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GLOBAL ECONOMIC GOVERNANCE: BEYOND MANAGEMENT BY THE UNITED STATES AND THE EUROPEAN UNION?

America, Europe, and the New Trade Order

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Abstract

Over the last 60 years, the multilateral management of trade through the GATT and subsequently through the WTO has been led by the United States and Europe. Since the turn of the new millennium, however, developing countries have increasingly used their leverage to insist that talks on agriculture receive priority attention, deny the inclusion of investment and competition policy on the negotiating agenda, and block agreement on negotiating modalities for agriculture and non-agricultural market access (NAMA). Cooperation between the United States and the European Union is still essential, but no longer sufficient, for successful multilateral negotiations. Specifically, the "BRICKs" (Brazil, Russia, India, China, and Korea) are likely to be pivotal in directing the course and contributing to the success or failure of the WTO.

KEYWORDS: trade policy, BRICKS, WTO negotiations, WTO reform

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Introduction

Six decades ago, representatives from 23 countries signed the General Agreement on Tariffs and Trade (GATT). Participating nations included the dominant powers of the time (the United States and United Kingdom), countries whose stardom in world trade would surface only at the end of the century (Brazil, China, and India), and others whose role in the world economy would rapidly diminish in subsequent years (Burma, Cuba, Lebanon, Syria, and Southern Rhodesia, now Zimbabwe). Six members of the European Union (Belgium, the Czech Republic, France, Luxembourg, the Netherlands, and the United Kingdom) were among the original signatories.

Due to historical accident, or more precisely the unwillingness of the US Congress to ratify the Charter for an International Trade Organization, the GATT served as the foundation for world trade rules until superseded by the establishment of the World Trade Organization (WTO) in January 1995. The GATT draftsmen drew heavily on precedents from the US Reciprocal Trade Agreements Act of 1934 as well as the experience of the British imperial preferences. By design and by participation, the GATT had a distinct transatlantic orientation—though at the onset the *primus inter pares* was the United States, the dominant economic and military power in the Western world.

The first decade of the GATT could be called the age of US enlightened self-interest. Half of the eight multilateral trade rounds under the GATT took place during this first decade and primarily produced substantial reductions in US tariffs (see appendix A for a list of the GATT/WTO trade rounds). For example, the first GATT Round in Geneva (1947) resulted in US commitments to cut its industrial tariffs by 26 percent and arguably helped kick start the economic recovery from the devastation of the Second World War.[1] US trade liberalization, in conjunction with generous amounts of development assistance through the Marshall Plan and other programs, provided an "economic stimulus package" to help rebuild the war-torn economies of Western Europe and thereby ensure a stable economic base for democratic governance and a reliable buffer against Soviet expansionism. Indeed, these foreign policy and security interests were key drivers of US unilateral liberalization during the first decade of the postwar period.

The United States was the *demandeur* of all eight GATT rounds of multilateral trade negotiations. The initial four rounds focused on reconstruction and development. Since then, however, US interest in pushing new multilateral negotiations largely reflected the need to address issues on the transatlantic agenda, notably: (1) trade preferences and subsidies provided to spur European

[1] WTO 2007, 207. The WTO paper reports weighted tariff reductions of industrial countries for industrial products in each of the eight GATT rounds between 1947 and 1994.

integration (e.g., the common agricultural policy in the early 1960s); (2) changes in tariff schedules and distortions resulting from the enlargement of the European Communities (EC); and/or (3) major transatlantic trade disputes (e.g., concerning the Domestic International Sales Corporation subsidies, and the American Selling Price for chemical products). As a practical matter, the Kennedy Round (1963-1967) and the Tokyo Round (1973-1979) largely encompassed a transatlantic agenda and were dominated by US and European negotiators.[2]

Challenges to US-European Hegemony in the Post-GATT Era

In the GATT rounds, a US-EC compact generally was sufficient to seal a deal. To be sure, there were other active participants, particularly Canada, Japan, Australia, and the Nordic countries, but the major decisions came from Brussels and Washington. Under the GATT's myriad provisions on "special and differential" (S&D) treatment, developing countries were not required to offer reciprocal liberalization of their own trade barriers, and with a few notable exceptions those countries stayed on the sidelines. While they benefited from the liberalization commitments entered into by the United States and the European Community under the GATT's most favored nation (MFN) obligation, all too often that liberalization excluded or gave short shrift to the priority export interests of the developing countries. No wonder that—after eight rounds of multilateral trade reforms—the remaining barriers protecting the US and European markets primarily target the competitive agricultural and manufactured exports of developing countries.

The Uruguay Round broke from these negotiating precedents by requiring that all the issues under negotiation be considered part of a "single undertaking" to which all participants had to commit. Developing countries could no longer be "free riders" as in past rounds and several of them participated actively in the negotiations. But the US and EC officials still determined the basic content of the trade package because of an extraordinary development: the late inclusion during the course of the Uruguay Round of negotiations on an agreement to establish the WTO. This accord established a new organization that strengthened the institutional structure of the trading system and superseded the GATT. In so doing, it created a dilemma for developing countries, since if a country declined to sign the comprehensive Uruguay Round accords as a package, it would not qualify to join the new WTO (and thus might no longer maintain its MFN rights). The institutional reform essentially gave the major trading powers substantial leverage to force developing countries to accept a broad range of new trade obligations (albeit with some S&D provisions) in the Uruguay Round—whether

[2] See, for example, Evans 1971; and Winham 1986.

