Neoliberalism, Global Imbalances and the New Trade Architecture

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A dizzying array of new international institutions have emerged to co-operate in the forging of a new economic order: the powerful World Trade Organization (WTO) has replaced the General Agreement on Tariffs and Trade (GATT) process for tariff reduction; the North American Free Trade Agreement (NAFTA), the European Union (EU) and the Asian Pacific Economic Cooperation group (APEC) mark the formation of new regions of accumulation; and Western hemispheric and even trans-Atlantic free trade loom on the horizon. A huge number of bilateral trade agreements are being negotiated in all corners of the world. The current efforts to construct a liberalised world economy, at times coordinated and at others ad hoc, stand in a lineage of such efforts to expand capitalist exchange relations that can be traced back to the early period of merchant capitalism. Neoliberal thinkers, such as those that dominate the World Bank (WB) and other international financial institutions, continue to assert today that "the liberalization of trade and investment laws around the world has contributed to an enormous increase in the volume of world trade and foreign direct and portfolio investment, whose impact on the welfare of participants has been considerable and for the better."

The case for free trade has typically been for a reduction in tariffs in material goods to re-allocate factors of production to more 'efficient' uses within a national economic space. The internationalisation of economic activity is also defended today in terms of international financial activities. The freeing of currency trading, the lifting of restrictions on capital movements, the proliferation of off-shore credit sources and the de-regulation of national banking laws are all defended as adding to 'efficient' global capital allocation and balancing risk in an 'integrated' world economy. The International Monetary Fund's (IMF) policies of liberalisation of balance of payments transactions and the Bank of International Settlement's (BIS) defense of international banking and advocacy of lower reserve requirements have been central to the processes of financial internationalisation.

The same logic of comparative advantage and re-allocation of factors of production is now being applied to the production of services, whether produced in the private or public sectors. Services such as telecommunications, banking, insurance, culture are to be internally privatised, liberalised and subjected to international competition and trade. This is the logic that has extended free trade principles to services production in NAFTA, the proposed services directive of the EU, and the General Agreement on Trade in Services (GATS) provisions that have been on the agenda of the WTO for some time and that are integral to the Doha Round of negotiations.

Neoliberalism has thus come to defend free trade, the international mobility of investment in diverse production sites, financial liberalisation and trade in services: 'economic efficiency' is seen to be advanced on the basis of increased specialisation in the production and circulation of commodities and the global re-allocation of capital as if the world constituted a single market. A complex of institutional structures and processes has emerged to govern trade and capital flows. The new trade architecture is part of the means by which a neoliberal framework is 'institutionalized' within both national and supranational state institutions.

What, then, are some of the characteristics and contradictions of neoliberal globalization and the dilemmas posed for the Left today that need to be explored more closely?

1. *Neoliberalism is not simply a set of market-oriented policies or New Right governments; rather it is the social form of rule specific to this stage of capitalism*.

Neoliberalism began as a policy response to the economic and political crisis of Western capitalism in the 1970s. It was the ideology of the free market and the political project of powerful international and American private economic interests to defeat an upsurge in working class militancy and rebellious 'Third World' states. But neoliberalism is now much more than a conjunctural strategy of the New Right: neoliberalism is foremost the way the ruling classes rule today; and it is imprinted in the ways in which social relations and political domination are reproduced within and across the international state system.

Neoliberalism is, within this wider frame of reference, a particular re-organization of the practices of the state that gives precedence to: inflation-targeting independent central banks; the re-ordering industrial and commercial policies and state apparatuses toward international competitiveness and the internationalization of capital; fiscal constraint and tax cuts; means-tested welfare policies; and disciplinary free trade regimes. Together these transformations decrease democratic and state capacities to determine the usage of the social surplus inter-temporally between present consumption and future investment and inter-sectorally between public and private sectors in the composition of output. The need for such planning capacities has not disappeared but has been even further allocated to financial capital and the bureaucracies of large corporations. These two fractions of the ruling bloc have become even more dominant as central economic and political actors in capitalist societies.

