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# World Order: Lines of transformation

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## Summary

*World orders embodies a compromise between power, purpose and visions on how regulate the global economy. The concept also reflects different theoretical orientations in IPE, however. Realists focus on power. Their concern is about security consequences of globalization. Liberals focus on complexity of regulating global market integration, and are concerned with the slowing down of globalization. Constructivists focuses on underpinning visions and values. Liberal constructivists warns about eroding support to the underlying social purpose of the liberal order. Critical constructivists look for alternative visions of world order amongst those who are contesting the liberal order. Yet, the precise lines of transformation can be difficult to observe. Transformations are intersecting and contradictory. The final section investigates the transformation towards a multipolar trading disorder, and asks whether current trade tensions represents a temporary setback or a deeper transformation. The disorder cuts deep, however. It appears to affect most domains of a world order: a redistribution of global power, an institutional crisis rooted in decades of internal dysfunctionality, and an eroding support of the free trade vision in many societies. The trading disorder forces the IPE discipline to reconsider the role of states, and by extension agency, in economic globalization.*

## **An age of uncertainty**

Societal anxieties and political uncertainty related to globalizing economy are together with global power-shifts, sweeping techno-economic changes, and new security concerns reshaping the world as we know it. Mainstream International Political Economy (IPE), understood as liberal and realist theorizing about the state-market relationship, frames this as a transformed world order. Liberals see an erosion of the US-led postwar liberal order, epitomized by trade policy of Donald Trump's trade policy and the surge of economic populism from left and right. Realists see multipolarity as the key structural change underpinning a turn towards a harsher era of globalization. Critical IPE questions whether the world order has transformed at all.

### *On the concept of world order*

The world order concept bridges the traditional focus of the IPE discipline, understood as the interaction between states and markets, to the contemporary IPE focus on the in the governance of the global economy. The world order debate echoes the classic IPE debate of the 1980s on power and institutions, most notably on regimes (Krasner, 1982; Keohane, 1983), state-centric IPE realism (Gilpin, 1987, 2001), non-statist structural IPE (Strange, 1988, 1997), and the critical theory (Cox, 1986). This 1980s debate proliferated IPE as a distinct discipline on 'states and markets', challenging the supremacy of economist thinking on the world economy, and the economic neglect of International Relations discipline. However, until recently, IPE have neglected the transformation of the world order. Liberal IPE depoliticized globalisation by overemphasize the power of interdependence. Liberal IPE were shocked by the financial crisis, however. Realist IPE ignored the transnational dynamics of globalisation by maintaining its focus on national sources of economic power. Critical IPE tended to reduce both states and institutions to passive reproductions of transnational capitalist forces. It kept its political purpose intact, however. It kept a consistent focus on alternative visions of the liberal order, and how to promote in global politics. The different theoretical lenses on globalization, power and institutions continue to see different lines of transformations in the world order.

The IPE discipline have difficulties in agreeing on the exact composition of the world order. In order to how to tackle the problems associated with globalization, or engage in a debate on which direction to go, it is however necessary to specify what is meant by world order. IPE realism sees the world economy rests on a political order, understood as " ... the interactions of the political ambitions and rivalries of states, including their cooperative efforts, create the framework of political relations within which markets and economic forces operate (Gilpin 2001: 23).

IPE liberalism adds an ideational component to the political understanding of world order. For instance, liberal internationalism is "... a vision of open and loosely rules-based order", and "... a tradition of order-building that emerged with the rise and spread of liberal democracy, and its ideas and agendas have been shaped as these countries have confronted and struggled with the grand forces of modernity' (Ikenberry, 2014: 8). Liberal IPE links the international political order of realist IPE to the liberal norms and to domestic politics. Liberals have also employed the term 'the compromise of embedded liberalism' to capture how the postwar liberal economic orders represents as a fusion of international power and social purpose (Ruggie, 1982). Both prioritizes states in the making of the world order.

In contrast, critical IPE emphasized the transnational sources of world orders. Robert Cox identified the historical transformations of the world economy as the interrelationship between 'social forces', 'forms of state' and 'world orders' (Cox 1981: 137), the latter defined as particular configurations of forces, be that politically and socio-economic, that 'define the problematique of war and peace for the ensemble of states' (Cox, 1981: 138). States and their interrelationships are part of the world order, but not the defining components of the order.

### *Neglected concerns*

This chapter tries to advance two arguments. Firstly, it finds that IPE has neglected the stress-sensitivity, or shock-resistance, of a liberal order. By extension, the role of agency in the transformation of a world order needs reconsideration. Was the liberal order pulled apart by Donald Trump? Part of the answer, this chapter argues, is to focus on whether the social purpose is accepted, and openly supported, by the powerful actors. A world order is basically composed on power, interests and visions (Sørensen, 2011). A stable world order thus represents a shock-resistant alignment between power, interests and ideas. Powerholders in the global economy supports the order in practice, and invest in durable, effective institutions within which all relevant actors chose to cooperate, negotiate or compete. Actors comply with vaguely formulated rules because they share the underlying purpose of regulating the global economy in a particular manner. Businesses and states may free-ride within the order but only a minority actively try to dismantle the order. In contrast, a world disorder reflects a misalignment between power and underpinning visions about global market regulation. It produces either fragmenting issue-specific fragmentation or full-scale forum shifting. It fosters conflictual competition beyond the rulebook rather than cooperation in accordance within the rulebook. Actors exhibits a disinterest in compliance of the foundational norms of the order.