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or not their governments were in a position to implement and enforce the new provisions.[3] Indeed, one of the WTO's main problems has been how to respond to demands by developing countries for compensation for the extensive obligations effectively imposed on them in the last GATT round.

The concept of a single undertaking carried over into the WTO era and has been part of the framework of the Doha Round, launched in November 2001. However, in a 180 degree reversal from the Uruguay Round precedent, this procedural requirement now gives developing countries some leverage to push their own export interests— if US and EU officials do not address their priority demands, then developing countries can simply prevent the Doha Round deal from closing.

In a nutshell, this situation explains the first seven years of the Doha Round. Developing countries have used the leverage of the single undertaking to insist that talks on agriculture receive priority attention, deny the inclusion of investment and competition policy on the negotiating agenda, and block agreement on negotiating modalities for agriculture and non-agricultural market access (NAMA) until they receive broad flexibility to exempt their sensitive products from the trade liberalization.

Cooperation between the United States and the European Union is still essential, but no longer sufficient, for successful multilateral negotiations. US and European hegemony, so prominent in the GATT era, has been compromised by the rapid development of a number of developing countries that have substantial and growing stakes in the world trading system and accordingly now claim a more prominent role in the WTO's decision making process.

The following sections examine the growth of five countries that have begun over the last decade to assert their interests in the WTO and/or will likely do so in the near future, and their impact on transatlantic trade policies. The paper concludes with recommendations on how the United States and the European Union should work together with the major developing countries to unblock the Doha Round and restore vitality to the multilateral trading system.

The WTO System and the BRICKs

Most observers, as well as the conference organizers, posit that the transatlantic leaders of the WTO face a "Défi Asiatique." Such a narrow geographic focus understates the importance of Brazil and the potential role of Russia upon its accession to the WTO, in tandem with the new Asian trading powers: China, India, and Korea. With a respectful bow to the highly overpaid pundits of global finance, I label these countries the "BRICKs" (Brazil, Russia, India, China, and

[3] This problem was particularly severe with regard to the agreement on trade-related aspects of intellectual property rights, or TRIPS.

Korea).[4] I include Russia because it could soon enter the WTO and subsequently influence the future of the WTO in key areas like energy, climate change, and investment.[5] All of the BRICK countries already are a major focus of US and EU trade policy. Looking forward over the next decade, these five countries are likely to be pivotal in directing the course and contributing to the success or failure of the WTO.

To understand why, it is sufficient to look at their rapid economic growth and the sharp increase in global trade in general, and trade with the United States and the European Union in particular. Tables 1 and 2 report the size and increasing global engagement of the BRICKs. At market exchange rates, their combined 2008 GDP is almost $10 trillion or almost 70 percent that of the United States and almost twice as large as the Japanese economy.[6] Looked at another way, the economies of Brazil, India, and Korea together are almost as large as China; government officials should keep that statistic in mind lest their trade policies toward emerging markets become too China-centric.

Of course, the size of these economies is only part of the story; they also are among the fastest growing economies in the world—and thus have become the focus of many firms (and farmers) seeking new export opportunities. China has led the way with double digit growth between 2004 and 2007, with India and Russia recording average annual growth of almost 9 and 7 percent during that time, respectively. Brazil and Korea have not achieved the same success, but their growth has been robust compared to the transatlantic economies. While not

[4] Recall also that three of these countries were original signatories to the GATT but secondary players in the GATT era.
[5] The Russian military intervention in Georgia in August 2008 pushed Russia's WTO accession negotiations to the backburner, much like China's talks were deferred after the massacre in Tiananmen Square in 1989. Then, in June 2009, Prime Minister Vladimir Putin announced that Russia will first complete a customs union with Belarus and Kazakhstan so that all three countries can join the WTO together; these conditions, if maintained, could set back the accession process by years.
[6] Using purchasing power parity (PPP) data, the combined 2007 GDP of the BRICKs is slightly larger than US GDP and 3.5 times greater than Japanese GDP. See IMF 2008.

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Table 1. The BRICKS: Growing Markets

($ billion and %)

	2008 GDP (Current $)	Real GDP Growth (year on year, %)					
		2004	2005	2006	2007	2008	2009[e]
Brazil	1573	5.7	3.2	4.0	5.7	5.1	-1.3
Russia	1677	7.2	6.4	7.7	8.1	5.6	-6.0
India	1210	7.9	9.2	9.8	9.3	7.3	4.5
China	4402	10.1	10.4	11.6	13.0	9.0	6.5
Korea	947	4.6	4.0	5.2	5.1	2.2	-4.0
Subtotal	9,808						
Memorandum:							
US	14,265	3.6	2.9	2.8	2.0	1.1	-2.8
Japan	4,924	2.7	1.9	2.0	2.4	-0.6	-6.2
EU (27)	18,394	2.6	2.2	3.4	3.1	1.1	-4.0

e: Estimates

Source: International Monetary Fund, World Economic Outlook Database, April 2009

Table 2. The BRICKS: Global Exports and Imports

($ billion)

	1993		2000		2007	
	X	M	X	M	X	M
Brazil	39	31	60	62	174	136
Russia	44	27	103	34	344	239
India	21	21	43	50	151	247
China	92	104	249	225	1,218	967
Korea	86	87	172	160	361	365
Subtotal	282	270	627	531	2,248	1,954
World Total (excluding intra-EU)	2,749	2,880	4,744	5,046	10,250	10,952

X: Exports to World; M: Imports from World.

