

Author: Andrew Elek

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### The challenge

The emergence of the G20 process creates new opportunities for international cooperation. The forum contains a much more diverse and representative group than the G7 and the inclusion of emerging economic giants gives it additional legitimacy.

The G20 is potentially highly influential: if they can agree on matters of substance, other governments will be likely to follow their initiatives.

Its members can reinvigorate existing institutions or create new processes; for example, the G20 has already proved able to reach the high-level political consensus needed to insist on a reform of the governance of the IMF.

The communiqué of the initial meeting indicates that the G20 is expected to be an ongoing process which oversees the implementation of substantive work programs, covering a potentially broad agenda including:

- energy security;
- climate change,
- food security,
- the rule of law, and ‘
- the fight against terrorism, poverty and disease.

The productive engagement of more economies in the international economy is essential for dealing with several of these matters. Therefore the G20 will need to find ways to promote global economic integration

Global economic integration will need to be complemented by:

1. rebuilding foundations of a global financial system
2. agreeing on how to share the burden of adjusting to a sustainable level of GHGs in the atmosphere in an equitable way
3. the need to cope with potential scarcities of some natural resources, and

The growth of China, India and hopefully other economic giants has huge implications for resolving these issues, and will require vast structural adjustment which cannot be expected to take place in less than a global economy. Accordingly, the G20 should be interested in preventing a potential fragmentation of the WTO-based international trading system into competing trading blocs.

It may prove possible for some, or all, of the G20 economies to implement cooperative arrangements to reduce costs and risks of international economic transactions among them, or among some of them. These could set examples which can lead to wider arrangements among all interested economies.

Cooperation to promote beneficial economic integration will need to look well beyond support for a general concept of 'free trade'. It will need to reflect the fundamental changes in the nature of international commerce since the GATT was set up 60 years ago with its focus on traditional border barriers to trade in goods.

It will also be necessary to complement the work of the WTO with other forms of global economic co-operation, which need not all rely on negotiations.

Getting rid of remaining border barriers, the current perception would have, needs negotiations. Once attention moves to other costs and risks in international commerce, such as administrative and logistic problems, the constraint on collective or coordinated arrangements to facilitate market-driven economic integration are not disagreements about what should be done, but the capacity to design and adopt effective cooperative arrangements.

To create an integrated global economy, low border barriers to trade and investment need to be complemented by an international environment of:

*transparency, best practice, and consistency of regulations, including:  
competition policy,  
regulations on government procurement.  
mutual recognition of standards and qualifications;  
appropriate protection of intellectual property rights;  
efficient communications, including e-commerce;  
best practice logistics.*

Some G20 economies are well ahead of others in these terms. Others need to acquire the capacity to do so. To a large extent, promoting economic integration among diverse economies involves helping those that want to adapt current best practice by sharing information, experience, expertise and technology.

So negotiations to impose limits on market-distorting or trade-impeding policies will need to be accompanied by a collective effort to boost the institutional and technical capacity to move towards a genuinely integrated global economy.

### Responding to change

The GATT/WTO system has been a huge success.

It has created a rules-based global trading order where most products do not face significant traditional border barriers such as tariffs and quantitative restriction; allowing a steadily growing number of economies to trade their way out of poverty.

But it is no longer efficient to rely solely on an institution which was created to deal with international trade dominated by commodities and finished manufactures. These days, international commerce is an intertwined flow of goods and services accompanied by international movement of capital (including direct foreign investment), people and information.

Shallow integration, which deals with traditional restrictions on market access, needs to be complemented by promoting deep economic integration including by:

- reducing uncertainty about future market access: for example anti-dumping actions or other arbitrary or discriminatory measures to deal with trade tensions.
- reducing physical and administrative bottlenecks, such as shortfalls in infrastructure, ranging from harbours to telecommunications.
- harmonizing domestic legislation and rules, such as those relating to competition policy or product and process standards.

The Doha Round may be concluded in the future. But that will leave many more issues to resolve. It is no longer possible to expect all dimensions of economic integration be dealt with by WTO Rounds.

