Article

Rising Powers in the Global Trading System – China and Mega-Regional Trade Negotiations

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Abstract
This article investigates the role of rising powers in the global trading system – within the World Trade Organization (WTO) and beyond the WTO. It explores the emergence of bilateral and (mega-)regional agreements such as the Transpacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) and their implications for the global governance of international trade. It examines how China and other rising powers are reacting to the changing landscape of trade governance and explores the impacts on developing and emerging economies. Safeguarding the future of the global trading system – especially the WTO as a forum for multilateral negotiations – requires reform. The article assesses the current institutional inequality of the global trade system and argues that the status quo serves to limit change within the WTO. The current institutional set-up of the global trading system beyond the WTO must also be examined. The article further points out that the G20 could play a key role in the WTO and reform of the global trading system.

Keywords
Rising Powers, Global Economic Governance, Mega-Regionals, World Trade Organization (WTO), Transatlantic Trade and Investment Partnership (TTIP), Transpacific Trade and Investment Partnership (TPP)

Introduction
During the Chinese presidency of the Group of 20 (G20) in 2016, international trade and investment played prominent roles. The importance of international trade and investment for the G20 was manifest throughout the Chinese G20 presidency, particularly in the Trade Ministers Meeting Statement issued in July 2016 and during the G20 Hangzhou Summit in September 2016.

International trade has been on the G20 agenda since the first “leaders” summit
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was held in November 2008, during the global financial and economic crisis and a phase of strongly contracted global trade. Recalling that the post-1929 economic crisis was only deepened and prolonged by waves of protectionist measures, the G20 countries committed to not erect any new barriers to international trade. The commitment to successfully conclude the Doha Development Agenda (Doha Round), multilateral negotiations being held under the auspices of the World Trade Organization (WTO), has been part of the standard repertoire of G20 summit declarations. However, G20 summits have not paid much attention to reforming the global trading system: Declarations typically contain vaguely drafted commitments to strengthen the multilateral trading system and statements about making bilateral and regional and plurilateral trade agreements complementary and in conformity with WTO rules.

Despite all that, since the last WTO ministerial meeting in Nairobi in December 2015, the future of both the Doha Round and the WTO’s multilateral negotiating pillar are more uncertain than ever. Deadlocked by the imperative to find consensus, WTO member states have not been able to successfully conclude the Doha negotiations – after more than 15 years. In 2015, important member states, notably the United States of America (US), declared themselves in favor of terminating the Doha Round. However, many emerging and developing countries insist that it be continued. In reaction to the Doha Round’s creeping progress, the major trading powers, led by the US and the European Union (EU), are increasingly negotiating bilateral and regional trade agreements.

To safeguard the future of the global trading system – particularly the future of the WTO as a forum for multilateral negotiations – reform options must be considered. Any reform must also take account of the Agenda 2030 for Sustainable Development and the 17 Sustainable Development Goals (SDGs) it enshrines, which were adopted by all United Nations (UN) member states in 2015. The SDGs call for “a universal, rules-based, open, non-discriminatory and equitable multilateral trading system”. But such a system is coming under increasing pressure from the mushrooming free trade agreements.

Mega-regional trade negotiations – deep integration partnerships between countries or regions with a major share of world trade – have recently become ever more relevant. Yet China and other rising powers are not among the negotiation partners. Mega-regional agreements – like the Transpacific Partnership (TPP), signed in February 2016 by the US and 11 other Pacific Rim countries and the Transatlantic Trade and Investment Partnership (TTIP), which the US and the EU are currently negotiating – cover huge shares of global trade and investment flows and aim to do more than reduce tariffs. They also seek to regulate such issues as competition, investment, and standards. Both the TTIP and the TPP reflect economic interests and are induced by geopolitical and strategic reasoning – espe-
cially with a view to China and an attempt to “contain” the rising power.

What do mega-regional trade agreements imply for global governance of international trade – especially from the perspective of rising powers and developing countries? Which role could the G20 play in this context? For more than half a century, institutions of the global economic governance architecture, including the General Agreement on Tariffs and Trade (GATT) and the WTO, were dominated by the US and other advanced industrialized states (Gilpin 1987; Ruggie 1996). Developing countries have not been powerful actors in global governance. Now, however, rising countries such as China, India, and Brazil (Beeson & Bell 2009; Hurrell 2006; Margulis & Porter 2013; Mittelman 2013; Stephen 2012; Young 2010) are challenging the dominance of the old powers. Can rising powers like China foster alternative, and potentially more equitable, approaches to governing the global economy (Hardt & Negri 2000; Pieterse 2000; Evans 2008; Strange 2011)?

