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Able and Willing?

Does the USA's action during the 2008 crisis conform to hegemonic stability theory?

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Abstract

In this paper I examine how the United States of America has conformed to hegemonic stability theory and whether it contunes to do so. The theory predicts that the hegemon will establish multilateral institutions serving its own interest but at the same time sacrificing resources to maintain them. I survey and establish how the theory manages to describe previous U.S. behaviour and the international trading regimes that it either failed to create in the Great Depression and sucessfully did after the World War Two. I take a look at the the position the U.S. is in now vis-à-vis the trading regime it established in the form of the WTO. My conclusion is that the U.S. had enjoyed hegemon status for a good reason but it no longer has near unilateral control over the worlds multilateral trading regime as is evident by the difficulty to negotiate the Doha round to a close, the associated trading shocks unmitigated by the U.S. and its own retreat into bilateral agreements and stiffer trade laws. The hegemonic decline seems to match the theory's prediction of fading multilateral interest.

Foreword

When I started my studies at Bifröst University I was delighted by the chance to engage in a multidisciplinary but cohesive curriculum. The School afforded me an opportunity to travel to California and attend University of California, San Diego. Being able to study in an environment where the dynamics were different was a very welcome change of pace for me and opened my eyes to see that while the scenery may be distinct, the core principles of a good education remain the same. I was inspired to write this paper based on a class I took in political economy where I enjoyed learning about topics pertaining to another country which made it a very interesting and educational dynamic for me.

I want to thank Ms. Schneider and the faculty at Bifröst for providing me with a challenging but also nurturing environment. My family I am thankful for their love and support, and my siblings especially for inspiring me to learn about the world and perhaps add to it one day. I'm thankful to my friend Vianey for her help in proofreading. My instructor I dearly want to thank for patience and flexibility during this process.

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Content

1. Introduction

This paper attempts to cast a historic perspective on the trade dynamics that are affecting the world today. The frame of reference I have chosen is the hegemonic stability theory. The hegemonic stability theory is a debated theory and its tenets vary slightly based on the scholar you are reading. I do not intend to examine the theoretical underpinnings in and of the theory more than is necessary and thus provide an easy window into the theory at hand for the reader. My choice is to present the most accredited literature on the subject.

In the second chapter I present a short historical overview of the basic principles of international trade. In the third chapter I present the hegemonic stability theory and a cursory theoretical background of the theory. In the fourth chapter I pick the two historic points most prevalent in the literature about hegemonic theory as it pertains to the U.S. I will not attempt a quanttative analysis; the numerical information I present is descriptive and informative in nature. I will not attempt to explain in great detail the causes of the the same events described, only how they provide a historical backdrop to put the hegemonic status in clearer contrast. I will also detail the organizational structure, and rules of the WTO as it is the current multilateral trading vehicle and recount its successes. In the fifth chapter I will present and examine the behaviour and the environment the U.S. is facing right now, and finally I determine in the conclusions whether the predictive power of hegemonic stability theory matches the descriptive.

2. The traditional arguments for trade

Trade isn't necessarily an intuitive mode of thinking about a nations prosperity. It is not uncommon to hear a very narrow understanding of the welfare effects of trade; comprehending the underlying principles is the foundation for a proper understanding of why trade is a driving factor of modern capitalism.

2.1 Mercantilism

It is important to understand that some of the protectionist thinking today has roots in something called mercantilism, which was the accepted school of thought before free and open trade became accepted.

Mercantilism is a traditional school of political economy that dominated trade in Western-Europe for centuries. Mercantilism linked national wealth with national power and saw the two as neccessary for each others growth. Thus the state should always aim to channel resources to those economic activities that also increase the states power, such as manufacturing, which is favored under mercantilism over agriculture for example (Oatley, 2010, p. 8). The volume of trade is finite and a nation should use tariffs to decrease imports while encouranging local producers to export finished products. It holds competition in dim view. Under mercantilism nations seek to use government intervention and power to achieve a positive balance of trade with other nations. The tenets of mercantilism are conflictual as it operates on the principle that trade is a zero sum game: you want to increase your gain, you must diminish the the gain of your competitor. Merchantilists thus confused capital accumulation with overall wealth creation (Forstater, 2007, p. 14-15). It is not difficult to see why mercantilism was so popular and why mercantlistic thought survives to this day. The notion is that during a trade everyone's object is to maximize their gains and so the one side will win if they gain more capital than the other during a trade or series of trades. This of course meant that tariffs were rampant and nations sought to acquire colonies and engage in power struggles with other nations. Mercantilism today is rarely a stated policy but some states like China seem to be pursuing mercantalist policies as explained by Paul Krugman (2009):