The WTO negotiating agenda is already too wide; so reaching single undertaking takes far too long. At the same time, the agenda is also too narrow; no longer able to cope with all the new dimensions of international economic transactions and the impediments to them.

These shortcomings are accelerating the growing reliance on preferential trading arrangements (PTAs). Their proliferation will not end with the end of the Doha Round.

PTAs are proving attractive since they can address some issues of both deep and shallow integration at the same time. With careful choice of partners and a cavalier interpretation of WTO disciplines on discriminatory trading arrangements, PTAs can be negotiated while largely avoiding politically difficult decisions on liberalising trade in sensitive products.

Compared to long WTO negotiating rounds, it is proving much easier and faster to create trading arrangements among self-selecting economies to lock in low rates of protection for other products, and begin to deal with new issues, such as regulatory impediments to international commerce. However, PTAs can only promote deep integration with trading partners which do not threaten deeply entrenched producer interests.

PTAs rely on discriminatory, product-specific rules of origin to avoid indirect competition to sensitive products, which run counter to market-driven globalisation. These impede opportunities for fine specialisation along lines of comparative advantage to take advantage of falling costs of transport and communications. There is growing awareness that the emergence of a network of overlapping PTAs, relying on trade-diverting rules of origin run counter to the reality of market-driven globalisation.

Concern about the emergence of potentially thousands of PTAs among pairs, or small groups of economies is leading to attempts to link them. However, it is hard to expand the membership of PTAs which have been tailor-made to avoid hard political decisions.

There is certainly no realistic prospect of a PTA which could link all G20 economies. G20 leaders will be well aware that negotiations attempting to create a PTA among their economies would need to deal with those same difficult issues which have slowed WTO negotiations. Negotiations to create a G20-wide PTS could not be completed in any meaningful timeframe. Moreover, any eventual outcome could only lead to a lowest common denominator result on liberalising trade, while delaying any alternative means of addressing new issues among the 20 economies.

Accordingly, there is some hope that the G20 will not be tempted towards a simplistic PTA approach focused on shallow integration and discriminating against all the smaller economies of the world. If

G20 leaders can reject the PTA option, they can promote many other practical dimensions of economic integration among those of its members who were interested in preserving a global economy.

Some of potential areas of cooperation could be issues which are:

- currently being dealt with in the context of PTAs,
- on the WTO agenda, but could be taken further among a smaller group of governments,
- of growing importance to international commerce, but not yet on the agenda of the WTO or of PTAs.

This paper suggests that such cooperation can be possible, by taking care to design an appropriate approach to promoting potentially world-wide economic integration.

That approach can, and will need to, learn from the experience of ongoing experiments to promote integration, including from the WTO and the EU, the recent wave of PTAs and the APEC process.

### [Learning from experience](#)

At present, the EU has achieved the highest degree of economic integration among economies.

The members of the EU had free trade by end of the 1960s. But to create anything like an integrated regional economy, they needed to tackle their Single Market Agenda designed to achieve EU-wide mobility of labor and capital, together with extensive harmonisation of regulations and mutual recognition of standards

To implement the Single Market Agenda, members of the EU negotiated binding commitments enforced by a supra-national authority. That approach cannot be used by the G20 to promote cooperation among very diverse economies with no mechanism for enforcing negotiated agreements. Therefore, it may be useful to consider the example set by the Asia Pacific Economic Cooperation (APEC) process of voluntary co-operation among Asia Pacific governments.

APEC has demonstrated that there is no need to negotiate a comprehensive agreement before making worthwhile, albeit modest, progress on some dimensions of both shallow and deep integration. The need to cope with diversity has also led APEC to find a way to encourage some governments to implement cooperative arrangements ahead of others, setting examples and encouraging others to follow.

The G20 could seize opportunities for cooperation by following this precedent, while avoiding some of the problems which have beset the APEC process.

### [Playing positive-sum games](#)

The experience of the APEC process as well as of PTAs has shown that shallow and deep integration can be promoted at the same time, rather than in sequence. At the same time, it has also demonstrated that negotiations are not always necessary to promote practical cooperation.