Source: Direction of Trade Statistics CD ROM, July 2008, IMF immune to the sharp contraction in world trade in 2009, China and India have continued to grow markedly while Korea and Brazil have experienced shallower GDP declines than many other major trading nations.[7]

The trade and investment profile of the BRICKs also grew substantially between 1993 and 2007. Since 1993, the BRICKs together have more than doubled their share of world exports (table 2). In 1993, the five countries together accounted for $282 billion or 10 percent of world exports. By 2007, the BRICKs exported $2,248 billion worth of goods or 22 percent of the world total. China accounted for 57 percent of that growth; the rest came from Russia (15 percent), Korea (14 percent), and Brazil and India (7 percent each).

A substantial share of this trade has been with the transatlantic nations (see table 3). In 2007, the BRICKs accounted for 26.2 percent and 19.2 percent of total EU and US merchandise trade, respectively. Since 2000, EU trade with the BRICKs has more than tripled to almost $970 billion in 2007 (of which $408 billion or 42 percent was with China); US trade with the BRICKs increased two and a half times over this period and totaled about $612 billion in 2007 (of which $405 billion or 66 percent was with China).

Also notable is the growing role of the BRICKs as hosts for substantial amounts of foreign direct investment (FDI). At year-end 2007, the stock of FDI in the BRICKs was valued at about $2.4 trillion and represented over half of the FDI invested in developing countries (see table 4).[8] According to UNCTAD (2008), the BRICKs attracted $256 billion in FDI in 2007 or about 14 percent of world FDI flows that year.

The emergence of the BRICKs over the past decade has had important implications for the Doha Round. Simply put, bigger markets mean these countries have more “chips” on the table in Geneva and more leverage to broker deals among the large and diverse WTO membership.[9] Brazil and India assumed key roles in the Doha Round, joining the United States and the European Union in the so-called “G-4” informal steering group of the Doha Round that replaced the defunct “Quad” countries that mismanaged WTO talks in the previous decade. As a practical matter, Brazil and India replaced Japan and Canada in this grouping.

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[7] The exception is Russia; the IMF projects a 6 percent decline in GDP in 2009.

[8] These data include inward FDI attributed to “China, Hong Kong” as reported in UNCTAD’s World Investment Report 2007.

[9] To be sure, some smaller developing countries have been active on single issue or sectoral talks (eg, West African cotton exporting nations), but have limited ability to exercise their implicit blocking power—unless they are willing to risk bringing the entire multilateral process to a halt.

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Table 3. US and EU Trade with BRICKs in 2000 and 2007

($ billion)

	Brazil		Russia		India		China		Korea		Total	
	X	M	X	M	X	M	X	M	X	M	X	M
US 2000	15.2	14.4	2.3	7.8	3.7	11.0	16.0	106.2	27.3	40.9	64.4	180.4
US 2007	24.6	27.2	7.4	20.2	17.6	25.1	65.2	340.1	34.7	49.3	149.5	462.0
EU27 2000	15.4	17.9	21.1	58.8	12.1	12.0	23.6	63.5	15.1	24.6	87.5	176.8
EU27 2007	29.2	44.5	122.4	197.9	40.5	35.8	98.4	309.3	34.2	54.3	324.7	641.9

Note:

Global US exports and imports in 2007 in billions were $1,163 and $2,017 respectively, and in 2000, exports and imports were $772 and $1,238 respectively.

Extra-EU27 exports and imports in 2007 in billions were $1,716 and $1,980 respectively, and in 2000, exports and imports were $783 and $927 respectively.
X: US or EU Exports to BRICKs; M: US or EU Imports from BRICKs

Source: Direction of Trade Statistics CD ROM, July 2008, IMF

In August 2003, in the run-up to the WTO ministerial in Cancún the following month, Brazil organized a WTO "G-20" caucus of developing countries to coordinate positions on the Doha Round's agricultural negotiations. Though this group initially was criticized for contributing to the collapse of that ministerial, it subsequently played a constructive role in bridging differences between developed and developing country positions (and in muting extreme national positions among its diverse membership). To a lesser extent, India has followed a similar script in co-chairing work on trade in services. China's role has been more low-key and arguably counter to its overriding interest in a viable multilateral trading system; it is a member of several developing country coalitions but has not challenged others to commit to the level of openness to trade that it adopted in its protocol of accession to the WTO (and has subsequently augmented on an applied basis).

Among the BRICKs, only Korea has in most instances stayed on the sidelines. Korean officials seem to have discounted the potential outcome of the Doha Round from the start, instead pursuing regional trade pacts with their major trading partners in Asia, North America, and (most recently) Europe (as discussed further below).

Table 4. Foreign Direct Investment in the BRICKs: 2007

	($ billion)	
	Inflows	Stock
Brazil	35	328
Russia	52	324
India	23	76
China[a]	143	1,512
Korea	3	120
Subtotal	256	2,360
Developing Countries	500	4,247
World	1,833	15,211

a: Includes FDI into mainland China and Hong Kong.