Secondly, the chapter finds that if the world order concept is to be more useful for IPE research, it needs to be more precise. By focusing on how the rulebook is splintering in global trade, and in particular how the centrality of the WTO in the trading order is challenged, the chapter tries to illustrate how the concept can enable us to pinpoint precisely how power transformations within the order and political contestations of the order produces a disorder. The world order remains a useful conceptual platform, the chapter argues, for a complex but necessary IPE discussion about the interplay between state, power and ideas in the globalizing economy. The concept needs precision, however.

The difficulty with the concept is that it points to the existence of the observable and unobservable foundation of the world 'as we know it'. However, it fails to provide the tool

for identifying exactly what the order is. Its imprecision is a blessing and a curse. It enables IPE to ask cross-disciplinary questions about how security concerns of states influence the course of globalization, for instance, or how legitimacy concerns in and across societies affect the effectiveness of international organizations. It is however neither a theoretically coherent concept or a methodological consistent approach. It merely enables different types of theory-driven IPE analysis of current transformations. As such, it reflects the pluralism of the IPE discipline. It is enriching our understanding of how the global political economy is transformed. It enables a cross-disciplinary debate within IPE. It also reflects a fragmented discipline. It can be applied by realist, liberal and critical IPE but it has difficulties in presenting a stand-alone analysis in itself.

### **Box 1**

- A world order is the result of policies and practices of states and non-state actors, reflecting their strength, value-orientations and strategic calculations.
- Ideas, visions and shared understandings are embedded within a world order.
- World orders must be *legitimate* as well as *effective*, and are comprised by observable and unobservable components
- research on world orders requires precision and theoretical awareness

### **Lines of transformation**

Whereas the exact definition of a world order is absent, the issue of the future world order remain intensely debated in academia, in media, and throughout policy circles. It is precisely the complexity of the transformations that defines the present disorderly 'world order' of 2019. The world order is no longer a stabilizing framework for the interaction between states and markets. It is more accurate to speak of the transformative disorder rather than a world order.

Uncertainties have produced policy reorientations, ranging from anti-globalist to economic nationalist sentiments at the expense of what might be termed liberal internationalism. However, few expect a de-globalization of the global economy as such. The economic and political changes discussed within IPE under the heading of 'globalization' in the past decades is perhaps about to slowing down. Whereas globalization confronts new risks, policy uncertainties and market volatility, the world order is hit by power diffusion, policy reorientations and institutional fragility. By 2019, the world order underpinning the global economy, especially in trade, is being transformed at an astonishing pace. What seems certain is that the world order is less liberal today than earlier, and that the year 2016 marks a turning point in the brief history of globalization. Yet, the liberal world order has not collapsed.

*The economic transformations: inequality, technology and globalisation*

World orders are the product of intersecting lines of transformation. However, much of the debate is still about the state in the global market. IPE posed a similar question 30 years ago. Are states able to control the global market forces? The first IPE globalization debate of the 1990s ended somewhat inconclusively in the sense that globalisation could not reduced to either markets or states. A similar point is made today. The Economist (2019) has coined the term 'slowbalization', arguing that globalization on has gone from 'light's speed to snail's speed'. The global economy is a mix of hyper-globalization and de-globalization. The prediction is that future globalization will be dominated by geopolitical rivalry, especially on high tech, and a scaling back of transnational production and investments. Slowbalization fosters aggressive use of trade, tax and finance policy instruments to attract jobs and investments. Slowbalization has splintered the rulebook of the liberal order

Economic globalization transforms the liberal order. Two fundamental dynamics in globalisation can be singled out; the rising inequality within societies and the pace of technological changes. Both have reformatted the order. Firstly, economic globalization has created more inequality within societies. Inequality makes the order unstable. As

globalization progressed, societal pressures have intensified for a reregulation of globalization. IPE broadly acknowledges today that the liberal order failed to do precisely that (Piketty 2014, Bourguignon, 2015, to mention a few). Demands for a renegotiation of the order, and a search for alternatives to the order, are intensifying. Even OCED (2019) are issuing dire warnings about the political casts created by rising inequality within countries. Critical IPE is not surprised, however. "What did you expect from Capitalism?" asks Varghese (2018).