> China is pursuing a mercantilist policy: keeping the renminbi weak through a combination of capital controls and intervention, leading to trade surpluses and capital exports in a country that might well be a natural capital importer. We also know, or should know, that this amounts to a

> beggar-thy-neighbor policy — or, more accurately, a beggar-everyone but yourself policy — when the world's major economies are in a liquidity trap. (Krugman P. 2009)

2.2 Trade liberalization and its adoption

Adam Smith (1776) famously repudiated Mercantilism, in his seminal work *The Wealth of Nations*, where he rejected that a nation should produce at a higher cost what it could buy at a lower cost (p. 364). This is what is now called the principle of the absolute advantage: produce what you excel at making and buy the imports that you need from the proceeds. This certainly called for free and open trade. In a few years later another famous economist, David Ricardo (1817), laid down the theoretical foundation of free trade as we know it today. He is generally credited with explaining in his book, *On the Principles of Political Economy, and Taxation,* what is known today as the principle of the comparative advantage (p. 140-141). The principle explains that even two countries that have a technological and/or economic disparity between them can gain from trading with each other if they have different opportunity costs. When nations concentrate on the products with the lowest opportunity costs you get more products for the available resources increasing overall wealth.

Britain was the first nation to adopt a free trade policy in the 1840's when the protectionist "Corn Laws" were repealed and subsequently opened up its markets to freely imported grain. This free trade development continued to gain traction in 1860 when the major powers Britain and France decided to eliminate most tariffs between them with the Cobden-Chevalier Treaty. This triggered the negotiations of a number of bilateral treaties between European powers and its colonies in the developing world. The notable exception to this trading network was the U.S. remaining strongly protectionist. The development of free trade was further reinforced by the adoption of a common gold standard to which most industrialized countries had pegged their currency to at a fixed rate by 1880. This stabilized international price relationships and served to encourage corporations to engage in international trade (Oatley, 2010, p. 14). The gain from free trade is not a controversial subject within economics. Free trade allows producers to sell their product at the highest possible price while allowing consumers to purchase goods at the lowest possible price.

> Free trade allows optimization of available resources and less waste increasing welfare. Oatley states that "the principle [of comparative advantage] provides a powerful justification for liberal international trade by asserting that all countries benefit from such trade" (Oatley, 2010, p. 382)

3 Hegemonic stability theory

Hegemonic theory has its roots in a number of disciplines including economics, international relations, history and political science. Hegemonic stability theory as it pertains to political economy is an attempt to understand how trade relationships shift along with power within the system. We have observed dominant economies rise and fall and so have the trading systems that they shaped and maintained while they were able to.

Hegemonic stability theory is most often associated with neoliberal theories which concern themselves mostly with the study of international institutions. The purpose of these institutions is to create an environment where states can interact and conduct transactions with certain standards set in place and rules to abide by. Since there is no external enforcement there must be a mechanism in place to discourage cheating by members. They need a high flow of information to survive and keep trust within the organization. The core rationale for cooperation in such an institution being the benefits of participation outweighs abstaining from the institution (Martin, 2007, p. 111-112). The theories of hegemonic stability surround the erection and maintenance of such institutions. As according to Kindleberger (1973) the hegemon must have the capacity to act and the willingness to do so (p. 289).

Oatley (2010) describes a hegemon in the context of hegemonic stability theory thus:

> A hegemon as a nation has a disproportionately large share in the world's production and technological output. It is in its economic interest to support free trade and lead the way in trade liberalization. And as a hegemon's power wanes, so does its interest increase in protectionism. If there is no hegemon to maintain the free trade system the world slides from an open trading system to a protectionist trading system (p. 28).

This role was undertaken by Britain before the First World War as noted by Skidelsky (1976):

> "If keeping a free market for imports, maintaining a flow of investment capital, and acting as lender of last resort are the marks of an 'underwriter' of an international system, then Britain certainly fulfilled this role in the nineteenth-century international economy." (p. 163)

4 The Historic Perspective

As we now know the hegemon is to provide stability while advancing its own terms on the world. We will examine three points in history closer than others. The literature identifies clearly two points in history where American hegemony was either absent from the world stage as it was surrounding the events of the Great Depression and where it was clearly in effect after the Second World War.