Source: UNCTAD, World Investment Report 2008, tables B1, B2.

The role of the BRICKs in the WTO may have taken a decisive turn in the failed efforts in late July 2008 to achieve a breakthrough in long-stalled deliberations on the modalities for negotiating liberalization of agriculture and manufactures in the Doha Round. For the first time, China agreed to participate in the informal Doha steering group, raising hopes that it would share responsibility for moving the talks forward by contributing new market access offers. In the event, however, China aligned instead with India in opposing farm reforms for their economies—to the disappointment of Brazil and many other developing countries—and thus contributed to the breakdown in the negotiations. In so doing, the Chinese defection weakened the influence of the G-20 caucus in the Doha negotiations.

Yet only a few months later, another G-20 gained global prominence, linking the major trading nations in common effort to confront the global financial crisis. Brazil and Korea comprise two-thirds of the G-20 "leadership troika" along with the United Kingdom. At the G-20 summits in Washington (November 2008) and London (April 2009), the BRICKs actively pushed for a standstill on new trade protection and a revival of Doha negotiations as part of the broader response to the global crisis. Clearly, in this context, the BRICKs recognized the imperative of their participation in the stewardship of the world economy.

The rise of the BRICKs also has coincided with the proliferation of a dynamic new regionalism in the world trading system. To be sure, regionalism has always been part and parcel of the postwar trading system. As noted earlier, the GATT rules were developed off the template of US bilateral treaties in the 1930s and contain broad-ranging exceptions from the GATT's fundamental MFN principle. Apart from the series of accords that propelled the agglomeration of the

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European Communities, however, most of the regional agreements implemented during the GATT's first three decades were sideshows to the various rounds of multilateral trade negotiations.[10] And as I noted in my 2004 analysis of free trade agreements, the United States acceded to these European initiatives "in deference to broader security concerns, because they helped to build a stronger and more unified European Community against the Soviet threat."[11] The developing country pacts also were not challenged but for a different reason: because those countries didn't undertake substantial GATT obligations, their regional trade preferences didn't make much of a difference.

But regionalism has taken on a different flavor since the start of the 21st century. The locus of much of the activity has been East Asia, spurred in large measure by the goal of codifying the network of trade and investment linking China with its neighbors in Northeast and Southeast Asia. This reorientation reflected to some extent a reaction to the Asian financial crises of 1997-1998 and the desire to develop regional responses to regional problems, but the new interest in FTAs has less to do with an ideological shift away from WTO principles and more to do with the importance of China in the regional economy.

China propelled the advance of Asian regionalism with its overtures to the Association of South East Asian Nations (ASEAN) soon after its entry into the WTO in late 2001. Japan and Korea were then compelled to emulate the Chinese initiative, leading to the existing array of agreements between the 10-member ASEAN and China, Japan, and Korea (the so-called "10 + 1" agreements). These parallel pacts, though somewhat different in scope and depth of liberalization commitments, have raised the prospect of a "10 + 3" accord uniting the north-east and south-east Asian countries into a large Asian trading bloc that could provide a "Plan B" if the WTO talks collapse. These intra-Asian regional accords also pose a challenge for US and EU engagement in the region (as discussed in more detail later in this paper).

Korea has followed the most aggressive regional strategy of all the BRICKs, pursuing trade pacts with all of its major trading partners. In addition to the Korea-ASEAN pact noted above, Korea signed an FTA with the United States in June 2007 that awaits ratification; launched negotiations on a similar deal with the European Union that are nearing completion in 2009; concluded a comprehensive economic partnership agreement with India in August 2009; revived FTA talks with Japan that have been stalled since December 2004; and advanced consultations with China with the aim to open negotiations on a

[10] Developing countries engaged in a series of ill-defined and mostly failed ventures at regional integration. The United States only entered the FTA "market" in the mid-1980s, concentrating its efforts on its Western Hemisphere neighborhood until the turn of the century. For a discussion, see Schott 2004.

[11] Schott 2004, 5.

bilateral trade pact. Korea seems to be following a hedging strategy, putting most of its trade efforts into regional deals in expectation of a Doha disappointment.

The other BRICKs also have actively pursued regional trade deals since the onset of the Doha Round. Brazil has sought to broaden its Mercosur partnership to its other South American neighbors, and opened new talks with South Africa and India. These initiatives complement Brazil's WTO strategy but do not substitute for a comprehensive WTO deal that would open US and European markets to Brazilian agricultural exports—that remains Brazil's #1 trade priority. In contrast, India's new bilateralism (including its ongoing but troubled FTA negotiations with the European Union) seeks to substitute partial scope deals for a comprehensive WTO accord, underscoring India's resistance to conferring MFN benefits to major trading countries (particularly China) in the Doha Round.

Academics and politicians continue to argue whether these initiatives are a boon or the bane of the WTO.[12] In any event, the BRICKs have been important drivers of preferential trading arrangements—both to complement ongoing WTO negotiations and to hedge against the possibility that the Doha Round could yield only modest results or fail outright.

