 billion, the smallest imbalance in eight years, as a deep recession cut into imports. However, economists believe the deficit will rise in 2010 as U.S. demand for imports outpaces U.S. export sales (figure 4). Trade may support the U.S. recovery going forward but only marginally now that domestic demand is once again pulling in imports. By country, the deficit with China totaled $226.83 billion in 2009, still the largest imbalance with any nation but down 15.4 percent from the all-time record of $268.04 billion set in 2008. The deficit with China is expected to resume rising in 2010 as the U.S. economy recovers, triggering rising orders for Chinese manufacturers of shoes, toys and other low-cost items in high demand by American consumers (figure 4).

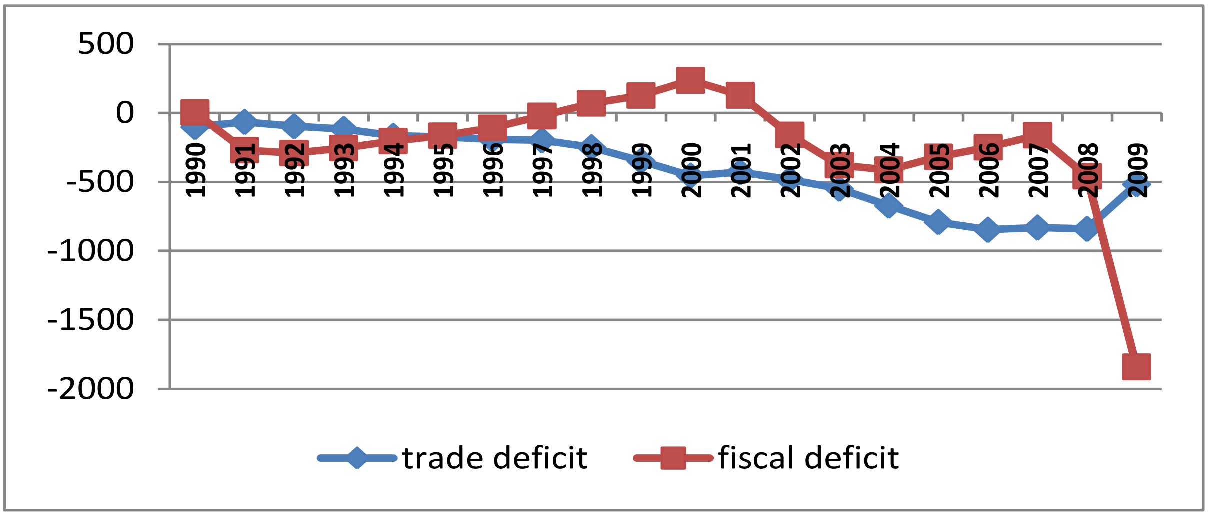


Figure 4 Trade deficit and fiscal deficit in the US
Source: Historical Tables, Fiscal Year 2010, Office of Management and Budget, *www. budget.gov*, Budget of the U.S. Government, Washington 2009

[9] Brzezinski Z., Second Chance: Three Presidents and the Crisis of American Superpower, New York 2009

The Obama administration is pressuring China to allow its currency to rise in value against the dollar, a development that would make U.S. goods cheaper in China and Chinese goods more expensive in America. American manufacturers contend that a major factor in the trade deficit between the two nations is China's policy of undervaluing its currency in relation to the dollar (The Washington Post 02/10/2010).

The history of US trade policy amply demonstrates that dollar overvaluation, and the huge and growing trade deficits that it spawns, are by far the most accurate predictors of US protectionism.

