

INTERNATIONAL TRADE

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EU Commercial Policy in a Multipolar Trading System

In recent years the bipolar multilateral trading system of the post-war years has given way to a multipolar alternative. Although many specifics have yet to be determined, some contours of this new trade policy landscape are coming into focus. This article examines their implications for the EU's external commercial policy. Particular attention is given to both the state of business-government relations and the propensity to liberalise under the auspices of reciprocal trade agreements by Brazil, India, and China, the potential new poles of the world trading system.

Having drawn up with American counterparts the rules and institutions of post-war international economy European nations, often acting in collaboration, remain a dominant force in the multilateral trading system. For sure, European nations have pursued trade policies with foreign policy as well as commercial goals in mind and have signed bilateral trade agreements in addition to multilateral accords; yet the fact remains that, acting together, the members of the European Union¹ were one of the two poles of the world trading system. However, in the last 10 years other nations, in particular certain large developing countries, have contested these arrangements and arguably the bipolar world has given way to a multipolar alternative. This short essay examines some of the longer-term implications of a multipolar World Trade Organization (WTO) for European policymakers and explores what role the European Union might play in the multilateral trading system in the years to come. Along the way, I make a number of observations about the decline of the bipolar dominance of the world trading system, the factors likely to influence the future commercial policies of the emerging trading powers, and the possible form that future multilateral trade initiatives might take. These observations may be of interest not just to those concerned about Europe's place in the world but to those interested in the potential future trajectory of the multilateral trading system.

To me there are at least four important challenges to be faced when thinking through the implications of a multipolar world trading system. I will describe these challenges so as to better characterise the various elements of the required analysis. The first challenge is that the contours of this new world have not been pre-

cisely defined. Even so, part (and maybe enough) of the landscape is coming into focus. Given their recent economic performance and the positions taken during the Doha Round of multilateral trade negotiations, it seems that the identity of the new poles can be established with some confidence. I shall take these new poles, or trading powers, to be China, India, and Brazil. In what follows I argue that specific aspects of their economic reform programmes, in particular the nature of business-state relations, as well as their very limited experience of liberalising in the context of reciprocal trade agreements, will shape the ends and means that these three nations pursue in the WTO over the medium to longer term.

It is often said that the poles of the world trading system are supposed to provide its leadership. The second challenge, then, is that it is not immediately apparent what leadership means in this context.² Does it mean the capacity of a WTO member to ensure that its proposals end up on this organisation's agenda? Does it mean the ability to cajole other members into accepting a nation's plans for the multilateral trading system, be that with respect to the future market opening and liberalisation or the development of new rules for the world economy? Or does leadership include the capacity to successfully broker compromises and agreements among the diverse WTO membership? Does leadership include the capacity to encourage compliance by others with the WTO's rules and principles? Arguably, leadership in the WTO consists of all of these things and towards the end of this essay, after discussing the evolving multilateral trade landscape,

¹ As it was to become.

² Wolfe takes a different perspective examining, amongst others, what subset of the WTO membership effectively constitute "critical mass" in so far as the decision-making of that international organisation is concerned. See Robert Wolfe: Can the trading system be governed? Institutional implications of the WTO's suspended animation. To be published in Alan Alexandroff (ed.): Can the world be governed?, forthcoming 2007. Section 1 of Wolfe's paper contains a particularly interesting discussion of the notions of power, negotiations, learning, and agency in the context of the WTO.

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I will draw out a number of implications for the leadership that Europe could offer the multilateral trading system in the years ahead.

A third challenge concerns the question “whose trade policy is the EU’s trade policy?” This question speaks not only to the institutional mechanisms that determine EU commercial policy, but also to the interests of European Union member states, corporations, unions, and other interested parties.³ Although I will not dwell on these factors as much, I note that the EU’s population and member states have in recent years been sharply divided over the case for further liberalising their respective economies, in national, regional, and multilateral initiatives. (In the trade policy arenas this has manifested itself in a divergence of view on the merits of liberalising agriculture in the context of the Doha Round.⁴ Moreover, clear divisions between the member states have arisen concerning the use of so-called trade defence instruments, namely, antidumping, countervailing duties, and safeguard measures.⁵) Finally, EU member states have acted more aggressively towards the European Commission, a point that I doubt is lost on the EU’s trading partners. There are certainly connections between these considerations and the rise of a multipolar world, not least because it is the very growth of certain emerging markets that some see as a threat to European living standards and this factor has conditioned trade policy of the EU. These arguments also beg the question as to whether the European Union has the trade policy-making priorities and institutions it needs, a matter that is all the more poignant as 2007 marks the 50th anniversary of the signing of the Treaty of Rome.⁶