This article explores how rising powers and developing countries are confronting the institutional inequalities in the global trading system, that is, “characteristics of international institutions that systematically privilege powerful over weak states” (Fehl 2014). It investigates the notion of institutional inequality in the WTO and it explores the extent to which bilateral and (mega-)regional trade agreements challenge the WTO as a multilateral decision-making forum for global trade rules, how mega-regionals emerge in response to power shifts in global economic governance, and how the rising powers are reacting to the changing landscape of trade governance.

The article also explores the role of rising powers in the global trading system given the ongoing process of institutional layering and “forum shopping” – as well as indications of a more substantive “regime shift”. In forum shopping, the shopper strategically selects a venue to gain a favorable decision regarding a specific problem (Drezner 2009); in “regime shifting”, actors redefine the larger political context so as to ultimately reshape the system of rules itself (Alter & Meunier 2009). This article argues that some members of the WTO, the dominant ones, benefit from the current process of layering, shopping, and shifting. These mechanisms, as is argued in this paper, have become considerably more relevant due to the emergence of mega-regional trade agreements.

The article shows that when examining how the institutional status quo limits institutional changes within the WTO, the situation outside that multilateral forum also must be addressed. Since the old powers have much better opportunities to engage in inter-organizational strategies such as forum shopping (Drezner 2009) and regime shifting (Alter & Meunier 2009), they can pressure countries which cannot reshape the system as easily and thus have less attractive “outside
options” beyond the WTO. The behavior of actors within individual organizations like the WTO must be analyzed – as well as the wider institutional context which may involve other organizational mechanisms to increase, balance, or reduce inequalities.

The remainder of this article discusses the role of rising powers in the WTO and explores the emergence of bilateral and (mega-)regional agreements and the implications for the global governance of international trade, focusing on how rising powers are reacting to the changing landscape of trade governance and the repercussions for developing and emerging economies.

**Rising Powers in the World Trade Organization**

In the WTO, agreements are formally reached on the basis of consensus, which makes the GATT/WTO system seem remarkably egalitarian when compared with the systems of voting according to economic weight at the IMF and the World Bank. However, for the most of its history, the GATT/WTO system has been dominated by the US and other economically powerful countries: The most significant negotiations take place in informal meetings of an elite inner circle of states. For quite a while, well into the Doha Round that started in 2001, the traditional powers managed to keep the rising powers from unsettling their hierarchy, for instance by claiming that the new round of negotiations would be a “development round” but not questioning if big emerging economies like China, India and Brazil should still be called “developing”.

In the Doha Round, the traditionally dominant powers began to be more open to the idea of altering the old hierarchy. Changes were accelerated when, prior to the Cancun Ministerial in 2003, the EU and the US introduced a joint proposal on agriculture that triggered strong opposition from developing and emerging economies and encouraged Brazil and India to cooperate. The two countries created a major coalition of developing and emerging economies – the Group of 20 in the WTO (G20-T), which helped to defeat US and EU proposals in Cancun and destabilize the WTO’s traditional power structure (e.g. Looney 2004; Baldwin 2006; Clapp 2006; Hurrell & Narlikar 2006; Evenett 2007; Grant 2007; Ruiz-Diaz 2005; Hopewell 2015). Under the leadership of Brazil and India, the G20-T transformed the WTO’s institutional inequality. After Cancun, the old inner circle of the “Quad” (US, EU, Japan, and Canada) was replaced by a new inner circle, which included not only the US and the EU but also Brazil and India and later also China, thereby changing the negotiating hierarchy. Less powerful countries also got more say in different stages of WTO negotiations.

Whereas Brazil and India entered the inner circle of the WTO after 2003, China, which had joined the WTO in 2001, kept a more low-key profile in the nego-
tiations. Then, in 2008, it was invited to join the inner circle (Hopewell 2015). China’s growing status in the WTO – and other domains of global governance – has largely been driven by its increasing economic weight (Ikenberry 2008; Ba-bones 2011; Beeson 2009; Breslin 2010; Hung 2009; Subramanian 2011; Wang & French 2014): It is now the world’s second largest economy and the world’s largest exporter of goods.