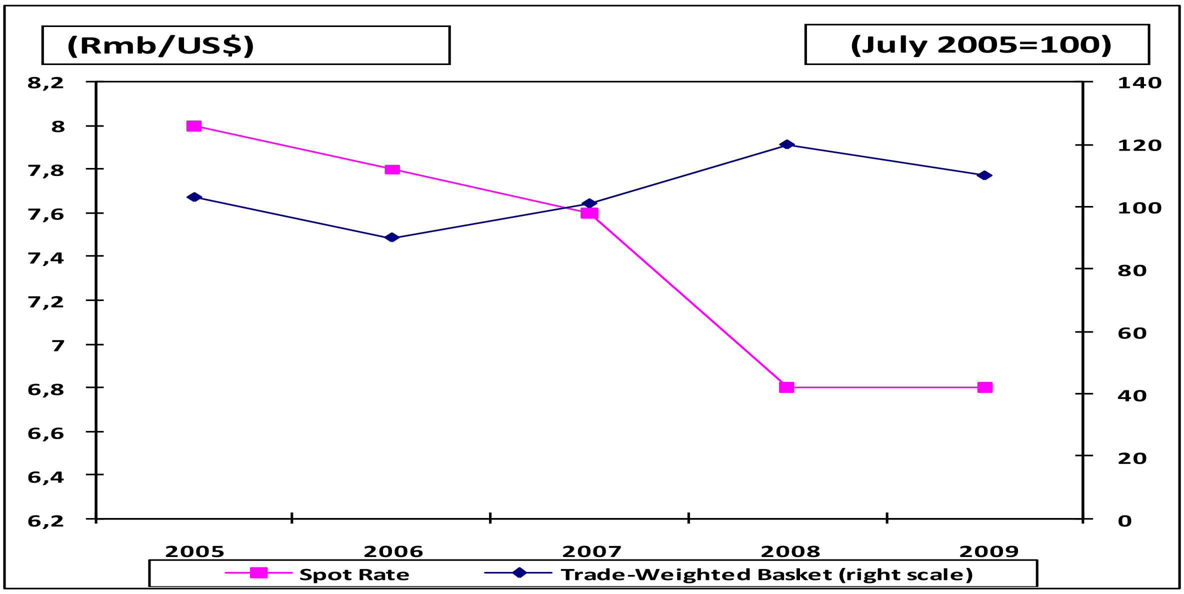


Figure 4 Hardly Fixed in Trade-Weighted Terms, Rmb Exchange Rate

Source: Anthony Chan, CEIC Data and Alliance Bernstein estimates

World trade volume will rebound by 9.5% this year after plunging 12.2% in 2009 due to the global recession, according to a WTO report published on March 26, 2010. While exports from advanced economies are expected to grow by 7.5%, those from the rest of the world should increase by 11%. This forecast assumes global growth of 2.9% and stability in oil prices and exchange rates. Despite the increased forecast, the 2010 recovery will not be enough to offset last year’s losses, which represented the largest slump in trade since the Second World War. According to the study, if trade continues to expand at its current pace, traded volumes will not surpass the 2008 peak until 2011. (Oxford Analytica Executive Report 3/29/10). As the global financial crisis worsened and the United States and other countries dropped into recession, the declining U.S. trade deficit contributed positively to the growth in the U.S. economy. The U.S. recession would have been worse without the shrinking U.S. trade deficit. In 2009, the recession apparently bottomed out in North

America, Japan, and Europe. China continues to exhibit strong growth. Given the simultaneous economic recession across major nations of the world, exporting countries were not able to rely on increased foreign demand to make up for slack demand at home. There was little prospect that any country could export their way out of recession. One exception, however, was South Korea, a country that maintained its exports by depreciating its currency nearly 50% against the U.S. dollar. While U.S. imports declined in 2009, companies competing with imports continued to face diminishing demand as the domestic economy stagnated. These conditions created pressure for political forces to protect domestic industry from imports worldwide.

Although a weakened dollar helps to reduce U.S. trade imbalances, it also may reduce the dollar's attractiveness to foreign investors. If foreign investors stop offsetting the deficit by buying dollar denominated assets, the value of the dollar could drop—possibly precipitously. In that case, U.S. interest rates would have to rise to attract more foreign investment; financial markets could be disrupted; and inflationary pressures could increase. The global financial crisis first worked to strengthen the dollar vis-à-vis the EU euro, UK pound, Canadian dollar, and many currencies of developing nations, however, after mid-2009, the dollar weakened and then began to strengthen again. The Japanese yen has appreciated considerably as some investors have invested in yen denominated assets instead of those denominated in dollars. During the global financial crisis, the Chinese government has kept the renminbi essentially pegged to the dollar, although it had appreciated somewhat prior to the crisis.