4.1 The Great Depression

The global economic crisis of 2008 and its aftermath have been likened by many to the Great Depression. In both cases the preceding years were market by easy credit and that swelled into a bubble that burst leaving financial ruin in its wake. In 1929 it was the stock market and in 2007 it was the real estate market, and those crashes lead to a series of financial institutions failing and a number of countries experiencing sovereign debt crisis. On the heels of the Great Depression nations enacted a number of beggar-thy-neighbor policies that further prolonged the downswing in the world economy.

The father of hegemonic stability theory Charles Kindleberger (1973) in his book *The World in Depression 1929-1939* invokes the lack of U.S. leadership during the Great Depression.

> "the explanation of this book is that the 1929 depression was so wide, so deep, and so long because the international economic system was rendered unstable by British inability and U.S. unwillingness to assume responsibility for stabilizing it by discharging five functions: (1) maintaining a relatively open market for distress goods; (2) providing countercyclical, or at least stable, long-term lending; (3) policing a relatively stable system of exchange rates;(4) ensuring the coordination of macroeconomic policies; (5) acting as a lender of last resort by discounting or otherwise providing liquidity in financial crisis. These functions, I believe, must be organized and carried out by a single country that assumes responsibility for the system. If this is done, and especially if the country serves as a lender of last resort in financial crisis, the economic system is ordinarily capable … of making adjustments to fairly serious dislocations by means of the market mechanism" (p. 289)

4.1.1 Smoot Hawley and Trade retaliation

The United States led the way in protectionary measures by introducing the Smoot–Hawley Tariff Act in 1930 with a number of trading blocs following suit, creating a fragmented world economy (Oatley, 2010, p. 17). The tariff raised by this single act was on average 20 percent on dutiable imports (Eichengreen & Irwin, 2010, p. 875). It remains as one of the defining reactions to the domestic economic pressures which coincided with the aftermath of the stock market crash, which helped create the world spanning Great Depression. Barry Eichengreen (1986) considers the debate about the passage of the act " A classic study in the political economy of protection" (p. 4). The passage of the act set off a wave of retaliatory tariffs around the world targeting U.S. products often strengthening ties with former colonies. Perhaps more importantly, tariffs were also raised that were not specifically targeted against U.S. products. The U.S. was the largest creditor nation and it held back many loans without renewing, them forcing countries to lower their imports in general (Madsen, 2001, p. 850). Smoot-Hawley had in effect bent the general trading policy of the principal trading nations towards protectionism and the further development of commercial policy reflected that around the globe (Jones, 1934, p. 1-2). World trade fell 25 percent between 1929 and 1933 with almost half of the reduction due to either tariffs or non-tariff barriers (Eichengreen & Irwin, 2010, p. 877).

4.1.2 Beggar thy neighbor currency policies

According to Eichengreen and Irving (2010) the fundamental reason for the reduction in trade and tariff hikes was monetary. Further breakdown in international commerce, after the stock market crash and reduction in demand, was initiated by the inability to maintain the gold standard. Britain had historically been the lynchpin of the international monetary system before World War I. After the system had been abandoned to fund expenditures during the war, there was a return to the gold standard in 1925. This time it was backed by the pound sterling and the American dollar as the reserve currencies convertible to gold at a set rate. The system had been badly implemented at the same rates of exchange as pre- World War I not taking into account economic development of the interim years. Britain who had fixed its pound at a rate that was far too high was the first to abandon it on September 19, 1931. Maintaining gold parity had proved to be very difficult in post-war Europe. War reparations, public debt and strained relationships hindered necessary cooperation. This led to a flurry of reactions, some countries allowed their currencies to deflate in relation to gold while others enacted exchange controls to limit the amount of gold lost. This meant that their products became cheaper to sell. To offset this tariff, trade restrictions were implemented to increase demand for domestic goods, repair their balance of payments and maintain output. By early 1933 America delinked the dollar from the gold standard and was letting its currency depreciate against its competitors. (p. 873-874)

4.1.3 War debt

In 1914, America had become the world's strongest economic power and by 1918, it had more than tripled its foreign investments since before the war. The Allies meanwhile, had invested large sums of money in the U.S. and held substantial public debts, a large portion of which was to the U.S. treasury. This financial dominance over Europe overshadowed economic relations after World War I (Encyclopædia Britannica, n.d.). The post-war shift in power meant that economic restructuring depended on American leadership. America was not prepared to accept the mantle of leadership its new hegemonic status conferred and this stance was most apparent on the war debt issue (Oatley, 2010, p. 16). The economist Michael Hudson observes:

> The destructive effect of the postwar intergovernmental debt system was aggravated by the fact that its financial claims had no counterpart in productive capital resources, and hence no real means by which it might be paid (2003, p. 63).