The BRICK Backlash

The rise of the BRICKs has been a mixed blessing for WTO members, who value the commercial opportunities available in the dynamic BRICK economies but worry about (1) competing against these countries for foreign investment and exports, and (2) deflecting import surges from the BRICKs that threaten to swamp their domestic markets. These concerns have become even more intense in light of the global recession and sharp contraction in world trade and investment. Consequently, many developing countries are reluctant to consider new liberalization in the Doha Round because they already face problems adjusting to competition in both home and export markets from China and other major developing countries. These concerns are compounded by the reluctance of the BRICKs to offer substantial cuts of their own trade barriers in the Doha Round, especially in areas of export interest to other developing countries.

These tensions are also evident in the United States and Europe, which both face growing competition abroad and growing restiveness at home due to concerns about the impact of trade and investment on domestic production and employment. While exporters and investors see opportunities for economic recovery and growth in the BRICKs, other domestic firms and workers warn about footloose industries and the offshoring of jobs. Their concerns have

[12] See, for example, Schott 2004; Warwick Commission 2007; and Baldwin and Thorton 2008.

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translated into new demands for protectionist policies to blunt import competition and combat job dislocation.

Both the European Union and the United States have used trade policy as part of the response to the adjustment pressures resulting from globalization in general and competition from China in particular. These external forces shape trade negotiating priorities and the use of trade remedies to combat unfair imports. In both markets, antidumping measures have been deployed frequently to blunt import growth from East Asia, particularly in the areas of textiles, apparel, and footwear. Both the United States and the European Union also fight fire with fire, deploying their own trade-distorting subsidies and trade restrictions to protect their farmers and to shield producers of biofuels from competitive imports from Brazil.

The financial crisis has exacerbated this protectionist streak. Pledges by the G-20 countries to reject protectionism have been honored in the breach. Major economies have moved to support ailing domestic industries, particularly the automobile industry, in contravention of the letter or spirit of WTO rules. Illustrative of such measures are the "Buy American" provisions included in the $787 billion economic stimulus bill passed by the US Congress in February 2009. Potentially even more troublesome are the extensive subsidies provided in the United States and Europe to help restructure domestic auto makers and parts suppliers.[13] In addition, the American Climate and Energy Security Act (ACESA), that passed the House of Representatives in June 2009, contains provisions that could require the imposition of US trade barriers against carbon intensive goods from China, India, Brazil and others if those countries fail to adopt climate policies comparable to those of the United States.

Additional and broader measures also are being vetted to counter China's undervalued currency. US legislation targeting China has gone through several iterations; initial threats to impose across-the-board import tariffs of 27.5 percent if China did not revalue the renminbi have been replaced by seemingly more WTO-friendly demands that US officials challenge the Chinese currency regime under the provisions of GATT Article XV. In the face of a weak economy with rising unemployment, members of Congress will be increasingly receptive to legislation that threatens trade retaliation in the absence of Chinese currency reforms.

For both transatlantic partners, China bashing has become allied with renewed calls for economic nationalism, the blood brother of trade protectionism. Several years ago, public outcries in the United States doomed the proposed Chinese purchase of UNOCAL. More recently, investments by sovereign wealth funds, especially those from the Middle East and East Asia, have provoked

[13] See Brunel and Hufbauer 2009.

nationalistic outbursts reminiscent of the planned Dubai Ports World investment in US East Coast seaports in 2006,[14] and the Bain-Huawei offer to buy 3Com fell apart after critical scrutiny of the deal by the Committee on Foreign Investment in the United States (CFIUS). We could well see more such cases on the CFIUS docket in the coming years.

Like their US counterparts, EU officials face strong anti-globalization undercurrents that reflect economic insecurity, trade protectionism, and economic nationalism. Concerns about East Asian trade, jobs exported to Eastern Europe and Asia, and increased immigration continue to echo major themes in the US political debate. Investment policies of EU member states are being contorted to develop national champions to defend the national patrimony against intrusions by China and, more recently, sovereign wealth funds. My fear is that additional sectors will be classified as "strategic" and targeted for protection—including information technology and telecommunications as well as energy production and distribution. It's not hard to see how the current clamor could lead to further calls for national ownership of strategic assets, and in turn provide a political excuse to block reforms involving establishment in goods and services industries.

In sum, the rise of the BRICKs creates new opportunities and challenges for US and EU policy and for the management of WTO negotiations. What can the United States and European Union do to deflect protectionist impulses at home and respond constructively to these new challenges? I offer a few tentative thoughts in the next section of this paper.

How Should the Transatlantic Partners Respond?

The United States and the European Union are the world's largest economic entities by far and remain the leaders of the world trading system. No other country seems to be ready or willing to accept the leadership mantle and responsibility for contributing to WTO reforms. The BRICKs are performing relatively well under the current system and seem to discount the possibility that the current protections of the global trading rules could unravel, with subsequent adverse consequences for their economic development. Put another way, they act as if the WTO status quo is sustainable, and that the transatlantic powers will continue to accept the cost of maintaining the rules-based multilateral trading system. Their behavior during the July 2008 WTO meetings in Geneva would seem to validate this assessment.

How should the United States and the European Union respond to the BRICKs? Some observers propose closer integration of the transatlantic economies, perhaps through convergence of regulatory policies as part of a

[14] See Graham and Marchick 2006.