Secondly, globalization is being transforming by technological changes, and vice versa. The rise of the knowledge economy, the digital economy and the transnational production put states under increasing competitive pressures. It gives rise to rivalry. Strategic industrial policies are proliferating. Rivalry is rooted in the quest for future competitiveness. Technological changes also threatens parts of the workforce, producing more inequality, and threatening the domestic stability of states. By extension, this erodes the legitimacy of the order. Furthermore, technological changes also threatens the operation of free markets in the future. Liberals are genuinely concerned about oligopolistic market structures of the future, in which a handful of high tech corporations will dominate and consequently distort competition. This will lower economic growth in the future. Even the IMF warns about such market developments today (IMF 2019). Finally, as mentioned, the existing rulebook does not cover competition policies well, especially in these high tech markets. Technological transformations thus accelerates the splintering of the rulebook, as no disciplines on fair competition in the strategic growth sectors like artificial intelligence and machine learning to the internet of things, genomics, robotics and big data exists.

World Economic Forum has framed these developments as 'Globalization 4.0'. Technology changes fuels other ongoing geopolitical and social transformations. The previous world order, named 'globalization 3.0', was characterized by' the internet, the WTO and the entry of China into the world economy, for instance. Globalization 3.0 was shaped by 'critical improvements in information and communications technology as well as financial risk management tools combined with continued trade and capital liberalization' (World



Economic Forum, 2019: 5). This fostered global market integration and cross-border value chains. 'Globalization 3.0' is by shocks like Brexit and Trump, reflecting new concerns about immigration, data privacy and security. This made World Economic Forum conclude that '... we have entered a distinctly new era in which many of the assumptions of prior periods no longer hold' (World Economic Forum, 2019: 6). Translated into here, 'the assumptions of prior periods' is precisely what a world order is about.

### **Theoretical lines of transformation**

The current turbulence of the liberal order have also forced IPE into critical self-reflection. The literature is vast. However, these transformations appears to validate a resurgence of realist-inspired, state-centric IPE at the expense of liberal and critical theorizing in IPE. Despite their obvious differences, both IPE liberalism and critical IPE shared the premise that states were no longer the primary vehicle of economic transformation. The trade war, the Brexit shock is a paradox to IPE. The rise of a more illiberal world disorder heightens the risk of global economic disruption so unwanted by transnational business. Transnational business appears less powerful 2019 than in 2015. A key question for IPE today is whether the realist IPE got it right. Both liberal IPE and critical IPE disagrees.

#### *The realist transformation: security, state power and multipolarity*

Realists foresees the twilight of the liberal order (Kagan, 2017). Realism have made a surprising return in IPE. State power is the focus of realist-inspired IPE, drawing on neorealism in International Relation (IR). Perhaps the distribution of power between states and the link between the economy and security has been a neglected line of transformation. Gilpin, often accredited as the founding scholar of state-centric IPE, operates with an understanding of a world order. "States, particularly large states, establish the rules that individual entrepreneurs and multinational firms must follow, and these rules generally reflect the political and economic interests of dominant states and their citizens" (Gilpin 2001: 23). The order is centered on states. The current disorder is

created by states. A return to a stable order can be achieved by states only. International institutions are not important. What we are witnessing is re-assertation of state power over what proved to be an excessively globalized economy. The epicenter of the current disorder are the two great powers, the US and China. Whereas China is driven by the aspiration of benefitting from globalization, the US is driven by the fear of losing power over globalization. To the realist, states are worried about the distribution of the relative gains of globalisation. States are not anti-globalist mercantilists. Protectionism is not an optimal policy response to uncontrollable globalization. It is about regaining control over globalisation. Protectionism is at best a necessary reaction to disorderly multipolarity. Realists expect that ‘... states will prefer, when possible, to enhance their relative economic autonomy, and remain skeptical that interdependence will inhibit conflict between states’ (Kirshner, 2009: 46). To realists, the re-negotiation of a power-based order, in which the distribution of state power is multipolar, is difficult. It will inevitably produces clashes between positionalist-minded states.

Realists emphasize power *through* trade whereas liberal IPE emphasize the power *of* trade. To realists, the market can be an effective instrument of power. Liberals are much more aware of the costs of using the market as a power instrument. Nor do realists accept any constraints on the use of national economic power in foreign policy; ‘... the use of economic instruments to promote security goals was a matter of routine as the leading states sought to exploit asymmetries in their economic and strategic relationships with each other and lesser powers’ (Mastanduno, 1998: 829)

To contemporary realists, the true nature of the liberal order is now revealed. It was above all an American order. As a recent commentary suggested, the American order rested on ‘the humbling of organized labor’ at home, and ‘on the collapse of Soviet Union and Beijing’s strategic decision to integrate China into the global economy’ abroad (Tooze, 2019). IPE realism makes a simple argument. World orders cannot be isolated from great power politics. Similar to Cox’s understanding, the realists trace a world orders to a particular power configuration between states. Contrary to Cox, however, realist IPE focuses exclusively on state power. The current transformation is a mix of the internal

dysfunction of the liberal order, the rise of contestations of that order within domestic politics of great powers, and the geopolitical power shift of a multipolar system. Realists issues a warning. The West should not want the next world order to be strongly institutionalised<sup>1</sup>.