The final challenge concerns the WTO itself. At this stage the outcome of the Doha Round is unknown and, whatever the conclusion is, it could have important implications for the attitudes taken by the current and future poles of the world trading system. Some observers in industrialised countries, for example, see the Doha Round as the last multilateral trade round, arguing that securing agreement takes too long or

doubting that there is a basis for a reciprocal bargain that could form the foundation of a successful future multilateral trade round. Moreover, questions might well be asked of the WTO’s rule-making procedures and associated principles⁷ (including the consensus principle, the Single Undertaking, binding dispute settlement, the principle of reciprocity, etc.) These institutional factors and any changes therein will both be the result of decisions by WTO members and are likely to influence the future role of trading powers in the WTO.

Inevitably, in such a short essay some selectivity is required. In what follows I will focus on the fall of the bipolar world trading system; the factors likely to shape the commercial policies of the three emerging trading powers, namely, Brazil, China, and India; and the implications for the commercial policy of the European Union and the possible shape of future multilateral trade initiatives. Some concluding remarks follow. At most I hope that arguments developed here will encourage policymakers and analysts to reflect further on the four challenges described above and on what the shift towards multiple poles implies for the multilateral trading system.

The Fall of the Bipolar World Trading System

From at least the negotiation of the General Agreement on Tariffs and Trade (GATT) to the establishment of the WTO in 1995, the two dominant powers in the world trading system were the European Union (formally the European Communities and its Member States) and the United States. When Pascal Lamy was the European Commissioner for Trade he described the situation thus:

“One classical piece of conventional wisdom on the WTO is that nothing happens in the WTO without agreement between the US and the EU. Other countries stand aside, not always happily, until the elephants have fought it out and they are ‘invited’ to join the consensus. The other part of the conventional wisdom is that the US tends to lead the way, dragging with it an unwilling EU. This might have been true in earlier days of the GATT, but I do not believe it has been the case over the last few years”.⁸

The conclusion of the Uruguay Round which, in addition to cutting tariffs on merchandise trade further, brought agriculture, services, and intellectual property rights into the ambit of international trade rules,

³ An analogous question could be asked of the political economy of trade reform in each of the existing and emerging trading powers.

⁴ I documented those intra-EU differences on agricultural trade reform in Simon J. Evenett: *The WTO Ministerial Conference in Hong Kong: What Next?*, in: *Journal of World Trade*, Vol. 40, No. 2, April 2006.

⁵ Edwin Vermulst and I have documented the differences in view between member states concerning the efficacy of antidumping measures, see Simon J. Evenett, Edwin Vermulst: *The Politicisation of EC Anti-dumping Policy: Member States, Their Votes, and the European Commission*, in: *The World Economy*, Vol. 28, No. 5, 2005.

⁶ Recently I have evaluated both the near-term trajectory and the longer-term strategy of EU commercial policy, see Simon J. Evenett: “Global Europe”: An Initial Assessment of the European Commission’s New Trade Policy, in: *Aussenwirtschaft*, December 2006; Simon J. Evenett: *The Trade Strategy of the European Union: Time for a Rethink?* Paper prepared for Breugel, April 2007.

⁷ I admit that much has been written on these matters, too much in fact to summarise here. One contribution in this respect is the Sutherland Report. See Peter Sutherland, Jagdish Bhagwati, Kwesi Botchwey, Niall Fitzgerald, Koichi Hamada, John H. Jackson, Celso Lafer, Thierry de Montbrial: *The Future Of The WTO. Addressing institutional challenges in the new millennium*. Report by the Consultative Board to the Director-General Supachai Panitchpakdi, World Trade Organization; Geneva 2004. See also Robert Wolfe, op. cit., for a recent insightful analysis of such matters.

created a binding system of dispute settlement, and established the WTO, represented the high point in the influence of the transatlantic powers on the world trading system. During the Uruguay Round, for the large part, the European Community and the United States set the multilateral trading system's agenda, advanced their own interests, negotiated compromises, and eventually secured the agreement of the GATT membership. For sure the Uruguay Round took a long time to negotiate, experienced a few "near death" experiences along the way, and certainly involved the assent of other nations, but still the broad thrust of this initiative was guided by the two leading powers.