Neoliberalism is also the reproduction of certain distributional norms: annual wage norms being kept below the combined rates of inflation and productivity thereby shifting an increased share of income to profits; increasing inequalities within the working classes through higher levels of labour reserves, longer hours of work, informal sector and precarious work and sharp cuts in welfare transfers; increased reliance on credit and financial markets for current and future living standards; and privatization and user fees increasing the commodification of daily life.

Neoliberalism has come to encompass the world market and the institutions governing the international state system. It is registered in the increased internationalization and financialization of capital; the vast extension of foreign exchange transactions and secondary derivatives markets; and the expanded disciplinary role of international financial markets over economic calculations in local and national states. The international governance institutions of the WTO, IMF and WB have supported these developments and enforced limits on the autonomy – and even sovereignty – of national socio-economic policies that might impinge on the internationalization of markets. The multinational blocs that have formed – the EU and NAFTA – have reinforced these processes within their political frameworks, and with respect to the zones incorporated as their peripheries and across the state system.

Neoliberalism has, it should be emphasized, secured new political conditions for the production of value, the circulation of capital and the distribution of social output that in no way can be seen as mere symptoms of capitalism in crisis.

2. *The phase of neoliberalism has accentuated the unevenness of capitalist development.*

1The economic crisis that overtook the advanced capitalist countries with the decline in profits and end of the postwar boom in the mid-1970s 1cut growth rates in the advanced capitalist countries fell from about 4 per cent over the period 1950 to 1973 to less than half from 1973 to 1989. After falling below 3 per cent in many countries during the postwar period, unemployment rates typically doubled, and often tripled, to what they once were. The fall in growth rates and the increase in labour reserves were even greater outside the core zones, except in East Asia, where strong growth in Japan spilled over into other countries.

Since 1990 the uneven development of the world market has continued to reveal itself. Growth rates in the US, however, picked up in the 'boom' of 1993-2000 to about 3.5 percent, although across the business cycle a modest slowdown in US accumulation is also apparent. The US upturn was a result of internal demand stimulus but also enormous foreign capital and migration inflows from the rest of the world. The brief recession of 2001-2 was quickly erased by the extraordinarily loose monetary policy and the huge budget deficit from tax cuts (the deficit at about $560 billion and 4.5 percent of GDP for 2004). With US growth since then back to the 3-4 percent range, it has been one of the two key engines propelling world accumulation. In contrast, the EU had growth of just over 2 percent of GDP from 1991-2001, and has stagnated further since. And Japan experienced a sharp recession after the asset meltdown of the early 1990s, followed by a deflation that still has nominal GDP actually shrinking, with real growth remaining below EU rates and fitful at best. With US output growth since 2000 twice as fast as that of Europe and much more so against Japan, neoliberalism has re-established the place of the US, with particular contradictions, at the centre of the world market.

The second engine to world economic growth has been the emergence of China as a global capitalist power. It has grown on average at over 9 percent a year since the late 1970s and Deng Xiaoping's famous turn of 'building a socialist market with Chinese characteristics'. China continues to grow at this pace, although dependent on cheap peasant labour being drawn into urban sweatshops, foreign capital, exports and the tying of the yuan to the dollar. China now constitutes close to 15 percent of world GDP, and has become the new 'workshop of the world'. This growth has spilled over into other parts of East Asia and India. Alongside the stimulus provided by the US, Chinese growth is why world economic growth has risen to 4-5 percent over 2003-4.

In the rest of the world, the story has been quite different. Except for a few oil states and the last two years, accumulation in the Middle East, Africa, Latin America and much of Eastern Europe, has been dismal over the period of neoliberalism and has, in many cases, registered a fall in per capita GDP.

The production of new value-added during the period of neoliberalism is more uneven and punctuated by cyclical crisis than the postwar period, but it is not out of line with historical patterns. Most importantly, the restructuring of capital and class relations of neoliberalism has restored profitability. It is the internal contradictions of neoliberalism – the over-reliance on the US and China for net new effective demand in the world market, the tendencies to economic slowdown and working-class austerity, the scale of the consumer credit expansion and mortgage lending, the susceptibility to energy price shocks, structural payments imbalances, marginalization of peripheral zones – that need closer examination for the possible fissures within neoliberalism.