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broader Transatlantic Economic Partnership, in order to boost their productivity and competitiveness vis-à-vis the BRICKs.[15] Such efforts are desirable, provided that they avoid discrimination against third countries; otherwise, they could significantly erode the foundation of the rules-based multilateral trading system. Others counsel the traditional strategy of crafting a joint approach to new trade initiatives in the WTO (as done in the area of environmental goods and services in the Doha Round) and renouncing the bilateral critiques of each other's proposals that have fueled the dueling press conferences throughout the Doha Round.

Can the United States and European Union work together to foster better trade relations with the BRICKs and to improve prospects for successful initiatives in the WTO? In many respects, the United States and European Union already are emulating major components of each other's policy. However, joint action is impeded by problems in several areas of transatlantic relations: "big ticket" bilateral trade disputes, regulatory competition, and competing regionalism--especially in Asia.

The most prominent bilateral disputes involve aircraft and biofuels subsidies and genetically modified (GM) foods; all are being litigated in the WTO. The United States and the European Union have challenged each other's subsidies to Boeing and Airbus, respectively, in parallel cases now subject to WTO dispute settlement. Similar tit-for-tat WTO litigation has been advanced against each other's biofuels policies. In addition, the United States has challenged in the WTO the unofficial EU moratorium on approving GM products for entry into the EU market. Despite a WTO panel ruling against the EU measure, EU compliance has been deterred by strong popular opposition to GM foods within Europe.

Regulatory policies also have become a fertile ground for transatlantic rivalry, as each side attempts to encourage the adoption of international standards that emulate its own practices and policy objectives. Such competition is already rampant in telecommunications and other high technology sectors. In this regard, each side deploys bilateral or regional pacts to harmonize specific trading rules and standards based on its own law and practice, and to develop "WTO-plus" provisions in the areas of services, investment, and intellectual property tailored to its regulatory standards that can then set precedents for broader international regimes. For the United States, such competition could be increasingly troublesome at a time when the European Union is accelerating its negotiating activity while new US FTA ventures are on hold pending a policy review by the Obama administration and formulation of new US legislation to replace the expired "fast track" trade negotiating authority.

[15] See Atlantic Council 2007.

Competing regionalism potentially poses a major threat to transatlantic cooperation. For the past two decades, the United States and the European Union have launched separate but similar trade initiatives with their main trading partners; in other words, regional trade policy of the transatlantic powers has followed a strategy of "competitive liberalization."[16] In most instances, and particularly since the establishment of the WTO, the European Union has sought to emulate US agreements.

Table 5 provides a summary of this increasingly global trade competition. The geographic reach of EU regional trade initiatives now extends well beyond the European neighborhood and involves negotiations in Asia, Africa, and Latin America. In 2007, EU officials formally lifted their hortatory, self-imposed ban on new FTA initiatives during the Doha Round and launched negotiations in May-June 2007 with South Korea, India, and the Association of South East Asian Nations (ASEAN).[17] The EU is currently emulating US talks with Korea and the ASEAN. In Korea, EU officials seek a comparable deal to the US-Korea FTA signed in June 2007 and awaiting ratification in each legislature. In contrast to the fragmented US approach with the ASEAN—which includes the 2004 US-Singapore FTA, stalled FTA talks with Thailand and Malaysia, and the US-ASEAN Trade and Investment Framework Arrangement of 2006 Asia - the European Union seeks a free trade deal with the 10-member ASEAN group. With India, EU efforts to craft a bilateral FTA seek to go further than the nascent US initiatives, which to date have focused on a possible bilateral investment treaty in the context of the newly-created US-India Trade Policy Forum.

Like the United States, the European Union has not sought free trade talks with China; instead, it is seeking to establish new consultative forums (emulating to some extent the US-China Strategic Economic Dialogue but with a Brussels-style nameplate, the High Level Trade Mechanism) to discuss the growing EU bilateral trade deficit with China, the Chinese currency regime, EU antidumping cases against Chinese products, and other matters.

[16] The term was coined by my colleague, Fred Bergsten, and later adopted by US Trade Representative Robert Zoellick as a keystone of US trade policy in the Bush administration. See Bergsten 1996.

[17] In addition, EU and Japanese business lobbies are exploring the costs and benefits of opening talks on a trade deal comparable to the EU-Korea FTA that is likely to be signed in 2009.

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Table 5. Competitive Regionalism[a]

	2007 X+M		Status
	US	EU	
Chile	15.7	21.6	US: FTA signed in 2003; implemented in Nov. 2004. EU: AA since 2003
Israel	26.8	36.2	US: FTA since 1985 EU: Cooperation Agreement in 1975; AA since 2000.
Mexico	377.4	51.4	US: FTA since 1994 (NAFTA) EU: FTA since 2000
Cariforum[b]	31.5	10.9	US: FTA with Dominican Republic in 2007 (CAFTA-DR). EU: EPA signed in December 2007
Korea	83.3	91.7	US: FTA signed in June 2007 EU: EPA negotiations since May 2007
Andean Community[c]	38.5	20.0	US: FTA with Colombia signed in Nov. 2006; FTA with Peru signed in April 2006 and ratified in Dec. 2007. EU: AA negotiations since 2007
Mercosur[d]	58.4	89.0	US: Part of moribund FTAA negotiations EU: FCA since 1992 (1990 for Argentina). AA negotiations since 2000.
ASEAN-10[e]	179.6	190.3	US: EAI with ASEAN-10; TIFA in 2006; FTA with Singapore signed in 2004; FTA talks with Thailand and Malaysia not completed. EU: FTA negotiations since 2007.
India	42.2	76.7	US: Launched Trade Policy Forum in 2005; no current trade negotiations, but vetted BIT. EU: TIA negotiations since 2007
Morocco	2.1	28.5	US: FTA signed in June 2004; implemented in Jan. 2006. EU: Euromed EPA since 1995
Subtotal	855.5	616.4	
Share of World Trade (%)	27.7	17.1	
Memorandum:			
World Two-Way Trade	3,085.2	3,600.9[f]	