However, the rising powers were not admitted to the inner circle and the WTO’s informal inequality was not undermined only because of a changing and more equitable distribution of economic power: Brazil and India, economically not as weighty as China, were able to rise because of their mobilization and leadership of developing and emerging economy coalitions during the early years of the Doha Round (Hopewell 2015). By building successful coalitions, Brazil and India became the first countries capable of challenging the traditional powers, overturning the old power structure, and emerging as key new actors in the WTO. However, coalitions tend to be less stable and effective than economic might. Analysis of recent developments in the global trading system beyond the WTO shows that the role of economic factors cannot be denied and that the institutional status quo thwarts rising powers’ efforts to promote their changing power positions and normative claims about the future design of the multilateral trade regime.

Over the years, the G20-T coalition had been strained, particularly prior to and during the WTO Nairobi Ministerial in 2015. In Nairobi, the industrialized countries wanted to prematurely end the Doha Round or, alternatively, to expand the Round’s ambit by including their “new” issues of interest, including e-commerce, labor, environment and competition policies, which developing countries oppose, fearing that high standards might act as non-tariff barriers, hurting their exports. During the final night of the Ministerial in Nairobi, at the meeting of the inner circle of negotiating countries, India and China fought for clear language reaffirming the continuation of the Doha negotiations. During the marathon negotiations, India apparently yielded ground while the US and the EU – with Brazil – managed to secure a substantive agreement about eliminating agricultural export subsidies, which many hailed as a milestone. The agreement did not accommodate India’s demand for a definite time-frame on public stockholding programs and a ‘special safeguard mechanism’ (SSM) that would allow tariffs to be introduced in case of an import surge. India was eclipsed in the WTO and the G20-T, and Brazil and India’s once decidedly successful coalition fell apart.

Why did the G20-T coalition fail, and with it the ability of rising powers like Brazil and India and developing countries to challenge the WTO’s inequality? Brazil and India were highly dependent on the backing of other states. The two countries also disagreed on the “development discourse,” with India referring to the development concerns of the poor in food-net-importing countries and Bra-
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zil focusing on net exporters. Another source of instability for rising powers and developing countries is that the old powers have better outside options beyond the WTO.

Arguably, the multilateral system became increasingly unequal during the first decades of its existence, with the Quad countries establishing a hierarchical order of states and tendencies towards exclusiveness. Especially following the Uruguay Round of trade negotiations and during the Doha Rounds, efforts have been made to better include emerging and developing countries in the agenda-setting and negotiation processes, reducing the procedural inequality. In the WTO, just as in the context of other international institutions, “ideational” and “material” factors matter (Fehl 2014), and they seem to foster less inequality in the WTO over time. Normative demands usually favor equality over inequality. Recent global economic power shifts and the rise of new powers have reduced inequality in the distribution of economic capabilities, which in turn could foster more equality, both formally and informally. However, as subsequent sections illustrate, the prospects for less institutional inequality in the global trading system have fewer clear-cut positive implications than might be expected.

**Mushrooming Free Trade Agreements**

An examination of the whole trading system – including the free trade agreements that are mushrooming outside the multilateral regime – underlines the significance of the institutional status quo of formal equality in the WTO. Formal equality in consensus decision-making contributes to deadlock and constrains efforts by the wider WTO membership to effectively promote their power positions and normative claims for the future design of the global trading system: Powerful members can always threaten to abandon the WTO as a forum for making trade rules and focus on (mega-)regional rather than on multilateral trade deals – thereby undermining the WTO’s centrality. In response to changes in the WTO that create more equality among all the member states, the powerful members can simply set up new, even more unequal institutions that weaken, and to some extent replace, the multilateral institution.

This process can be illustrated in the context of the global trading system: The slow progress of the Doha negotiations has led to debates about reforming the trade regime, such as by abandoning consensus decision-making for majority voting. However, such reforms have not been instituted. Instead, deadlock in the WTO rather generated an institutional innovation to sidestep the blockage through more and more bilateral and (mega-)regional rather than multilateral approaches. There is now a “spaghetti bowl” (Bhagwati 1995) of trade agreements: Hundreds of such free trade agreements have been concluded. But bilateral and regional trade-rule-making tends to entail more inequality than multilateral trade-rule-
making because less powerful countries have fewer – if any – options to veto the proposals of the more powerful, and fewer opportunities to create coalitions.

Recently, mega-regional trade negotiations have become increasingly relevant. If mega-regionals like the TPP and TTIP are established, a number of third countries, including rising powers and developing countries, are likely to suffer from the negative impacts of these agreements. Trade agreements lead to trade diversion effects. For example, lower trading costs between the USA and the EU would lead to increased trade between the two economies and reduced trade with third countries. Moreover, with regard to TTIP, the US and the EU will write new rules in areas such as intellectual property rights which could raise the threshold for enterprises which seek to enter the North American and European markets. TTIP is expected to negatively affect a number of developing countries and emerging economies including China (Felbermayr et al. 2015). China and other developing and emerging economies, including Thailand will also be negatively impacted by TPP (Petri & Plummer 2016).