The failure to establish a comprehensive war-debt relief, meant that the international economy was never on firm footing after the war (Oatley, 2010, p. 17). The hardline policy of the U.S. was due to public opinion back home, as the American voters were "more unanimous on this one question of foreign policy than on any other" (Ferrell, 1957, p. 33). The Allies had been seeking, since the end of the war, to strike a deal with the U.S. for some sort of debt relief. In 1932, Greece defaulted in its payment and Britain asked for a deferral of payments and a wholesale review of the war-debt crisis. Britain ended up paying later that year but France defaulted on its installment after demanding a conference to adjust international obligations (Hudson, 2003, p. 78 and 88). At the World Economic Conference during the summer of 1933, despite some hopes of progress, America let its debtors know in no uncertain terms that no such relief would be forthcoming nor would they engage in any currency stabilization. All the Allies, except for Finland, suspended payments that year and serious attempts to collect the debt were not made. (Hudson, 2003, p. 100-106 and 110) Further cementing this position was the Johnson Act which the U.S. passed in January 1934, forbidding private citizens to loan to countries that had not paid their war debts (Encyclopædia Britannica, n.d.).

4.1.4 Contemporary Analysis

Krugman & Obstfeld (2009) note that reducing the gains from trade in the 1930's incurred high costs for the world economy, and that all countries would have benefited from freer trade relations without sacrificing internal goals (p. 513). The consensus as can be seen from the literatures is that the international reaction, whether it was trade isolationist action, beggar-thy-neighbor currency devaluations or intransigence towards war debts, lengthened and deepened the aftermath of the Great Depression and increased the international tension that followed. The United States as the newly emerged hegemon had opportunities to assume the leadership needed to stabilize trade relations, but instead behaved in mercantilist fashion, succumbing to domestic pressure against the greater good.

4.2 The Post War World

The 20th century has sometimes been termed, "The American Century." As a global economic and technological leader, its influence was widespread. After the Second World War the U.S. asserted its dominance in the west, it "no longer feared multilateralism. The more open and interlinked the postwar international economy became, the greater would be the force of U.S. diplomacy throughout the world" (Hudson, 2003, p. 138-139). It was, along with the Soviet Union, one of the world's two super-powers. Its currency became much of the world's reserve currency and it spread its economic policies around the world through the multi-lateral institutions it established.

Robert Keohane (2006) explains that the post-war U.S. hegemonic leadership built on the interest of the leader and its follower states. There was a consensus in the west to uphold market capitalism against socialism. The acceptance of U.S. ideology depended on the belief that the secondary states benefited from the relationship. The U.S. reinforced this belief by creating international regimes to facilitate cooperation. He points out that hegemony itself reduces transaction costs and tempers uncertainty because each secondary state can expect the hegemon to maintain stability between them. The formation of international institutions ensures legitimacy for the standard of behavior that the hegemon desires. To do this, it was necessary for America to invest some of its power and resources to erect these institutions (p. 137-138).

The United States recognized that if it didn't pick up the reins of leadership, Europe might be liable to slide back to where it was left after the First World War. The added threat of communist ideologies looming in the East, the U.S. president Harry Truman "realized that American national security… demanded an economically healthy Western Europe" (Kunz, 1997, p. 163). One by one America, sought to repair the problems that had plagued pre-war Europe. Where before the war there had been debt crisis, currency instability and protectionist tariffs, America was going to assist Europe into becoming a viable market for American goods. America funded a large scale monetary aid program to Europe in the form of the well-known Marshall Plan, which Kunz (1997) goes as far to say "contemporary verdict on the Marshall Plan came in clearly: it was a grand success"(p. 162).

4.1.1 Bretton Woods and the IMF

Bretton Woods was a conference held in 1944 to establish the international monetary and financial order after the conclusion of the Second World War . Bretton Woods established the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), which today is a part of the World Bank Group. With the IMF, the U.S. sought to have an international lender of last resort and in its role it was to oversee a new modified gold standard. The British diplomats at the conference argued against returning to the gold based system, but the U.S. held a majority of the world's monetary gold reserves, so this and tradition served a as a powerful basis for its re-establishment (Bordo & Eichengreen, 1998). Each member is still assigned a quota, which is a type of subscription fee based on their relative economic strength and the IMF quota dictates the voting share in IMF decisions and the members access to financing (The IMF, 2011) This system guaranteed the U.S. great influence within the IMF as the single highest contributing member and has ever since held an effective veto power through its voting share (Houtven, 2002, p. 11-12). Every member, except for the sterling block, declared what the price of their currency was in relation to the U.S. dollar and the U.S. in turn agreed to sell or buy gold from other governments at $35 per ounce. Every country could only deviate 1% from their stated exchange rates and only more than that if the country was considered to be in fundamental balance of trade problems and then only after approval by the IMF (Encyclopædia Britannica, n.d.).