All values $ billion.

a. AA: Association Agreement; BIT: Bilateral Investment Treaty; EIA: Enterprise for ASEAN Initiative; EPA: Economic Partnership Agreement; FCA: Framework Cooperation Agreement; FTA: Free Trade Agreement; TIA: Trade and Investment Agreement; and TIFA: Trade Investment Framework Agreement.

b. The Cariforum countries are; Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, the Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Saint Lucia, Saint Vincent and the Grenadines, Saint Christopher and Nevis, Surinam, and Trinidad and Tobago. Data for Antigua and Barbuda is not available.

c. The Andean community countries are: Bolivia, Colombia, Ecuador, and Peru.

d. Mercosur countries are: Argentina, Brazil, Paraguay, and Uruguay.

e. ASEAN 10 countries are: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

f. The figure does not include the intra-EU trade.

Source: Direction of Trade Statistics CD ROM, April 2009, IMF

While Asia is the current flashpoint of competitive regionalism, the transatlantic countries also have both sought—with mixed success--free trade ventures with Latin American countries. Both have tried to engage Brazil in broader regional agreements. Here again, EU officials sought to "compete" against US initiatives, in particular the ambitious and now dormant negotiation of a Free Trade Area of the Americas, by negotiating an association agreement with the Mercosur partners (Argentina, Brazil, Paraguay, and Uruguay).

Finally, both transatlantic powers have undertaken trade talks with Russia, primarily in the context of ongoing negotiations on that country's WTO accession. In addition, the European Union and Russia signed a Partnership and Cooperation Agreement in 1997. In May 2008, EU member states agreed on a mandate to renew negotiations for a more comprehensive agreement, going beyond WTO obligations (once Russia has acceded) and focusing particularly on regulatory barriers to trade. By contrast, the United States does not have a framework for trade relations with Russia. When Russia accedes to the WTO, the US Congress will have to pass legislation to confer most-favored-nation treatment to Russia on a permanent basis.

In sum, US and European policies regarding regional trade initiatives seem to be converging, and largely toward the US model. The share of total US and EU trade covered by these competing initiatives is small (27 percent of total US trade and 16 percent of total EU trade),[18] but the trade shares do not capture the importance of these pacts in terms of advancing foreign policy interests and in pushing the envelope of economic reforms, especially in the area of services and investment. However, domestic support for these initiatives—in both the United States and in Europe—is tepid in part because the public perceives that these accords benefit investors more than production workers. Indeed, the US and European policy debate is now being driven largely by the concerns of domestic firms and workers that face large-scale restructuring and tough import competition from the BRICKs and other countries. Again, this factor explains in large measure the strong backlash against the BRICKs and the difficulty that the transatlantic powers have had in crafting agreements in the current multilateral trade negotiations.

Transatlantic Cooperation and the BRICKs

The United States and the European Union are the world's leading trading nations; the transatlantic powers also are each other's main trading partners in goods and services, and are tied together through extensive FDI in each other's

[18] However, if one includes countries that have trade pacts with only one of the transatlantic partners (e.g., Canada for the US; Mediterranean countries for the EU), the relative trade share increases significantly.

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markets. This broad economic relationship has provided substantial dividends to both sides. Throughout the postwar era, both partners have worked together to their mutual benefit and have led the GATT/WTO and the world economy through successive periods of reconstruction, trade liberalization, and globalization. The fact that GATT/WTO membership has grown from 23 in 1947 to 153 in 2009 is a clear testament to their successful stewardship.

Going forward, however, the transatlantic partners need to adapt both the content of world trade talks and the governance of world trade relations to the economic reality of the 21st century. A successful Doha could yield sizeable welfare gains, a large part of which would accrue to the United States and the European Union. More importantly, it could contribute to lifting millions of people out of poverty. The challenge will be to update and revamp the WTO negotiating agenda inscribed in the Doha Declaration of November 2001 so that it better addresses the key problems that now face international commerce, as well as the economic concerns of the BRICKs.[19] If these challenges are not taken up promptly, the Doha Round could drift into a deep and prolonged hibernation. More worrisome, if Doha becomes the first round to fail, it would extensively damage the viability of the rules-based multilateral trading system. Both the BRICKs and the transatlantic partners need to work actively together to prevent such a costly outcome from unfolding.

To date, however, the BRICKs seem overly complacent that the status quo in the WTO will be maintained and not undercut by a new wave of protectionism. Even as they demand and merit a stronger voice in WTO decisions, the BRICKs have been seemingly unwilling to accept leadership responsibilities. China, for example, has not represented the positions of other developing countries in the Doha Round; indeed, many developing country members are reluctant to engage in the WTO negotiations because of concerns regarding competition from China. While Brazil deserves credit for organizing an agricultural caucus to try to bridge differences between developed and developing countries, the group has been better in discussing what it opposes than what it supports (largely due to frictions among the G-20 caucus members). Korea has been indifferent to the WTO talks, and India has been a principal footdragger because of its refusal to consider reforms of its agricultural policies. Russia, of course, is not yet a member and has been in the forefront in erecting new protectionist barriers in response to the global economic crisis in 2008-2009.