So why are third parties – all the countries excluded from mega-regional negotiations – willing to accept institutionalized inequality in the context of the rise of mega-regional agreements? Many have no choice. They probably will have to respect the rules of mega-regionals in the future even though they have had no say in shaping them. They also cannot stop these initiatives that are occurring outside the multilateral trading system. In the context of TTIP and TPP, strong states, led by the US and the EU, write institutional rules which benefit them and generate positive (Pauwelyn 2014) as well as negative externalities, for instance through trade diversion. All the states that are not at the negotiation table for the new mega-regional agreements will end up being rule takers with regard to many of the important trade rules of the future.

Moreover, the better outside option of the old powers in the context of mega-regionals puts the rest of the WTO membership under pressure. For example, given the proliferation of bilateral and (mega-)regional agreements at the 2015 WTO Ministerial, many member states, including the rising powers, felt they had to agree to the proposed Nairobi Package. The lack of any outcome could have helped foster “the end of the consensus-based organization as a meaningful negotiating forum and usher in an era dominated instead by mega-regional deals like the Trans-Pacific Partnership, where the US gets to choose who's in and who's out” (Guida 2015).

As the US Senate Finance Committee Chairman put it: “America can’t wait [for] China and India... Instead, we should aggressively push for the conclusion of high-standard trade deals with our partners, who are willing to abide by the rules and meet the terms of our agreements” (Guida 2015). According to other observ-
ers, developing countries “have not woken up that this is a different world... If they’re not going to play ball in the WTO, the US and EU will pick up the ball and go play somewhere else” (Guida 2015). TTIP and TPP might thus be regarded as wake-up calls to other WTO members who will make compromises for fear that the US and the EU will lose all interest in the multilateral negotiation forum of the WTO. This is bad news for developing countries: Especially less powerful, poorer countries need the WTO in order to have a better chance to be heard.

**China and Mega-Regional Trade Negotiations**

The developing countries’ exclusion from negotiating new agreements such as the TPP and the TTIP, whose rules they will nevertheless have to follow because of the sheer market power of the countries involved, raises important questions concerning inequality. The countries that are relatively insignificant in terms of economic status and geopolitical position have the most to fear from mega-regionals. African countries, for example, are not part of any mega-regional negotiations. On the other hand, rising powers are in a better position to enter the competition for regional trade partnerships due to their economic and political weight. Indeed, China has put the spotlight on this challenge. Partly in reaction to TTIP and TPP, China has promoted “The Belt and Road Initiative” that focuses on connectivity and cooperation between China and the rest of Eurasia. It has also been actively promoting regional trade partnerships, pushing the Regional Comprehensive Economic Partnership (RCEP), a proposed mega-trade agreement in Asia.

More recently, China has begun to take interest in joining other mega-regionals, above all TPP. Its “wait and see” attitude indicates that China might be willing to join TPP at a later stage (Naughton et al. 2015). Simulations of several ongoing mega-regional negotiations suggest that China’s accession to TPP and membership in RCEP would generate the highest welfare outcomes for China (Li et al. 2016).

While China has become an initiator and active supporter of mega-regional trade negotiations and related activities (He & Yang 2016), Brazil and India have been more passive. India is worried about how TTIP and TPP will impact its economy. With regard to TPP, India is concerned about finding itself in a chess game between the “Chinese dragon” and the “US eagle” (Lehmann & Fernandes 2014). In the past, India has been wary of free trade agreements and focused mostly on regional and South-South agreements (Lehmann & Fernandes 2014). While India is participating in the RCEP negotiations, the country has not been pushing other regional and mega-regional initiatives. Compared with China, India has removed barriers to international trade slowly over the last decades. Its cautious
approach to trade liberalization can be explained by India’s complicated political system, which undermines compromises on trade policy, and its concerns about the potential effects on the poor: Almost one third of the Indian population still lives below the poverty line (Lehmann & Fernandes 2014). At the same time, the risks of isolation and being a mere rule taker provide the Indian government with reasons to become more active in the trade arena – above all in the multilateral system, but also in the G20. For instance, perhaps with China and Brazil, India could propose negotiations to open up goods and services markets among all developed economies and the G20 developing and emerging economies, with the option for others to participate at a later stage (Kelkar & Singh 2015).