Europe and America's continued dominance of the world trading system was not to last. In just over 10 years since the conclusion of the Uruguay Round their influence has been vigorously contested and the WTO, the product of this transatlantic leadership, has suffered a considerable reversal of fortune. With hindsight it is possible to identify a number of factors responsible for this turn of events. First, chronologically speaking, were the doubts that many WTO members began to have in the mid-to-late 1990s about the efficacy of certain Uruguay Round agreements. Developing countries took aim in particular at the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs), arguing that it raised the cost of medicines in their countries without enhancing their availability. As this Agreement was seen by many industrialised countries as an important accomplishment of the Uruguay Round the battle lines were drawn and arguably the guerrilla war against the TRIPs agreement continues to this very day. Developing countries also called attention to what they saw as heavy costs of implementing the Agreement on Technical Barriers to Trade, the Sanitary and Phytosanitary Measures Agreement, and obligations entered into concerning customs reform. Despite the weak evidence offered in support of these claims, many developing country trade officials feared that the balance of costs and benefits associated with

the Uruguay Round trade agreements had shifted too far against them. Demands to address these concerns, including the potential renegotiation of certain agreements, grew over time. The legacy of bipolar control of the world trading system looked increasingly tarnished.⁹

A second development was the determination of the European Commission and the United States to introduce proposals that would further expand the binding rules of the multilateral trading system, in particular as they relate to domestic regulatory policies. Both sought in the mid-to-late 1980s the inclusion of labour and environmental provisions in WTO agreements. The European Commission also sought to negotiate multilateral disciplines on investment policy, competition law, transparency in government procurement, and trade facilitation (the so-called Singapore Issues). Many developing countries saw potential labour and environmental provisions as both directly undermining the cost competitiveness of their exports and providing a pretext for protectionist measures by industrialised countries and consequently vigorously opposed these provisions. One casualty of this opposition was the WTO Ministerial Meeting in Seattle, held in 1999, where the American chair got a taste of more of what was to come: robust opponents willing to block progress in a system based on the consensus principle. European objectives were to fare little better. At the Cancun Ministerial Conference in 2001 representatives of the African Group of developing countries vetoed the formal launch of negotiations of the four Singapore Issues and the meeting collapsed soon thereafter. Also, a joint US-EU proposal on the modalities for the agricultural trade negotiations was rejected as inadequate by a group of 20 or so developing countries led by Brazil and including China and India. The EU-US cartel over agenda setting and compromise brokering was over.

A third development at the Cancun Ministerial Conference and afterwards was the formation of different groups of developing countries keen to influence deliberations at the WTO. Care is needed here as developing countries have formed alliances before, including during the GATT era. Now, however, the scale and robustness of these groupings is of a different order. Some groupings have sought to aggressively cut the agricultural support paid by industrialised countries, others have argued to limit the reforms expected of their own agricultural sectors. Meanwhile other groups are oriented around regional, stage-of-development, and even product-related (e.g. cotton) concerns. Bro-

⁸ Pascal Lamy: Leadership, the EU and the WTO, speech given at the Evian Group, Montreux, Switzerland, 13 April 2002. Ostry characterises the bipolar dominance slightly differently and arguably more completely than Lamy: "The GATT worked very well, effectively managed from the 1960s by the European Community (now European Union or EU) and the US with a club of friends. No headlines for the General Agreement to Talk and Talk. The club model was based on a post-war consensus termed 'embedded liberalism': rules and other arrangements to buffer or interface between the international objective of sustained liberalisation through the reduction or elimination of border barriers and the objectives of domestic policy, sovereignty and stability. This largely transatlantic consensus was greatly aided by the use of reciprocity in negotiations (denounced as mercantilist by purists) and by the virtual exclusion of agriculture (via an American waiver and the near-sacrosanct European CAP or Common Agricultural Policy). Developing countries were largely ignored, although that began to change in the 1970s as a consequence of the OPEC oil shock". Sylvia Ostry: After Doha: Fearful New World?, in: Bridges, Year 10, No 5, August 2006, page 3 (italics in the original).