3. *The patterns of trade and capital flows in the world market have sustained increasing asymmetries in global economic balances and the circulation of capital between the three main blocs in the world market.*

The central imbalance register of the imbalances in the world trading system is the US current account deficit, currently running at about $650 billion for 2005 and 6 percent of US GDP (accumulated to about $3 trillion since 1982). This is matched by surpluses in the rest of the world, and especially East Asia. For example, Japan still exports about a quarter of its total exports to the US, and ran a current account surplus of just under 20 trillion yen for 2004. East Asian lending, as well as the accumulation of huge foreign exchange reserves in the form of US dollar holdings and treasury bills, has supported the US's debt levels and current account. To take the same example, Japan had over 400 trillion yen of international assets of various kinds at the end of 2004, with portfolio investment at over 200 trillion yen, and foreign reserves approaching 100 trillion yen, held largely in US assets and dollars. If current trends stabilised or continued to grow over the next decade as they have been, US net liabilities to the rest of the world would range from 80-120 percent of GDP (levels that are quite unsustainable for other countries).

The US trade deficit is an effect of long-term patterns of accumulation and relative competitiveness, and cyclical growth and exchange rate patterns. The catch-up of the postwar boom and the 1980s meant a structural decline of the US competitive position and an increase in East Asia and Europe. This was seen, in part, through the steady movement toward constant trade surpluses in Germany, Japan and then the 'Asian tigers'. But the superior productivity performance in the US from the 1990s on has improved US relative unit labour cost performance (although the rapid increase in Chinese competitiveness in higher value-added goods is adding a new pressure). Hence the dynamic of competitive austerity in the world market -- the US pushing down the wages of its workers to improve competitive position, and the rest of the world doing the same to maintain export market share because of weak domestic accumulation – that has been integral to neoliberalism.

As a consequence of the structural imbalance, the US is absorbing about 80 percent of global savings to cover its trade deficit. Something in the order of $1.5 billion per day is sought on international capital markets largely through corporate bonds or the sale of US treasury bills (about half of all T-Bills being held outside the US). As well, global foreign exchange reserve holdings of US dollars has been dramatically increasing, growing from about $1.7 trillion in 2001 to $3.7 trillion at the end of 2004. The largest holders of US assets and dollars are China, Japan and other East Asian countries.

As surplus capital flows into China from the rest of Asia through the extension of subcontracting networks there, China in particular has been massively increasing its reserves and purchases of US dollar assets. For 2004, China had new foreign investment of almost $50 billion, and its foreign exchange reserves exceeded some $650 billion. In a sense, along with Japan, China is bearing the central risk of US dollar decline. This is one of the main practical reasons for the sustained pressure for appreciation of the yuan. Pressure is coming from the Japan, the EU, and especially the US, which is running a trade deficit of some $160 billion per year with China. But for many reasons China is reluctant to revalue, and will remain cautious about liberalising exchange rates.

A structural US trade imbalance covered by capital inflows in the form of borrowings is clearly unstable in the long-run. It depends on foreign private sector and government agents willing to hold US assets denominated in US dollars, with both the value of the assets and the dollar under pressures. Losses would – as they already have been with dollar devaluation and weak US equity markets over the last 4 years – be unavoidable. It is either that or to continue to maintain the existing values and prices and the US as 'importer of first resort'.

4. As a consequence of global imbalances the importance of financial capital has grown in terms of both its speculative and disciplinary capacities on other economic actors.

1In the postwar period, the US supplied dollar liquidity through capital exports to supply international liquidity, while keeping dollar convertibility to gold at a fixed rate, and all other currencies fixed from there. The US balance of payments deficit was in the order of $1 billion dollars a year, from capital exports in the form of foreign direct investment or credit. This earned the US direct seignorage until the dollar gold peg became unsustainable, and soon thereafter the fixed exchange rate system, causing the Bretton Woods system to collapse. After providing for liquidity for trade, the surplus dollars were largely held offshore in Euro-dollar accounts, accounts that had no particular reserve requirements and dominated by the American banks. The credit generated through the dollar accounts became crucial to the recycling of petro-dollars in the 1970s, and for the floating of government debt issues to manage trade imbalances. National banking systems also began to loosen loan restrictions on banks, and new forms of debt instruments began to explode. All these sources of new credit became even more important with the need for loans to Third world countries for their payments shortfalls, to cover the increasing debt of Western governments themselves and to underpin consumer expansion. The enormous budgetary, trade and current account deficits of the US from the early 1980s on placed even greater burdens on international financial markets.