Bordo (1981) explains that the persistent U.S. balance-of-payments deficits helped finance the recovery of world trade from the aftermath of depression and war. The gold standard served again its role in calming international markets and ensuring stability on the currency markets, preventing participating countries from employing deflationary tactics with their currencies, as had been so prevalent before the war. This regime held up until 1971, when persistant U.S. deficits and growth in the use of the dollar as an international reserve currency continually reduced the U.S. gold reserves and thus the gold reserve ratio, which in turn, diminished public confidence in the capacity of the U.S. to back the currency in gold. The confidence problem this created, with several countries displeasure with paying seigniorage and an inflation tax to the U.S., led to the collapse of the Bretton Woods system as the U.S. decided to stop pegging the price of dollar to gold and that was the gold standards ultimate demise (p. 7).

4.1.2 The WTO

The WTO is the face of international trade and international commerce. No other entity exemplifies the core principles of trade liberalization. It is based on a series of trade agreements which has lent it a peculiar democratic consensus structure. To understand modern trade relations we must understand the WTO.

After the Second World War, Europe was in tatters and what remained was an economically strong America but it, along with a few trading blocs, were isolated by tariffs still lingering from the Great Depression. Before the war there had been bilateral agreements between America and a number of other countries but world trade was at a low. America entered multilateral negotiations with Great Britain in 1945 and in 1947 the General Agreement on Tariffs and Trade (GATT) was signed. The core principle of GATT was non-discrimination, signaled American determination to gain access to the colonial markets of Britain and France (Oatley, 2010, p. 30). With the cold war on the horizon during the 1950‘s, America provided Europe with capital to gain access to important goods from America and engaged in asymmetrical trade liberalization. This allowed Europe to reap most of the dividends from free trade which aided reconstruction and opened European markets. (Oatley, 2010, p. 31) Although GATT was the *de facto* organization for international trade, it relied on its members decision-making power, thus in 1995 the World Trade Organization (WTO) was established as an autonomous institutional arrangement (Footer, 2006).

Since 1947 there have been eight successful bargaining rounds brought to conclusion. The last one was called the Uruguay Round, spanning the years 1986-1994.

The ninth, called the Doha Development round started in 2001. With 23 countries participating in the initial round in 1947, there are now 147 countries at the bargaining table at Doha round. The rounds have grown more complex and time consuming as more countries and non-tariff issues are discussed (Oatley, 2010, p. 24-25).

4.1.2.1 WTO's Organizational structure

The WTO can truly be said to have a pyramid like structure, at its apex is one body and going down the chain of command are an ever increasing amount of subsidiary councils and committees. The WTO differs from other prominent institutions in that there is no board of directors or a president of the organization. There is no voting that takes place; the decisions are arrived at via consensus of all WTO members. This might be regarded as a cumbersome process but decisions reached by this consensus model are more palatable to its members (World Trade Organization, n.d.)

At the top of WTO's hierarchy is the Ministerial Conference, its members are ministerial level representatives of countries or customs unions belonging to the WTO. The ministerial conference must meet at least once every two years. It is as this level where broad policy decisions are made and has a very broad mandate. The authority of the Ministerial Conference is made plain in the Marrakesh Agreement Establishing the World Trade Organization:

> The Ministerial Conference shall have the authority to take decisions on all matters under any of the Multilateral Trade Agreements, if so requested by a Member, in accordance with the specific requirements for decision-making in this Agreement and in the relevant Multilateral Trade Agreement. (WTO Agreement)

The Ministerial Conference issues declarations and decisions providing political direction for the WTO (World Trade Organization, n.d.).

The second level of authority is the General Council which meets frequently in Geneva between Ministerial Conferences. This body consists of all members of the WTO represented by government or diplomats. These representatives are frequently of ambassadorial level rather than ministerial. (Footer, 2006, p. 48) This body handles the day to day management of the WTO and acts on behalf of the Ministerial Conference. The General Council meets as an institution as three different bodies: in a general decision-making capacity (when the Ministerial Conference is not in session), as the Dispute Settlement Body which oversees the dispute settlement process, and lastly it meets as the Trade Policy Review Body, which is the WTO's surveillance mechanism for individual members trade policy with the frequency of review varying according to each members share of world trade (World Trade Organization, n.d.).