*The liberal transformation: Complexity and institutionalized compromises*

To liberals, however, the realist framing of the transformed world order neglects the economic and regulatory complexity of the global economy. Globalisation entailed a rise of international production, foreign investments, global trade and technology development. The world economy is transformed by global supply chains. It stands at the brink of a formidable technological transformation, ranging from the digital economy to automated production and artificial intelligence. This represents a regulatory challenge for states in the world order. The rulebook of the world economy is outdated and fragmented. Governments have difficulties in orientating themselves in such a transnationalised economy. To liberals, much of the current turbulence is caused by a clash between the national and transnational economy. This is perhaps most visible in the US, but the underlying tension between the territorialized and de-territorialized economy can be observed everywhere.

Liberals see the order as an institutionalized compromise between power and legitimate purpose. A stable order must also be accepted. Furthermore, it needs to be an balanced compromise on state sovereignty and market expansion in order to deliver economic growth. Leadership is required. Liberals are concerned, however. The existing compromise on globalization have lost its attraction. Liberals concede that it in part is a result of a dysfunctional liberal order itself. It has failed to fulfill on its promises. Liberals fear a disruption from below more than a great power challenges. But above all, liberals located

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<sup>1</sup> "If history is anything to go by, that new order will not emerge from an enlightened act of collective leadership. ... What will resolve the current tension is a power grab by a new stakeholder determined to have its way."(Tooze, 2019)

the prime vehicle of transformation in US domestic politics. The election of Trump initiated a retreat of the US from the liberal order. Liberals dread the consequences of this retreat. As Posen (2018: 14) writes, “[a] world in which the United States ceases to lead—or, worse still, attacks—the system it built will be poorer, nastier, less fair, and more dangerous for everyone”

Prior to Trump, Liberals were optimistic about the future of the order. Trade was seen as a solid stabilizer of the order (Ikenberry 2015, Guillén, 2016). The world order may transformed into one of multiplexity but it remained institutionalized and interdependent (Acharya, 2014). Liberals expected a functional world order without a center of gravity (Kupchan 2012). Talk about a multipolar disorder is not so much a reflection of the decline of the US but really about the rise of other powers (Zakaria 2009). Instead, the current world disorder is characterized by unexpected policy clashes and by frequent legitimacy struggles. No single vision of a new order exists. Liberals are also concerned with the retreat of democracy in the order. Even so, liberals remain hopeful that a loosely fragmented but rule-based liberal order to emerge (Deudney & Ikenberry, 2018).

This is linked to the institutionalist literature on ‘regime complexes’ (Meunier & Morin 2015, Orsine et al. 2013, Drezner 2009). A regime complex is a manifestation of the multi-scale transformation of the world order, understood as greater institutional, substantive and geographical variation (Meunier & Morin 2015). A world order is more than a chess-game dominated by states. It is also a web-like network of organizations, firms and networks (Slaughter, 2014). This type of IPE liberalism represents a step away from thinking of world orders in terms of strictly state-controlled orders of realism. Each network of the global web, each component of the complex, brings something of its origins, resources and distinctive identity into a world order. Albeit fragmented, institutions constitute a whole within which different organizations and networks communicate with each other, sometimes cooperatively, sometimes competitively.

Realist IPE criticize institutionalist liberals for downplaying power while overstating the persistence of institutions. Drezner (2013: 66) pointed out that regime complexity dilutes

regime 'focal points', i.e. the norm, rule or procedure around which actors' expectations converge (recalling Krasner 1982). Overlapping legal mandates undermined the sense of legal obligation necessary for an institutional order. Critical IPE observe a spread of global networks technocracy. Cutler (2003) interprets these as parts of a transnational networks of power (the "mercatorocracy") at work underneath and in-between the formal organisations, comprised firms, private lawyers and trade professionals, government officials and representatives of international organizations. Critical IPE see these actors as power-holders exercising "... near-hegemonic influence through its transnational capital and through its monopoly of expert knowledge, thought and institutional structures" (Cutler 2003: 5).

*The constructivist transformation: Uncertainties, visions and values*

In continuation of this, a deeper line of transformation stems from tensions between different sets of value-orientations and convictions held by different actors, organizations and segments of societies towards the global market. Constructivists see transformations driven by a possible disjuncture between transnationalist and nationalist visions, ideas and convictions about the appropriate world economic order. As such, constructivism in IPE can be traced in both realist, liberal or critical IPE. The constructivist turn in IPE, such as Blyth (2003), Abdelal et al. (2010), Broome & Seabrooke (2014), Eagleton-Pierce (2013) reflects the pluralism of contemporary IPE rather than a distinct IPE theory. IPE constructivism is used as an explanatory tool for liberals and realist IPE just as it is applied within a critical IPE perspective.