Indeed, debt problems and payments imbalances have become structural characteristics of the world market. The number of countries going through financial crises – Mexico, Poland, Brazil, Egypt, Turkey, Russia, Argentina – has been ceaseless. As with the US current account deficit, the burden of debt payments, and its consequences for developing country payments positions, has not been resolved. These structural problems have increased the supervisory role of the IMF over national economic policies and as protectorate of the international financial system, and in particular US banks as its major component. The IMF has become a major disciplinary agent over countries seeking to borrow from it on the condition of adopting neoliberal structural adjustment policies. Each international financial crisis under neoliberalism, from the 1982 Mexican default through the 1997 Asian crisis to the 2004 Argentine default, has cost a great deal more to finance than the previous one and yielded still further liberalisation of markets. The cost has been borne by a further expansion of the private credit system, IMF lending facilities, and working classes having their wages and public services cut to pay for financial sector losses.

The flexible exchange rate regime that was claimed by neoliberals in the 1970s to expand national policy autonomy has also discredited their notion that it would resolve payments imbalances. The US trade deficit has continued to soar under both conditions of dollar appreciation and depreciation, suggesting strongly that other factors at play other than shifts in relative prices of traded goods as determined by exchange rates. There are numerous examples of the instabilities created by the violent fluctuations of currency markets – the currency troubles of Spain, Italy and other European countries in the early 1990s, the Mexican and Asian currency crises of 1994 and 1997 respectively, and the continuing problems of Argentina, Turkey and others. Rather than providing flexibility flexible exchange rates have, paradoxically, imposed a neoliberal rigidity on domestic policies. Flexible exchange rates place a premium on domestic price stability as interest rates become central to avoiding capital flight and speculation against the currency that can damage production integrated into the world market enormously. Liberalised capital markets compel maintenance of stable exchange rates until the cost at existing prices becomes unbearable. As a consequence, domestic stabilisation policy is subordinated to the signals of financial markets under neoliberalism, at the expense of other policy targets.

Financial capital and the credit system have thus come to play a pivotal role under neoliberalism. This is partly quantitative in the sheer volume of speculative international monetary transactions – some $2-3 trillion turning over in currency markets alone – that both shares risk and ruthlessly punishes the truant. It is also a qualitative development in the role that financial capital now plays in disciplining national stabilisation policies, and in allocating capital to new sectors where immediate profit returns are greatest and devaluing other sectors that do not meet targets. But here a key asymmetric policy has been at work: what is punished outside the US is rewarded there with further credit expansion.

5. *The international and regional trade regimes of NAFTA and the EU have contributed to the consolidation and institutionalization of neoliberal policy frameworks and embed a new spatial relationship between dominant and dominated social formations.*

It is difficult to disentangle the origins of the EU in the 1950s from neoliberal policy orientations. The project of European economic integration, and subsequent political integration, was liberalization of European markets and expansion of private property rights. EU competition policy was seen as strengthening the position of European monopolies as the foundation for their internationalization into world markets. The initial treaties establishing the European Community reflected this prioritisation.

The attempt to find a competitiveness response in Europe to the challenge posed by the new economic condition of the 1980s and North American free trade led to the Delors Report. This formed the basis for a new agenda of European economic and political integration and enlargement of the Single Europe Act of 1987 that launched the single market in 1992. Its key components further institutionalized the neoliberal policy framework of the EU, with the famed social charter being more formal than substantive and doing little to stand in the way of the EU push for structural reforms of labour markets and welfare states. The 1992 Maastricht Treaty on European Economic and Monetary Union launched the project for deepening the single market with the proposed monetary union forming the European Central Bank and the Euro. This project included the convergence criteria of restrictive budgetary and debt policies to foster low interest rates and exchange rate stability for the states adopting the Euro. The 1996 Stability and Growth Pact retained the deflationary neoliberal budgetary requirements and the bias toward market-friendly policies. And the draft 2004 EU constitution proposes to deepen European political integration by clarifying EU decision-making processes and embedding the pillars of neoliberalism by constitutionalizing free markets, an independent central bank and expanding EU military and armaments capabilities.