Issues such as improving business mobility or better trade logistics do not need to be negotiated. Nor are negotiations sufficient, since practical progress needs more than statements of intent: The

effective constraint on action is the capacity to design and implement compatible institutions and procedures.

In many cases, sections of PTAs dealing with facilitation are mere statements of intent. It has been easy for governments to agree in principle to reduce the costs and risks involved. But agreements in principle need to be followed up by creating the capacity to implement practical means of reducing costs or risks of various forms of international commerce. Reducing the costs and risks of business travel needs compatible information technology to deal with obvious security concerns.

This experience points to the potential advantage of dealing differently with various dimensions of economic integration.

Dividing the challenge of economic integration into shallow or deep integration may no longer be helpful. That distinction can lead to needless debate about whether it is more important to finish the well advanced task of shallow integration or to refocus attention on deep integration.

It may be more useful to distinguish the issues involved into those where negotiations continue to be needed for progress, from the many issues on which progress does not require negotiations.

Different dimensions of promoting economic integration can be viewed as international games. Almost all of these are positive-sum games, but quite a few are not yet perceived in that way, due to concern about the short-term costs of achieving long-term gains.

The well-understood political economy of trade liberalisation explains that, for the foreseeable future, further reduction of the protection of currently sensitive products will require negotiations

Negotiations have not been needed for all dimensions of shallow integration. For example, much of the actual liberalisation of applied rates of protection of most products and extensive liberalisation of restrictions on direct foreign investment have been made unilaterally, not in the context of negotiations. The APEC-wide, then WTO, agreement to prevent restriction of trade in information technology products.

Correspondingly, some deep integration measures may need to be negotiated in the short-term. Mutual recognition of some products standards or professional qualifications might be extended in return for mutual recognition of others.

On the other hand, seizing opportunities to reduce costs or risks of international commerce do not require negotiations, since they are already perceived to be positive-sum games, leading to cooperative arrangements which are in the interest of all participants in these arrangements. Practical examples include the many opportunities to efficiency and security of supply chains.

There is no need to make the implementation of such positive-sum opportunities conditional on each other, nor do they need enforcement, since it is in the perceived self-interest of those involved to implement agreed arrangements.

Looking ahead, it may be useful to group opportunities for cooperation into those which are already perceived to be positive-sum games, as against those where negotiations are needed to make progress in the near future. Such distinction between positive-sum games and others are particularly important for a voluntary process of cooperation.

The successes of the APEC process have been in areas where progress was seen to be of mutual benefit or in perceived self-interest of member economies. As set out in the 2005 mid-term stocktake

of progress, APEC governments have made substantial progress. There has been significant unilateral of traditional border barriers to trade, encouraged by means of peer pressures and a broad commitment to move towards free and open trade and investment. Voluntary collective action among Asia Pacific economies is already saving billions of dollars per year by practical cooperation to reduce administrative and logistic delays and costs, for example by harmonising customs procedures.

Conversely, the APEC process has not made appreciable progress in areas where short-term political considerations outweigh potential long-term benefits. In these areas, negotiations are needed, which cannot be conducted in a voluntary process of cooperation.

Distinguishing between dimensions of economic integration which do, or do not, need to be negotiated could also shape a G20 approach to economic co-operation.

### Realistic expectations

A further lesson from the APEC process, as well as from the EU experience, is that the task of economic integration is never complete. As technology evolves, there will always be more scope to reduce costs and risks of international economic transactions.

If G20 leaders decide to promote economic integration among such a diverse group, would be advisable to avoid creating excessive expectations. In the absence of a supra-national authority, progress needs will depend on widening the range of issues where at least some governments see mutual benefits from implement cooperative arrangements: patience may be more useful than deadlines.

Despite its record of promoting practical economic integration, as summarised above, APEC is widely dismissed as a failure, since it is unlikely to meet the Bogor goals of free and open trade and investment by 2010 for developed economies and 2020 for others.

G20 leaders can avoid such a problem. Firstly by avoiding setting unrealistic deadlines. Secondly, by setting out a vision of what is to be achieved which reflects the practical needs of those involved in international commerce, rather than a vague ideal such as free and open trade and investment which can never be reached in full.