For instance, a liberal constructivist inquiry into the present turmoil in the trading order focuses on uncertainty and scope of agency. It challenges the American liberal IPE explanation. A preference of trade liberalization within a state between competing interest groups is an insufficient explanation of what goes on in the trading order. Neither states nor market actors operate in a vacuum. Their rational calculation of future gains (and pains) from globalization are wracked by uncertainty. Complexity also complicates the

conversion of preferences to acceptance of a particular world order. Actors tend to react on uncertainty by mirroring policies what are already in place. At elite-level, diplomats rely on experience-derived tools of interpretation in order to make sense of the world. A trade agreement is the end-product of specific frames, understood as cognitive filters through which decision-makers and diplomats interpret the world and employ as to solve specific problems encountered in the world, and following distinct policy scripts, understood as specific solutions to problems that reflect what is deemed as best or most appropriate policy choice (Duina 2010: 99-100). A realist order is constructed around national scripts and frames, reflecting perceptions about relative gain losses and emerging security concerns. A liberal order is informed by convictions about the common good of market liberalization. Liberal IPE constructivists tend to be more sensitive to the societal embeddedness of the world order. Ruggie (1982, 1995, see Abdelal & Ruggie, 2009 Carporaso and Tarrow, 2009) traces the transformation to the institutionalized compromise between ideas and interests struck by power-holders in the economy. Specifically, Ruggie argued that the General Agreement on Trade and Tariffs (GATT) represented a fusion of international power and domestic societal norms of the dominant states of the immediate post-war era, the US and the UK. Societal support is a vital component of a world order. Yet, the world order is by Ruggie also seen as an elite compromise between powerful states projecting their respective social purpose into the order.

Ruggie focused on the domestic and diplomatic origins of the compromise. He excluded other potential sources of transformation. In this respect, Cox's understanding of a world order is different. The transnational line of transformation is the key driver of change. Cox is arguably also a critical constructivist in IPE, perhaps more so than a structuralist marxist. The backlash of the liberal order makes good sense as a transnational societal reaction to the neoliberal, transnational capitalist world order. Yet, a genuine transformation of the order requires the articulation of a counterhegemonic vision, and subsequent acceptance of an alternative world order. If no alternative project to the liberal order has or is likely to acquire global societal support, a transformation towards an alternative world order is very difficult. The rise of economic nationalism are widely

interpreted as an 'economic populist' reaction created by the financial crisis (Rodrik, 2017). Whereas critical IPE would see economic populism is the predictable societal reaction to the socio-economic injustices of globalization, it has problems explaining why growing segments in society primarily see globalization as a threat to sovereignty. Thus, economic populism does not to represent a singular alternative to the liberal order. The contestation of the liberal order is the product of a simultaneous attack on the liberal order from sovereign-sensitive right-wing 'nationalists' and from left-wing globalization-critics.

A key driver for liberal and critical constructivist in IPE is that uncertainties, largely created by the financial crisis, paved the way for new value orientations, which challenged the core of conventional liberal thinking about the economic order. The transformation of the liberal order has proven more difficult. No single alternative to the liberal order has acquired support within or across societies.

## **Box 2**

Lines of transformation varies according to focus and IPE theoretical orientation:

- Realists focus on power, and ultimately warns about the security consequences of a multipolar disorder
- Liberals focus on complexity of regulating the global market, and warns about the slowing down of globalization
- Constructivists focuses on ideas, visions and values. Liberal constructivists warns about eroding support to the underlying social purpose and legitimacy of the order. Critical constructivists are challenged by the lack of an alternative vision of another world order amongst those who are contesting the liberal order

## **The transformation of the trading order**

The question is whether the current signs of world disorder represents a transformation of the world order. Do transformations represent changes *within* an order, or *of* an order? Is Donald Trump a temporary glitch in US trade policy? Does China represent a transformation within the order, meaning the slow inclusion of a statist economy in a liberal order, or does China represent a challenge of the order, meaning an illiberal, undemocratic, revisionist power? There is a temporal dimension of studying world orders transformations that requires some caution. The illustration offered below of the multipolar trading disorder is limited to the period from 2016 to 2019. Nobody can predict the future. It is impossible to say whether the depth and direction of the current turbulences in trade indicate a transformed order. World orders transform by decades. No conclusive analysis can be provided on the basis of a few months of disruptive signals. It is, however, important to think about what is being transformed in an order. What are its constituting components, and how can these be observed?

### *The crisis of the WTO*

By 1990s, trade liberalization proved itself to be a powerful transformer of globalization. The creation of the World Trade Organisation (WTO) in 1994 marked a highpoint of liberal trading order. It is accredited for preventing a protectionist backlash after the financial crisis. However, the WTO was a focal point for anti-globalist sentiments. The secrecy of the process, exclusion of non-western powers, invisibility of its legal powers and neoliberal policy discourse were galvanizing fierce protests in the streets of Seattle in 1999 or the beaches of Cancun in 2003. By 2019, the liberal trading order appears to be close to extinction. There is a certain irony in the situation. This is the 25<sup>th</sup> anniversary of the WTO. However, it may go down in brief history of globalization as the year when the WTO finally died, injured by decades of diplomatic deadlock in the Doha Round, and abandoned by old and new trade powers.