The preferential trading arrangement of the Canada-US Free Trade Agreement of 1989, and the subsequent 1994 NAFTA incorporating Mexico, is quite distinct in having very little in the way governance institutions or allocation of state functions to the multinational bloc level of the EU. Rather than new institution-building – what the advocates of NAFTA often call the 'institution deficit' – NAFTA's various treaty chapters mandate and restrict sectoral market structures and government policies to foster economic integration. This was already characteristic of Canada-US relations over the postwar period where capital account liberalisation was the norm and specific sectoral 'free trade' arrangements – with a range of production guarantees – in the defence and autos sectors were implemented. The free trade agreements were, however, qualitatively distinct in the degree of economic integration and the neoliberal premises and internal logic. Except for minor exceptions and qualifications, all sectors were liberalised between the three countries under the GATT principles of non-discrimination of national treatment and most-preferred-nation, transparent market access, and a more formalised dispute settlement mechanism. This continued the GATT focus on tariff reductions for trade in material goods. But the new departure of NAFTA was a general agreement for the liberalisation of trade in services, including finance, telecoms, insurance, transport and government services being privatized. Moreover, a wider set of neoliberal measures were implemented including limits on government procurement, restrictions on state trading enterprises, limits on foreign investment oversight, protection of investor rights and extended intellectual property rights.

Both the EU and NAFTA represent the formation of regional trading blocs, each with their particular spatial configuration, institutional arrangements and specific form of neoliberalism. Alongside the integrated subcontracting networks deepening trade and investment patters amongst East Asian states, they represent the regionalization dynamic that has been integral to the contemporary internationalization of capital. These institutionally-differentiated regional blocs are the new mode in which the dominant imperial countries are integrating and subordinating peripheral countries within their respective spheres of accumulation.

6. *The extension of international trade regimes in both the EU and NAFTA, and the proposals of the WTO's Doha Round, into the production of services represent a new stage in the internationalization of capital.*

Services have traditionally been produced where they have been consumed, either by local workers and economic agents or by governments. There have, therefore, typically been nationally-based regulatory restrictions on foreign ownership and provision of financial services, culture and communications provisions, and education. Innovations in telecommunications and outsourcing have shifted the nature of services production and the development of international service companies has brought a new dimension to the internationalization of capital. The original Canada-US Free Trade Agreement sanctioned these developments by extending the GATT principles on trade in material commodities to services, with the additional protections of investment and property rights, as well as opening up of government procurement to treaty signators. For Mexico, NAFTA radically transformed the service sector as internationalization of services also meant privatization of many of Mexico's previously state-owned enterprises.

The draft EU services directive (Bolkestein Directive) and draft EU constitution propose a parallel development. These are the also the foundation for the WTO Doha Round project of services liberalisation. These proposals limit government procurement preferences and thus national industrial policy; foster privatization and competitive market processes in public services; and constrain democratic sovereignty over national cultural policies. The international circulation of service capital strengthens in particular the high income countries where services are about 60 percent of GDP (and an even greater share of employment).

The internationalisation of services capital is an important aspect of the internationalisation of capital in the period of neoliberalism. It is integral to the new trade architecture, and foremost strengthens the services monopolies in the centre economies of North America and Europe.

7. *Rather than a sharpening of inter-imperial rivalry from a projected US economic decline, economic co-ordination between the major trade blocs under US leadership has been maintained in a phase of uneven interdependence in the world market.*

The evolution of the relationship between the major trading blocs has three aspects which are often seen as opposed, but are in fact characteristic of the competitive interdependence of the world market. First, the US entered the postwar period with unprecedented economic, geo-military and bureaucratic capacities. The strategic effort to integrate Western Europe and Japan into an 'Atlanticist Bloc' allowed for a long period of economic catch-up for both zones. The relative modulation in economic power between the three blocs gave the emergent zones a capacity to forward independent, if still subordinate, political projects from the US, a capacity they did not have at the end of WW II. The long period of neoliberalism has continued to reflect these modulations in power, with both Europe and East Asia formulating independent strategies for economic integration and territorial incorporation of peripheral countries within their blocs. But there also has been an underlying tendency in the world market for the re-assertion of relative US economic strength, emulation of US institutions in other countries and market-oriented policies, and unilateral American geo-military strategies. Thus the peak capitalist countries in North America, Europe and East Asia – respectively, the US, Germany and Japan – have extensively co-operated in the formation of the WTO, the liberalisation agendas of the IMF, WB and BIS, and in the management of international currency relations.