⁹ Sylvia Ostry, op. cit., offered the following colourful evaluation of what developing countries actually obtained from the Uruguay Round of multilateral trade negotiations "The Grand Bargain turned out to be a Bum Deal" (page 3).

kering compromises simultaneously among such a large number of groups became impossible and the obvious alternative – taking sequential steps towards compromise – ran into trouble as no individual WTO member or group was prepared to make concessions first, fearing that those concessions would be “pocketed” and the demands of trading partners ratcheted up higher. This proved to be a recipe for delays, stalemate, and endless missed deadlines.

Another innovation was that development-related considerations were supposed to be given particular attention during the Doha Round. The Ministerial Declaration launching the Doha Round is replete with development-related statements.¹⁰ If the emphasis on development concerns was the price that had to be paid by the European Commission and the USA to secure the launch of the Round in 2001, then that says something about the collective clout of developing countries and their capacity to influence the WTO agenda-setting process. The fact that subsequent discussions, in particular as they relate to Special and Differential Treatment and Aid for Trade, have rarely moved beyond generalities to specifics can be interpreted in a number of ways. It could imply that developing countries’ ability to influence the WTO’s agenda does not carry over yet to securing agreement on major items of interest to them. Alternatively, it could reflect the fact that developing countries are divided on some development-related matters (for example, the efficacy of measures to address preference erosion), or that they do not know what they really want in this respect (or cannot decide what they want until they see the other elements of a potential Doha Round agreement), or that they know what they want but do not want to specify their demands as of yet.¹¹ Moreover, doubts have been expressed about the commitment of certain industrialised countries, in particular the United States, to the development dimension of the Round.¹² The latter point may be a reminder that the end of the bipolar world trading system does not mean the end of these two trading powers’ influence.

It would be wrong to infer from this discussion that the decline of the bipolar world trading system was responsible for all of the trials and tribulations of the Doha Round. Nor does the foregoing discussion imply that the EU and the USA no longer remain central to

the destiny of the multilateral trading system. The latter’s economic size and extensive international trade and investment interests provide strong incentives to keep them engaged and underlie their still significant bargaining power. Even so, it is worth briefly noting the other central challenges faced during the Doha Round negotiations to date. These challenges may well be overcome in 2007 and, even if they are, a return to a bipolar world trading system seems highly unlikely.

A major obstacle experienced during the Doha Round negotiations is that, for various domestic political reasons in Europe, the United States, China, and India, to date it has been impossible to identify an overlap in the tolerable level of liberalising ambition. Nowhere is this more apparent than in the agricultural trade negotiations which have received prominent billing in this Round. Domestic considerations have forced the European Union, India, and China to limit concessions on market access to their agricultural sectors, which is precisely the opposite of the reforms sought by the United States (and, earlier, by Brazil too.) Apparently US trade negotiators feel they need aggressive foreign market opening for their farmers and ranchers if the latter are to be persuaded to accept reductions in domestic support payments (subsidies and associated payments) that America’s trading partners seek. Arguably, similar mismatches in ambition can be found in the current proposals to liberalise goods trade and national service sectors. In each case readily identifiable, strong domestic constituencies have sought to constrain the freedom to make concessions by national trade negotiators, with some interest groups seeking to cap reforms while others demand minimum levels of liberalisation. In my view these constituencies in Europe and in the United States have effectively and consistently outmanoeuvred supporters of trade reform and negotiators since the beginning of the Round. If such constituencies prevail and the Doha Round irrevocably collapses then there may well be questions about the extent and form of liberalisation that the WTO could possibly deliver in the medium term.

Another feature of the Doha Round has been the reluctance of trade negotiators to “pay” for other countries’ unilateral reforms. For example, few of the EU’s trading partners appear willing to give their European counterparts “negotiating credit” for implementing the unilateral reforms of the Common Agricultural Policy agreed to by EU Member States at the beginning of this decade. This unwillingness goes against two of the major tenets of WTO negotiations; namely, that it is bindings that matter and that the binding of previously undertaken unilateral reforms is of value. Perhaps corporate interests view completed unilateral reforms as “history” and, more importantly, as almost certainly ir-

¹⁰ The Doha Ministerial Declaration mentions the word “development” 39 times, the phrase “technical assistance” 21 times, the phrase “capacity building” 13 times, and the expression “Special and Differential Treatment” 8 times.