Then at the third level, there are three specialized Councils for Trade in Goods, Trade in Services and for Trade-Related Aspects of Intellectual Property Rights. All three report to the General Council along with smaller specialized bodies at this level (World Trade Organization, n.d.).

At the fourth and lowest level of seniority are subsidiary bodies of the higher level councils. There are eleven different committees under the Goods Council. Each committee is tasked with dealing with a specialized subject such as the agriculture and market access committees and the like. The Services Council has its own subsidiary bodies and the dispute settlement panels of experts that are subsidiary to the Dispute Settlement Body also operate at this level (World Trade Organization, n.d.).

Overseeing the administrative affairs of the WTO is the institutions secretariat led by the Director General, which is appointed by the Ministerial Conference. As mentioned above, the WTO does not have separate executive bodies and its Director General is seen as a neutral administrator and is absent from the institutional structure of the WTO (Footer, 2006, p. 68).

4.1.2.2 The WTO's Principles.

Market liberalization and nondiscrimination are the two core principles of the WTO. Market liberalization provides the logic behind the international trading system and thus the rationale for the WTO. It maintains that all nations stand to gain from trade and freer markets, lower tariffs and dissolution of trading quotas increases those gains and the world's economic wellbeing (Oatley, 2010, p. 22). The nondiscrimination principle is to ensure a level and fair playing field for all within the system. It has two specific aspects within the WTO. The first one is called the most-favored-nation (MFN). The MFN principle forbids members to discriminate between other members of the WTO. If a member negotiates a new and lower tariff with one member your new tariff now applies to all other members as well (World Trade Organization, n.d.). The MFN principle is in the first article of the GATT and states:

> "..any advantage, favor, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally

> to the like product originating in or destined for the territories of all other contracting parties" (GATT 1994).

The second aspect is the national treatment principle, which is aimed to preclude members from using domestic policy to favor goods and services produced by domestic corporations over their foreign competitors. This principle is only in effect once the product has entered the marketplace; it is therefore not a breach of national treatment to charge customs duty on an import (World Trade Organization, n.d.).

4.1.2.3 WTO's regulations

Members of the WTO have agreed to abide by a certain set of rules. The GATT articles were 39 in total and they have been incorporate into the WTO and the WTO has increased their scope to reflect newer issues as they arise. These GATT articles can be divided into three broad categories that reflect in broad terms the principles of the WTO. First there are the substantive obligations that require the members to adhere to the tariffs agreed to by the ministerial council and to uphold the MFN principle and lays down a general code of conduct for international trade within the WTO. The second category reflects the exceptions to the obligations and the repercussions thereof, and lastly the GATT articles detail the dispute settlement procedures. (Bagwell & Staiger, 2010, p. 239-240). In the transition from GATT to the WTO, the overhauled dispute settlement procedures were considered to be the most important aspect. Before the WTO, there were trade tribunals where trade disagreements could go on for years or even longer. Even when there was a ruling, there was no real way of enforcing it before the WTO (Krugman & Obstfeld, 2009, p. 233).

4.1.2.4 Regional Trade Agreements and Trade Remedies

A regional trade agreement is an agreement between two or more countries that allow them to give each other preferential tariff treatment and market access. Regional trade agreements come in two basic forms: customs unions and free trade areas. Customs unions like the EU agree to eliminate tariffs between themselves and impose a shared tariff on goods coming into the customs union from nonmembers. In a free trade area like North American Free Trade Agreement, members agree to eliminate tariffs between themselves but make independently decisions about the tariffs they levy on nonmembers (Oatley, 2010, p. 38). Regional trade agreements are generally seen as a threat to the multilateral system because they defeat the MFN principle and allow members to discriminate between members. This threat is further exasperated by the sheer number of RTA's planned or in effect. As of May 15, 2011, there have been 489 RTAs that have been notified to the WTO, counting goods and services notifications separately (World Trade Organization, n.d.).

4.1.2.5 Trade remedy measures

In general there are three types of exceptions to WTO rules. If a company is exporting a product to a market at a lower price than it sells in its domestic market, it is called dumping and a WTO member may react to this action if there is a genuine threat to a domestic industry. If a WTO reacts it is called anti-dumping. Subsidies can be enacted, but they are prohibited if they require the exporter to meet certain export targets or force him to use domestic goods. Other types of subsidies can be challenged by other WTO members. Finally there is a clause that allows WTO members to restrict imports of a specific product temporarily if its own domestic industry is somehow injured or threatened by a surge in imports (Wolrld Trade Organization, n.d.).