Bluntly put, the BRICKs want to be players but not leaders of the WTO. Unlike previous rounds, they have worked hard to push their national priorities both in terms of their "offensive" export interests and their "defensive" interests

[19] Just prior to the WTO meetings in Geneva in late July 2008, I proposed a 5-step approach to Doha rehabilitation that included substantive additions to the negotiating agenda. See Schott 2008.

in maintaining protection for domestic industries and farmers. But they have not given much weight to systemic factors (i.e., the general benefit of improved rulemaking or the costs of inaction or failed negotiation).

Thus, it falls to the United States and Europe to work together to finish the Doha Round—this is critically important for the maintenance of a viable multilateral trading system. The transatlantic powers need to lead by example by improving their offers to liberalize trade in goods, services, and agriculture. Such initiatives are necessary but not sufficient to put together a final Doha package; the BRICKs and a few other major trading nations will also have to reciprocate, especially in services, to ensure that the Doha deal can close and can be successfully ratified by national legislatures.

To do so, the transatlantic partners and the BRICKs need to find a common bridge to link their divergent positions…and they need to look no farther than the challenge of melding trade obligations to the environmental imperative to mitigate greenhouse gas (GHG) emissions. For a variety of reasons, developing common approaches to reduce greenhouse gas emissions is a priority for both environmental and trade reasons. German Chancellor Angela Merkel put the topic in the top echelon of challenges facing the G-8 at the 2007 summit; the Obama administration will accord the topic similar priority (in contrast to its predecessor).

The environmental issue already is being pursued to a limited extent in the current Doha negotiations. At the December 2007 UN conference in Bali, the European Union and the United States put forward a two-tier proposal. The first tier calls for all WTO members to scrap tariffs on at least 43 products identified as climate friendly by the World Bank, including solar panels, wind mill turbines, clean coal and energy efficient lighting. The second calls for an agreement between all members establishing further binding commitments for eliminating tariffs and nontariff barriers on green technologies. Developing countries criticized the proposal for excluding biofuels (which, oddly, are categorized as agricultural goods for the purposes of WTO negotiations).

In 2009, the United States and European Union will give priority to developing a global regime on climate change that supersedes the Kyoto Protocol. Both will need to work together to elaborate plans to address competitiveness concerns that could arise under a new carbon regime, to resolve bilateral frictions over biofuel subsidies, and to ensure that a new international compact (or compacts) provides for substantial reductions in GHG emissions in a manner that is equitable for all the major emitting countries.

In the near term, neither US nor EU officials seem likely to put their extensive subsidies for biofuels—which are designed to promote domestic production and thus require trade restrictions against biofuel imports—on the Doha negotiating table. Subsidies and taxes to encourage energy efficiency and

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to punish polluters resonate well among politicians of all nationalities, especially when the subsidies go to their constituents and the taxes are applied against foreign competitors. In the post-Doha era, however, these positions are likely to change. Europe's biggest car and truck makers are pushing for a global deal on climate change—and WTO rules will have to be recast to complement the initiatives taken in the environmental accords. The challenge will be to engage the BRICKs, who count among the world's largest emitters of GHGs, to find effective solutions.

Another topic of common interest for the European Union, the United States, and the BRICKs involves the broad area of food security and food and product safety. In 2008, soaring food prices led some producing nations to limit food exports in a "beggar thy neighbor" attempt to temper inflation and food shortages. Food safety concerns, already manifested in the BSE and GM foods controversies, will intensify—as will concerns about the safety of products from China and other developing country suppliers. As producers and consumers, the BRICKs and the transatlantic partners should be working together in the Doha Round (preferably as part of an early harvest of the negotiations) to ensure that trade policy does not obstruct access to critical food supplies in developing countries.

With the world economy suffering its worst decline since the 1930s, and the Doha Round negotiations adrift, the stage is set for a resurgence of protectionism. The temptation, already evidenced in Geneva in late July 2008, will be to throw brickbats at the new economic powers on the world stage. But that won't help restore global economic growth or resolve the key problems of food, trade, and the environment that beset rich and poor alike. Both the transatlantic partners and the BRICKs need to respond constructively to protectionist impulses and to work cooperatively to develop solutions to major new challenges facing the global economy.

In sum, the rise of the BRICKs does not diminish the critical need for the United States and the European Union to continue to take responsibility for leading the world trading system. But it will require them to collaborate closely with the BRICKs to produce meaningful results.

Appendix A:
GATT/WTO Trade Rounds, 1947-2007

Name of Round	Time Period	Number of Member Countries
1. Geneva	1947	23
2. Annecy	1949	33
3. Torquay	1950	34
4. Geneva	1956	22
5. Dillon Round	1960-1961	45
6. Kennedy Round	1963-1967	48
7. Tokyo Round	1973-1979	99
8. Uruguay Round	1986-1994	117 as of end 1993
9. Doha Round	2001-?	153 as of end 2008

Source: WTO, World Trade Report 2007, p. 198

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