As argued, the liberal order is transformed by a rebalancing of economic state power, an unprecedented complexity of the globalizing world trade, and contestations of previously held policy visions on freer trade. Institutionally, the trading order has moved from an intergovernmental regime centered on the GATT/WTO, regional custom unions and bilateral trade agreements towards a more complex system incorporating inter-institutional regulatory arrangements and private market arrangements. What was formally a simple system of intergovernmental treaties and organizations into a dense network of interrelations between policy forums, hybrid forms of collaboration, hard governance IGOs and treaties, and soft governance, market-based initiatives. Much of this happened prior to Trump. However, the resilience of the WTO order is challenged by Trump. Actors are reorienting themselves in a fragmenting world order. The 'splintering of the rulebook' is a shorthand of the decreasing relevance of the WTO. It is too early to tell whether the disinterest in the WTO represents a distinct line of transformation in itself, or whether it is a supplement to a more structural IPE analysis of the broader state-power and socio-economic transformation. However, the interesting question is whether the apparent demise of the WTO be reduced to an agency-driven transformation, a Trump phenomenon, or whether the WTO crisis represents an deep-rooted order transformation.

### *Recalling the social purpose of the WTO*

It is necessary to understand what the WTO does in context of the liberal order. It provides effective and legitimate regulation of international trade liberalization. A crucial task is to determine precisely what the legitimate exceptions to free trade are, and how to assure actors that these exceptions remain within the confines of the order. One of the cornerstones of the WTO rulebook is GATT article III, known as the national treatment principle. Article III (1) establishes a general principle that internal taxes and regulations "should not be applied ... so to afford protection to domestic protection". The national treatment principle is a necessary supplement to the other liberal norm of the order, GATT article I, also known as the Most Favoured Nation clause (MFN). Any concession granted to a WTO member must be extended to all WTO members. However, exceptions exist. A

bilateral trade agreement is permissible if approved by the other WTO members. The test is whether the arrangement furthers trade liberalization (Mortensen 2015). Another exception is GATT article IV, known as antidumping. WTO members may temporarily applying import duties in situations of unexpected and unforeseen surges of imports of a particular product, if the WTO is notified, certain procedures respected during the investigations, the measure are temporary, if affected exports are consulted, and so forth. It does not for allow permanent trade restrictions against structural trade imbalances. Finally, WTO members may also justify a MFN derogation by applying either the general exception rule (article XX) or the national security exception (article XXI, see below).

How liberal is the trading order? Free trade supporters fear these WTO exceptions justify widespread neo-protectionist practices. Other liberals see them as essential safety valves in the trading order. By providing flexibility and by assuring sovereignty in the last resort, states are more willing to commit themselves to trade liberalization. These exceptions can be misused, however. States may circumvent their MFN concessions by using more subtle forms of 'behind-the-border' discrimination, such as taxation or technical regulations. The WTO task in terms of the order is to assure that imported products are treated equally as domestically produced goods by impartial investigations. The WTO is not mandated to initiate its own investigations or independent file a case against a WTO member. Only states can initiate the WTO procedures against each other. The WTO is entitled to carry out non-enforceable policy surveillance reports, called trade policy reviews, and to facilitate continuous policy dialogues in the various intergovernmental WTO committees.

In the trading order, the devil is in the details. As mentioned, an important exception to national treatment is the 'general exception' clause, GATT article XX. GATT art III (4) obliges members to treat 'like products' alike in their domestic market. Article XX then determines how to separate legitimate domestic legislation or administrative practices from a disguised trade restriction. The social purpose of GATT article XX is to provide flexibility for state regulation without eroding the function of the trading order, namely to further trade liberalization. Disguised trade barriers are illegal. Yet, the WTO provide states with an explicit right to protect themselves in particular circumstances, a right to set

the level of regulation irrespective of what other states do, as long as this do not function or motivated as protectionism.

The WTO agreements do not – and cannot - specify exactly what constitutes a legitimate concern. The trading order designed to respect sovereignty. Consequently, exceptions are written in an ambiguous language. Not surprisingly, the interpretation of general exception in article XX has I been a source of controversy. The precise meaning of article X is lost without extensive references to the GATT/WTO case law. For instance, the WTO requires trade-related environmental policies to be ‘necessary’ for the policy objective, and not amount to arbitrary and unjustifiable discrimination’. The WTO functions in this respect as an analytical institution (Mortensen 2015). It determines the meaning of words like ‘necessary’ and ‘arbitrary and unjustifiable discrimination’. The exact meaning of is hammered out in the WTO dispute settlement system on a case-by-case basis (on sustainable fishing of tuna and shrimps, on GMO approvals and risk assessments, on hormone-treated beef or import bans on white asbestos<sup>2</sup>. The WTO dispute settlement signals what is permissible in the order. The predictability of its legal system and flexibility of the substantive rules are both source of its robustness of the trading order. Its strength depends on whether it is able to contain exceptionalism within order. In this manner, through decades of legal practice on GATT article XX in the dispute settlement system, the WTO legitimizes trade restrictions but requires states to demonstrate e.g. that a particular policy is necessary, impartially implemented and the least trade restrictive policy possible. GATT article XXI also provides a blanket exception to trade restrictions on grounds of a vaguely worded clause on ‘national interest’. In contrast, no member has ever used the exception (Yoo and Ahn, 2016). The trading order has no experience with the security exception.