Brazil has not been very involved in negotiating free trade agreements and instead has strongly focused on the multilateral trade liberalization track of the WTO. Brazil’s main preferential agreement in terms of trade value is MERCOSUR (the Southern Common Market). Brazil does not belong to any of the recent or current mega-regional negotiations and has not concluded any significant free trade agreements in the last two decades (George 2016). The country must decide whether to concentrate on increasing the competitiveness of its industry or strengthening its position in the global trade governance arena (Giacalone 2015). While Brazil is reluctant to liberalize trade and maintains relatively high trade barriers, there have been recent indications of a potential change in attitude. Along with other drivers such as the recent economic slowdown, TTIP seems to have convinced the Brazilian government and its economic elites of the need to consider being more open to the globalized world (Malamud 2014). Moreover, there have been a number of ideas for novel or re-launched Latin American initiatives – for instance, the convergence of MERCOSUR and Pacific Alliance and the acceleration to enlarge MERCOSUR – partly in response to TTIP. As the region’s largest economy, Brazil is in a key position to influence the potential and limits of these options (Giacalone 2015). Mega-regional trade negotiations can thus be said to affect Latin American regional integration and Brazil’s stance towards trade agreements.

While the rising powers have some leeway to counter the US- and EU-dominat-ed TPP and TTIP initiatives, they are still concerned about being excluded from these agreements. Chinese spokesmen have several times voiced concern about their country’s exclusion from TTIP and TPP. The start of the TPP negotiations created anxiety in China about how TPP might embody a US strategy to contain China. More recently, the spotlight has shifted to TTIP and the challenges of that transatlantic deal for China (Yang & Yiwei 2015).

In light of TPP and TTIP, Chinese experts and decision-makers have continuously underlined the WTO’s importance for the global trading system as well as the potential of the G20. “The international community should maintain com-
munications on global trade, especially through the institutionalization of the trade ministers’ conference of the G20,” as Wang Wen, the executive dean of Chongyang Institute for Financial Studies, stressed during a talk on the rise of trade agreements (Yiming 2016). The G20 Leaders’ Communique of the Hangzhou Summit during the Chinese G20 presidency stresses the commitment to “work together to further strengthen the WTO.”

The overall concern is that rising powers such as China could react to US- and EU-lead mega-regional negotiations by fostering opposing trade blocs. Rather than following a largely exclusive approach, the transatlantic partners should focus on global cooperation and work with rising powers and developing countries, especially given these states’ economic potential and global challenges in other policy fields, such as climate change, which can only be overcome together (Berger & Brandi 2015).

**Conclusion**

Mega-regional trade agreements are undermining the multilateral trading system more than ever. To secure the WTO’s future as a forum for negotiations, it is necessary to discuss reforming the global trading system. Such a debate has become more pressing – above all from the perspective of developing countries that suffer most from the weakening of the WTO.

This article has illustrated that the institutional status quo can limit actors’ efforts to make use of their changing power positions. It has also shown that it is not just an institution’s status quo that matters, in this case that of the WTO, but also the institutional context and member states’ outside options. If, as with the WTO, the outside options are better for dominant members – the old and rising powers – than for the subordinates, intra-institutional deadlocks could lead to the creation of new institutions, which not only tend to reproduce but may also even deepen inequalities. This article has also shown how important it is to assess not only formal but also informal dimensions of institutional inequality. In the WTO, informal inequality is decisive and considerable although formal equality is strongly institutionalized in the practice of consensus-based decision-making.

In the WTO, ideational and material factors seem to foster less inequality over time: Normative demands usually promote equality rather than inequality. Insofar as recent global economic power shifts and new powers like China, India and Brazil have reduced the inequality of economic capabilities, this could foster more formal and informal equality. At the same time, this article has illustrated that the WTO’s institutional inequality creates a dilemma. Insofar as inequality in the WTO is flattened due to material or ideational factors, the institution’s effectiveness might be viewed as being limited, reducing its benefits, principally for pow-
erful countries, who then abandon the WTO and the multilateral system. International organizations that mirror how power is distributed in the international system and act as vehicles for the interests of the economically most powerful states are only one part of the story. The other part is the powerful countries engaging in forum shopping – for instance, by fostering mega-regional negotiations.

The G20 could play a key role in the WTO’s future and the much-needed reform of the global trading system (Berger & Brandi 2016). Such a reform is challenging, especially if it is to also contribute to the UN Agenda 2030 for Sustainable Development and the SDGs. Bridging the gap between the realities of the global trading system and the aspirations of the Agenda 2030 is a formidable challenge. It cannot be tackled effectively in either the WTO or the UN. The G20 is a suitable forum for helping to bridge that gap.

Bio

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