Currently, foreign investment in dollar assets along with purchases of securities by investorsseeking a safe haven as well as from central banks of countries such as China have bolstered the value of the dollar. China's central bank has intervened in currency markets to keep its exchange rate relatively stable. Japan claims not to have intervened in currency markets since spring of 2004. This intervention adds to the foreign currency reserves held by these countries. As of March 2010, Japan's central bank held $1,042.7 billion in foreign currency reserves,9 and the Bank of China held $2,447 billion.10 In U.S. Treasury securities, as of February 2010, Japan held $768.5 billion and China $877.5 billion.11 On July 21, 2005, China announced a 2.1% revaluation of its currency, and the value of the renminbi has appreciated steadily from 8.2 to 7.0 renminbi per dollar (15%). Continuing in that range, in March 2010 the renminbi was trading at 6.8 per dollar. Beijing apparently has indicated that it would take some action on the renminbi prior to the G-20 meetings in November 2010 in Seoul, Korea.

A recent development in foreign country holdings of dollars and other reserve currencies is that some are turning toward creating sovereign wealth funds (SWFs). These are funds owned by governments that are invested in stocks, bonds, property, and other financial instruments denominated in dollars, euros, or other hard currency. For China, Japan, South Korea, Russia, and the oil-exporting nations of the Persian Gulf, the source of capital for these funds is coming from governmental holdings of foreign exchange. For China and Japan, for example, foreign exchange reserves have traditionally been invested by their respective central banks primarily in lowyielding but low-risk government bonds, i.e., U.S. Treasury securities. The purpose of sovereign wealth funds is to diversify investments and to earn a higher rate of return. For example, in September 2007, China created a sovereign wealth fund—the China Investment Corporation (CIC)—with initial capital of $200 billion. Depending on how these funds are managed and what leverage they acquire, they could affect U.S. interest rates (foreign purchases of U.S. Treasury securities tend to reduce U.S. interest rates), corporate activities (if funds buy significant voting shares of companies), and foreign access to technology and raw materials. The U.S. trade deficit provides some of the foreign exchange that goes to finance these sovereign wealth funds (Martin A. Weiss). How long can the United States keep running trade deficits? U.S. deficits in trade can continue for as long as foreign investors are willing to buy and hold U.S. assets, particularly government securities and other financial assets (Mann, Catherine L.). Their willingness depends on a complicated array of factors including the perception of the United States as a safe haven for capital, relative rates of return on investments, interest rates on U.S. financial assets, actions by foreign central banks, and the savings and investment decisions of businesses, governments, and households. The policy levers that influence these factors that affect the trade deficit are held by the Federal Reserve (interest rates) as well as both Congress and the Administration (government budget deficits and trade policy), and their counterpart institutions abroad (Pauline Smale).

7. Conclusion

For the United States, several geopolitical conclusions thus follow. First, it is essential for America to preserve and fortify its special transatlantic ties. The United States needs a politically purposeful Europe as a global partner. But while America needs Europe's help in formulating a globally responsible policy, Europe needs America even more. Otherwise it could lapse into self-centered and divisive nationalism, devoid of a larger global mission.

The new global political realities are pointing to a decline in traditional Western domination, the Atlantic community must become open to as much participation by successful non-Western states as is feasible.

The Doha Round needs to be completed for two key reasons. The first is to implement the tariff and subsidy reforms embedded in the draft texts developed to date and pocket the gains already substantially agreed to. The second is to ensure the viability of the rules-based multilateral trading system. If multilateral solutions are put on hold, national governments—pressed by their domestic constituencies — will look elsewhere to resolve trade and investment problems, either through unilateral measures or through bilateral and regional trade pacts. Failure in the Doha Round would cause irreparable harm to the WTO's credibility as a negotiating forum, which would, over time, undermine its valuable dispute settlement mechanism. A failure scenario is especially worrisome given the frailty of the global recovery from the financial and economic crisis and the possibility that a double dip recession will deliver prolonged high unemployment, resulting in pressures for more protection. Aware of this possibility, leaders of the Group of 8 (G-8) and the Group of 5 (G-5) at the G-8 Summit in July 2009 committed to concluding the Doha Round in 2010, citing a successful Round as one means of reviving the global economy.

The risk of protectionism in times of the economic crises are real and much bigger than in times of economic prosperity. In 2009 the protectionism increased slightly in many countries. The fear is that with the continuation of the recession, unemployment continuing to rise in a lot of countries. The United States is likely to resume its leadership of global trade liberalization and to conclude the Doha Development Round. To that end the USA will use G – 8 and G – 20 summits for free trade policy realization.

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