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<sup>2</sup> see [https://www.wto.org/english/tratop\\_e/envir\\_e/edis00\\_e.htm](https://www.wto.org/english/tratop_e/envir_e/edis00_e.htm) for case details

### *Identifying the threats to the WTO order*

Several fundamental threats exist today to the WTO order. The first is the paralysis of the WTO Appellate Body. The WTO will stop functioning as a legal system by December 2019 if the US continues to block the appointment of WTO judges. The second is a redefinition of the purpose of the WTO order implied by national interest justification of article XXI in the current trade war of steel tariffs. The third threat concerns the outdated WTO rulebook on topics like investment, the digital economy, competition policy, and state-owned enterprises. The US-China trade war fueled by accusations of unfair trade, technology theft and distorted competition. Not only is the rulebook slipping into irrelevance, the WTO has lost its centrality in the trading order.

Returning to the broader question, it is tempting to explain the WTO crisis as a direct consequence of President Trump taking office in 2016. After all, he declared even prior to his election that "... the WTO doesn't matter... [W]e're going to renegotiate or we're going to pull out. These trade deals are a disaster, the World Trade Organisation is a disaster" (quoted in Financial Times ,23/7-16). After taking office, the Trump administration acted on his promises. It took a year before his campaign rhetorics were translated into official policy. However, under the heading of "Defending Our National Sovereignty Over Trade Policy", the 2017 Trade Policy Agenda targeted the unchecked powers and legal activism of the WTO dispute settlement system directly: "[I]t is important to recall also that Congress had made clear that Americans are not directly subject to WTO decisions. ... [WTO] rulings does not automatically lead to a change in U.S. law or practice. ... [T]he Trump Administration will aggressively defend American sovereignty over matters of trade policy" (White House, 2017: 3). Furthermore, Trump appointed Robert Lighthizer as the US trade Representative. Lighthizer explained in a 2010 Congressional hearing that "... WTO commitments are not religious obligations', and that WTO violators "... are not subject to coercion by some WTO police force" (Lighthizer, 2010).

### *Assessing the threat to the trading order*

A proper 'theory test' of the explanatory power of realist, liberal, constructivist or critical IPE respectively warrants a more comprehensive analysis than offered below. This is merely an illustration of how to proceed with an inquiry about whether the WTO order is dismantled by Donald Trump. However, it is interesting to start by putting the present day situation into a historical context. Is this crisis without precedence?

The US has been ambivalent towards multilateral organizations for decades. The first attempt to establish such an organization in the trading order, the International Trade Organisation in 1947, failed because of American resistance (Diebold 1952). Even the establishment of the WTO an international organization, with recognized legal identity as opposed to its predecessor, the GATT, was not an American idea. The US demanded an automatic right to a panel investigations, stricter time-limits on investigations, and automatic retaliations if no consensus against it amongst WTO members. The US wanted effective enforcement of GATT rules, not an independent world trade court. However, the formal establishment of a WTO Appellate body was a Canadian and European idea. It was reluctantly accepted by the US negotiators in the final months. The US even appointed a WTO committee in the Congress to oversee whether the WTO was overstepping its powers when it ruled against the US (for details, see Mortensen 2002)

Thus, it was a surprise but not entirely unexpected that the Obama administration decided to veto the reappointment of Seung Wha Chang, South Korean member of the Appellate Body in May 2016<sup>3</sup>. While the current standoff was initiated under Obama, the conflict has escalated under Trump. The US continues to veto new appointments, it is currently reduced to less than three, even if it paralyzes the entire WTO legal system. The

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<sup>3</sup> The US Permanent Representative to the WTO, Ambassador Michael Punke, and USTR General Counsel Tim Reif explained that the US "... is strongly opposed to appellate body members deviating from their appropriate role by restricting the rights or expanding trade agreement obligations [...] The United States will not support any individual with a record of restricting trade agreement rights or expanding trade agreement obligations (Sarvarian & Fontanelli, 2016). South Korea immediately responded that "... if the U.S. position is allowed to prevail, it would seriously undermine the independence and integrity of the Appellate Body." (quoted in Guida, 2016).

EU is openly discussing the prospect of a WTO without the US. The risk to the WTO is grave. This was unthinkable only a few years ago.

Seen in isolation, the refusal to appoint WTO appellate judges, the enactment of unilateral tariffs on selected WTO members on grounds of the US national interest, and of restrictions in response to alleged technology theft and ineffective enforcement of WTO commitments by the Chinese, President Trump is delivering on his campaign promises to fight against unfair trade. Seen through the lenses of the trading order, however, the US has openly challenge the social purpose of the WTO order, the centrality of the WTO institution in the regulation of world trade, and by extension, and signaling a vision of a neo-protectionist trading order. Trump is the president of the US, the world largest economy, and as such, he is an actor with the capacity to disrupt the liberal trading order. It is too early to tell whether he is renegotiating the trading order from within. He has indisputably, openly and actively contested the existence of the WTO in the order.