Second, the structural imbalances in the world market are not a one-sided reflection of US policies and fiscal and trade recklessness. They are also the result of the decisions of capitalists and governments in other parts of the world and their decisions on accumulating surplus capital in the form of reserves and US assets and maintaining the existing value relations through managed exchange rates. As a consequence, the co-ordination and co-operation of the advanced capitalist countries over the management of the world market has increased over the period of neoliberalism, from the Plaza and Louvre Accords through the Asian currency crisis of 1997 to the present 'yuan realignment crisis'. The US Treasury-IMF-Wall Street nexus has been at the centre of all these efforts of co-ordination. This has been done in way not to challenge the US dollar as the world hub currency, but to support the dollar and sustain US hegemony.

Third, the internationalisation of capital has more deeply intertwined the ownership, financial and production structures of national capitals across the world market. In the postwar period, domestic capitals politically formed a 'national bourgeoisie' defending the national economic space and subordinating international capital to this project. But today domestic capital also has a clear project and stake in the internationalisation of capital and the world market. This has politically re-formed an 'interior bourgeoisie' that incorporates foreign capital as a central component of the domestic power bloc that no longer 'protects' an integral national space. This inter-penetration of capital sharpens competitive rivalries at the firm and sectoral levels for local and international market shares to preserve employment and community, while deepening inter-state co-ordination to preserve the conditions for realisation and internationalisation in the world market. This is the uniqueness of the international configuration under neoliberalism.

Whatever one thinks of the conceptual and polemical usage of the term ‘American empire’, the US and American imperialism remain at the centre over the world market. Within this context, independent strategies of integration and imperial projects for incorporation of peripheral zones have emerged within both the EU and East Asia. The international governance structures clearly reflect both the consolidation of neoliberalism and the uneven interdependence of the world market today.

8. *The current phase of neoliberalism continues to disorganize the Left, and a sustained period of forming anti-neoliberal alliances contesting neoliberalism and the new trade architecture ‘in and against’ national states needs to unfold.*

A number of structural transformations have altered the organizational foundations for Left politics: the changes in the nature of employment towards more networked production processes and fragmented services provision; the increasing international circulation of capital; and the internal differentiation and stratification of the working class. Neoliberalism has contributed to these pressures. Left alternatives have also suffered historical defeats, for good and ill, in the end of authoritarian communism and the realignment of social democracy toward increasing accommodation of the market and existing distributional relations. These developments have shifted working class capacities in terms of workplace organization, political leadership of oppositional forces and ideological inventiveness. As a consequence, Left politics under neoliberalism has oscillated between, on the one hand, a ‘politics of chaos’ that in fact reflects the disarray of Left forces and organizational weakness, and, on the other, short-term political calculation to avoid further social erosion.

Above all, then, the socialist Left must be actively fostering the formation of new political agencies. One necessary aspect of such an engagement is class reformation through revitalization of unions, and the linking of unions to workers in new sectors, the struggles for gender and racial equality, and the marginalized outside ‘normal’ work processes. It is also necessary to experiment in organizational convergence between the remnants of the independent Left, civic organizations, and the sections within social democracy that remained committed to a transformative project. Such a reformation needs to be grounded in the building up of educational, communicative and cultural resources indispensable to forming the political identity necessary for a ‘new socialism’ for the 21st century. And concrete anti-neoliberal alliances forged in struggle to defeat particular initiatives and make inroads against neoliberalism will make such a process of reformation ‘organic’.

Without such new democratic collective capacities, the barbarism that is neoliberal globalization will indeed continue to yield its daily horrors from one part of the globe to another.