5 The decline of American economic hegemony

It is not easy to pinpoint when the supposed decline of the U.S. economic hegemony began. The United States produced 40 to 45 percent of the gross world product in the 1940's and early 1950's. That ratio went down quickly, and was in the vicinity of 20 to 25 percent of gross world product by the late 1960's (Huntington, 1988). Since the 1970's has been around 26 to 28 percent and is still far above the next highest single country (U.S. Department of Agriculture, 2010). The U.S. public debt is now reaching hitherto unknown heights at 92% of GDP in 2010 and set to reach almost 100% of GDP in 2011 by IMF estimates (Interntional Monetary Fund, 2010). America's immediate political concern now is undoubtedly the state of the economy. The economy is still reeling from the downturn it took in 2008 and specifically the aspect that is troubling American voters are rising unemployment numbers. There is tremendous political pressure in the U.S. on the subject. When Americans in 2010 were asked to name the most important problem facing the country, coming out just ahead of the economy was the category of *jobs* (Newport, 2010). U.S. president Barack Obama (2010) stated, after the 2010 midterm elections, that it was the core responsibility of the president to ensure the health of the economy and create job growth. In an assessment made by the U.S. Congressional Budget Office (2010), the federal government has to boost the bleak employment numbers and create demand in the short run, but it recognizes it is a difficult task because of the need to need to reign in budget deficits, which is without tax increases or spending cuts, on an unsustainable path in the long run.

Instead of U.S. decline, it is perhaps more appropriate to talk about the ascendance of China and the European Union, the European Union now surpasses the U.S. in GDP and China is already in third place with roughly a third of the GDP and very high growth rates. (International Montery Fund, 2011) . A report done by the National Intelligence Council (2010), which is a part of the U.S. intelligence community, depicting global trends predicts that by the year 2025, the world will indeed be multipolar with the U.S., Europe and China on par with each other and with India not lagging far behind. This can be explained by the *catch up effect* which is a simple principle explaining that additional capital in investment per worker in already large amounts of capital invested is subject to diminishing returns. While all additional capital in a capital poor environment, nets a larger productivity gain. For the decades between 1960 and 1990, South-Korea and the U.S. devoted a similar amount of capital from their GDP to investment, but over that time period the U.S. only experienced 2 percent growth while South-Korea had triple that growth rate, over the period, of 6 percent. The reason for this is that in 1960 South-Korea had only one tenth of the GDP per capita relative to the U.S. (Mankiw, 2009, p. 562)

5. 1 World trade at risk at the Doha round

Former U.S. trade representative Susan Schwab (2011) notes that the government of George W. Bush had the WTO negotiations as their top priority during his tenure as president of the U.S., attending over a hundred advisory meetings and trade negotiations during his second term alone. Her assessment is that the larger emerging markets such as China, India and Brazil, are seeking undue protectionary measures for themselves by in effect hiding behind the needs of the least developed countries as a tactic to pressure the developed countries to further asymmetrically open their markets. Unilateral concessions during the negotiations made by the E.U. and the U.S. have not been reciprocated (p. 106-108). This sentiment is confirmed by Bouët and Berisha-Krasniqi (2007) reflecting on the declining strength of the west‘s bargaining power:

> The consensus-based agreements in the current round reflect a more democratic nature of negotiations under the World Trade Organization (WTO) as compared to previous rounds where the U.S. and the EU overwhelmingly controlled their outcome. Since the emergence of trade blocks (G-90, G-33, and G-20) in Cancún Ministerial Conference in 2003, developing countries have strengthened their negotiating position, making it difficult and even impossible for the U.S. and the EU to impose agreements on other WTO members (p.1).

India and other developing countries want to protect their agricultural sector to protect subsistence farmers from imports, while developed nations want market access, which is specifically an infant industry argument according to India’s Minister of Commerce & Industry (Nath, 2006). Global protectionism is rampant according to Global Trade Alert in 2009 “the world's governments have implemented 297 beggar-thy-neighbor policy measures. G20 governments were responsible for imposing 184 of these protectionist measures” (Global Trade Alert, 2009). Gregory, Henn, McDonald, & Saito (2010) at the IMF published a paper on the trade contraction following the liquidity crisis in 2008 and protectionist reaction detailing what the effect was on trade and trade reform. It paints a picture of a system that underwent a significant shock with global trade falling by 17.5% between September 2008 and January 2009. Trade quickly normalized and by December 2009 had reached 90% of the September 2008 levels (p. 165 and 167). The authors warn that under the MFN principle WTO members have reduced their trading tariffs to well below the tariff ceilings agreed to in the Uruguay round (Gregory, Henn, McDonald, & Saito, 2010, p. 169). This means those countries that have enacted significant trade reform now have the opportunity to raise tariffs without WTO sanctions but run the risk of also making good use of their scope to raise tariffs.