### **A return to the state in IPE?**

Perhaps trade is an exceptional field in the IPE discipline. It is correct that 'states do not trade, firms trade' (Strange 1990). Yet, the state controls borders. It approves anything that crosses the border. It has the exclusive authority to impose taxes, including tariffs. If the push for globalization in the 1980s-1990s was characterized a coordinated drive by dominant states and institutions towards liberal order, defined by openness towards incoming flows of goods, capital, knowledge and people, the retreat from globalization is marked by growing restrictions on access of goods, capital, knowledge and people.

The dominant line of transformation in the trading order appears to have returned to the state-level, perhaps even actor-level, whereas international institutions and transnational economy appears to be marginalized. Chinas Road and Belt initiative, the Trumpian trade wars and the Brexit saga points to a return of economic nationalism as a shared policy vision at odds with the liberal order. Still, economic nationalism does not necessarily oppose free trade or globalisation (Helleiner & Pickel, 2004). Perhaps unintendedly,

however, economic nation nationalism points to a world economy marked by intense geo-economic and geopolitical rivalry, protectionist practices, aggressive export promotion, strategic competitiveness-enhancement, high-tech warfare and a hardening of economic borders. Yet, the lines of transformations are unsettled. The direction is uncertain. The liberal order may prove to be more resilience than expected. It remains populated by multilateral economic institutions, populated by organized and networked knowledge-holders, sustained by businesses and deep-rooted practices within states. Trump or Brexit may just represent a glitch in economic history of globalization. Yet, the world order sustaining economic globalization as we know it also hinges on values and visions. These appear to have changed, unexpectedly and perhaps irreversibly.

However, the multipolar trade disorder does not necessarily produce a global economic disruption. Liberals fear an accidental, irresponsible and illogical disruption of globalization. The lack of leadership in the economic order is worrisome. Liberals accepts agency in the order. The US retreat from the order is dangerous and irrational. The realist is not concerned. It is a return of power politics. As globalisation is about geopolitics, and as international relations is about state rivalry, the present trade war was predictable. Such a structural understanding leaves little room for agency in the realist order. The critic remain angry. The world order has not transformed. What it observed on trade is still in supports of global capitalism until an alternative order replaces the capitalist order. The use of raw power is just more visible in a Trumpian world economy.

### **Box 3**

The liberal trading order has transformed into multipolar trading disorder. The disorder cuts across the three domains of a world order: relative decline of the US and massive rise of China as a trade power, the institutional crisis of the WTO institutions and the eroding support for the free trade vision.

## Conclusions

A world order can be understood the interrelationship between power, institutions and visions. The concept has something to do with pattered behavior and regularized practices by state and market actors that are more or less consistent with, or embedded within, institutions. Orders can be consequential in terms of effects on actor behavior, or constitutional in terms of expressing what is considered legitimate within the order. A world order is broadly - but not necessarily consensually - accepted as 'the rulebook' by relevant actors. The concept reflects both liberal, realist and critical thinking about effective and legitimate global institutions, and enables us to ask what, which and whose world order in in the making, how world orders are transformed, and in particular whether orders represent a robust compromise between different ideas and interest of states, market actors and within societies.

A world orders are not static. The lines of transformations are multiple. Globalisation, power, institutions and ideas intersects and interferers with each other. IPE discipline offers a pluralistic, multiperspectual understanding of world order transformations. Yet, this is also a weakness. The lines of transformation have multiplied. Realist, liberal and critical IPE each presents us with a distinct image of the world orders. The existence of different world orders contradicts the very notion of a world order. Is it accurate to portray the economic order as multipolar? This affirms the premises of IPE realism. Liberal and alternative IPE theories offer an entirely different set of lenses. The world order rests on the societal acceptance of the market. The rapid but uneven globalization of new technologies has enabled the expansion of markets for products; services and finance have complicated the regulation of globalization within the order. The rise of new value-orientations of everyday globalization, reflecting widespread concerns of climate change, social rights justice and gender equality, holds the potential of changing globalization.

The notion of a world order needs to be clarified. The components of an order needs to be identified prior to an identification of how it is being transformed. In other words, in order to see which – and whose – world order is in the making today, we need to know what to look for, and we need to consider the substance of the order more carefully.



## Questions

1. What do we mean by "world order"?
2. What are the main global risks confronting the liberal order today?
3. What do main IPE theories disagree about on transformations of the liberal order
4. What are the dominant lines of transformation in the world order today
5. How are the current transformations different from the 1930s and the 1980s?
6. Why are the current trade wars undermining the WTO?
7. To what extent is agency related to transformations of world orders?  
Discuss whether the liberal order was overturned by President Trump alone, and whether can it be restored by a new US president?

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