It is possible to set out a vision of a much more integrated global economy, then look for ways to help each other realise at least some parts of this vision. G20 leaders could explain that they hope to promote cooperative progress towards a global economy with:

*no, or negligible, border barriers to trade in goods and services, backed by strict limits on:*

*contingent protectionism, such as anti-dumping;  
and on trade-distorting subsidies;*

*national treatment of all direct foreign investment,*

*free movement of business people and capital;*

*transparency, best practice, and consistency of regulations, including:*

*competition policy,*

*regulations on government procurement.*

*mutual recognition of standards and qualifications;*  
*appropriate protection of intellectual property rights;*  
*efficient communications, including e-commerce;*  
*best practice logistics.*

Some economies already have most of these characteristics, they tend to be the most prosperous, or fastest growing, economies. Others will need to acquire the capacity, including institutional capacity, to catch up. To a large extent, promoting economic integration among diverse economies involves helping those that want to adapt current best practice by sharing information, experience, expertise and technology. Best practice will continue to evolve, so there will always be scope for such cooperation.

Implementing practical cooperative arrangements, for example to enhance the efficiency and security of supply chains will need resources, especially if developing economies are to participate and benefit. Agreements to implement practical arrangements to reduce costs and risks of international commerce will need to be backed by a concerted effort to raise the resources needed for capacity-building.

Most G20 governments are interested in moving towards a vision of an integrated global economy, in the terms set out above. But in a diverse group, it is not realistic to expect all of them to be able or willing to adopt particular co-operative arrangements to realise some dimensions of that vision.

In the APEC process governments that perceive mutual benefits in potential cooperative arrangements are encouraged to implement them. At the same time, such arrangements are designed so that others are encouraged to do so as soon as they wish to do so, helped by the experience acquired by those which pioneered these arrangements.

Such a 'pathfinder' approach can be adopted by the G20. That would make it possible for some G20 economies to pioneer potentially global co-operative arrangements to promote economic integration, then encourage and assist any other interested economy to participate in practical arrangements to facilitate international commerce.

As already emphasised, there is no need to assume that negotiations will always be needed to make progress. For example, improving the quality and transparency of regulations, or reducing transport and communications costs, is a matter of capacity-building, rather than negotiation.

In other cases, where negotiations are needed to make progress in the short-term, G20 leaders can encourage and oversee negotiations in appropriate forums, including the WTO, but not necessarily at the same time.

### Mobilising resources

For the many dimensions of economic integration where the effective constraint is limits of capacity, resources will be needed to make tangible progress. The APEC experience has shown that it is not easy to mobilise resources for capacity-building. The G20 can anticipate this potential problem.

They are embarking on substantial reform of the international financial system; that reform effort could deal with resource mobilisation for capacity-building to support global economic integration.

That may require a new institution, rather than adding new items to the already very wide agenda of the World Bank.

## Conclusion

It remains to be seen whether the G20 can become an effective ongoing forum and whether it will attempt to promote global economic integration. If G20 leaders do decide to tackle this challenge, then it should be possible for them to do so in ways which promise an alternative to the current drift towards discriminatory arrangements to deal with new issues.

The recent experience of the WTO, the EU, PTAs and the APEC process has indicated that not all dimension of economic integration need to be negotiated. There are many issues on which there is already a shared interest in cooperative arrangements to reduce the costs and risks of international commerce.

This paper has, therefore, sought to sketch out an approach which draws on experience of both voluntary and negotiated multilateral and regional economic co-operation. With care, it should be possible for the G20 to promote both of these in parallel.

The G20 can continue to encourage the WTO, and possibly other negotiating forums, to deal with matters where negotiations are seen to be needed, while encouraging interested governments to cooperate voluntarily on practical issues where there is already a perception of shared potential benefits.

Experience has also shown the importance of marshalling the resources needed create the capacity for economies, particularly developing economies to participate in cooperative arrangements, for example to enhance the efficiency and security of supply chains. If G20 leaders decide to seize such opportunities for mutual benefit they may also need to help mobilise the necessary financial resources from international capital market, possibly as part of their overall effort to reform the international financial system.