5.2 Turning away from multilateralism

Oatley states that in the 1980's and 90's the specter of the loss of American hegemony pushed the nation towards protectionism. In response to a perceived weakness in high-technological industries, the U.S. took a sidestep from its commitment to multilateralism and employed aggressive tactics bilaterally involving threats of closing its own markets to force others to keep theirs open for American products (p.31-32).

And there are further fractures in U.S. leadership evident in its current export policies. The National Export Initiative (NEI) was announced by the president of the United States in his second annual address to congress on January 27, 2010. The stated goals of the initiative was to double US exports over the next five years, thus creating two million jobs domestically. This would mark the first time the United States had government wide export promotion strategy that has the direct focus and support from the president and his cabinet (Department of Commerce, 2010). Subsequently president Obama signed an executive order detailing NEI policy and creating the Export Promotion Cabinet (EPC) which consists of a number of secretaries and high ranking government officials. The cabinet is to meet periodically and report to the president on the progress of the NEI and coordinate. The executive order details specific tasks that the NEI should address. These include supporting and assisting domestic exporters, access to credit for small- and medium-sized businesses and removing trade barriers (The White House, 2010). New York Times reporter quotes Ralph C. Bryant at the Brookings Institution, a respected explaining how the US can't double its exports without stepping on toes: "There's no way that all countries can increase exports at the same time. If we do it and everyone else does it, it will be less successful and raise the possibility of friction"(Hernandez, 2010). The National Export Initiative entails strengthening current US trade laws and as such might induce retaliatory efforts by other actors in the market.

This is argued by the economics professors Michael Moore at George Washington University and Thomas Prusa at Rutgers University (2010). They explain that US trade remedy procedures are already some of the most aggressive in the world and a better policy would be to bring US laws to WTO compliance. They maintain this would prove as an incentive to other countries to live up to their responsibilities when dealing with US exporters.

The U.S. is also finalizing in 2011 a trio of trade agreements with Panama, South-Korea and Columbia. Cardenas and Melzer (2011) at the Brookings institution explicitly note the breakdown of the multilateral process in their policy brief, with regards to the Korean free trade agreement stating:

> Lately, passage of KORUS has assumed enhanced importance with the impasse in the World Trade Organization's Doha Round. No longer can the United States reasonably anticipate that Doha will lead to improved access to the Korean market. Moreover, an FTA between Korea and the European Union (EU) that took effect July 1st confers preferential access to European exporters, undermining the competitiveness of U.S. businesses in Korea (p.3).

Currently in negotiations is an Asia-Pacific regional trade agreement called the Trans-Pacific Partnership which would add Australia, Brunei Darussalam, Chile, Malaysia, New Zealand, Peru, Singapore and Vietnam to the list free trade agreements it already has in force with 17 countries (Export.gov, 2011).

Despite this the U.S. during the 2008 crisis acted more like the power it was at Bretton Woods, rather than it did during the Great Depression. Obstfeld (2009) notes in a special report for the World Bank about lenders of last resort, that the U.S. readily made available extensive reciprocal credit swap lines with the central banks of both industrial and emerging markets banks (p. 43-44). This is of course easier to do unilaterally, but displays willingness in the U.S. to maintain the integrity of the international system.

6 Conclusion.

The U.S. does seem to have drawn itself back to a multipolar world. The international trading regimes are under demonstrable attack and the U.S. has retreated from the multilateral table unwilling to shoulder the responsibility of closing Doha on its own.

The basic premise of hegemonic stability theory is that the hegemon must be both able and willing to uphold the trading regimes he establishes. The hegemonic stability theory describes very well the rise of the U.S. hegemon and the international trade institutions that served its interest. The U.S. is perhaps unwilling to lead the way in the asymmetrical fashion as it was asked to do after the First World War and which it did after the Second World War. While we did see very good effort from the U.S on the monetary front during the recent crisis, perhaps the last vestige of U.S. hegemonic power lies in its printing press with the dollar still serving as a reserve currency. This gradual abandonment from strict multilateralism seems to be in keeping with the gradual decline of U.S. hegemony, thus the evidence seems to lend credence to the predictive power of the theory.

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