¹¹ It seems to me that many Least Developed Countries’ approach to the various forms of Special and Differential Treatment could well be examples of these last two possibilities.

¹² For example, the Doha Development Agenda is almost always referred to as the Doha Round in Washington, DC trade circles.

reversible. In which case, those interests are unlikely to be impressed by commitments to bind unilateral reforms because it does not create any new commercial opportunities for them. In such circumstances corporate interests may well demand as a condition for their support of the multilateral trade round further actual liberalisation on the part of trading partners. Given the high level of bindings agreed in some sectors and by many developing countries in the Uruguay Round, this demand typically amounts to demanding very significant cuts in the relevant bindings by trading partners. Moreover, the levels of cuts necessary to create new commercial opportunities for corporate interests may not be consistent with any commitment to ensure comparable levels of cuts within a given class of WTO member, or indeed with a commitment that one group of WTO members (such as developing countries) makes less cuts on average than another group.

There are several related factors at work here: the significant number of unilateral reforms undertaken in some sectors and by many countries that has created the gap between the bindings and the applied measures in the first place; the fact that it is cuts in applied measures and not bindings which create new commercial opportunities; agreements among WTO members to maintain comparable levels of ambition among countries at similar levels of development and to expect less ambition from the developing and least developed countries; and the apparently low levels of corporate support for completing the Doha Round. In sum, bindings may well be the legal "currency" at the WTO but, after nearly two decades of unilateral reforms in some WTO members, as currently formulated the proposed cuts in such bindings do not appear to elicit enough corporate support to overcome the opponents to multilateral trade reform.¹³ If this diagnosis is correct then there may be significant flaws at the political economy core of the reciprocity-based multilateral trading system.

To summarise, above I have marshalled arguments in support of the proposition that the bipolar domination of the world trading system by the European Union and the United States has ended. Moreover, I have argued that other countries have come forward and

¹³ Another factor limiting corporate support is the lack of transparency and specificity concerning the exceptions that each WTO member can take with respect to liberalisation in each major area of trade. Unless and until these exceptions are specified openly, a major exporter is likely to discount any potential exports gains from completing the Doha Round by the likelihood that the product or products it ships are listed as an exception. Arguably, the difficulties with bindings described in the main text and the uncertainty generated by lack of specificity on exceptions combine to limit the willingness of major exporters to support the current round of multilateral trade negotiations. In general, more thought needs to be given to the effect of what might appear to be tedious technical negotiating modalities on the incentives of major corporate groups to support multilateral trade liberalisation.

joined, rather than displaced, the EU and the United States. Finally, I have tried to put these arguments in perspective by pointing out other factors that have complicated the negotiation of the Doha Round, including effective domestic interests that have made finding a common level of liberalising ambition difficult and the complications that arise when negotiating trade agreements using bindings after an era of extensive unilateral reforms. These latter two factors raise questions about the political economy of the reciprocity-based negotiations at the WTO. Having said that, I return to the focus here on the multipolar trading system. Next I will consider the various factors likely to shape the commercial policy objectives of the potential new poles in the world trading system. That discussion, plus the observations made above, will provide the basis upon which to consider the possible implications for Europe's longer-term commercial policy and associated strategy.

Factors underlying the Likely Future Commercial Policy Strategies of Brazil, China, and India

Which nations are likely to join the EU and the USA as leading trade powers? This question is difficult to answer with certainty, however, recent economic performance and the profile adopted during the Doha Round of negotiations suggest, initially, three potential candidates namely, Brazil, China, and India. As the data reported in Table 1 indicates, in purchasing power parity terms, after 30 years of fast growth China now has an enormous economy, whose gross domestic product (GDP) is two-thirds that of the size of the US economy.¹⁴ Underlying China's phenomenal economic growth has been an export boom that has seen it become the third largest exporter of merchandise goods in the world (see Table 1). The ratio of total imports plus exports to GDP in China is just under 65 per cent, a level far higher than in the US, EU¹⁵, Brazil, and India. China's growing clout has been recognised by its trading partners and, indeed, some have contended that fear of competitive Chinese exports has made some WTO members more reluctant to liberalise under the auspices of the Doha Round. Even if China's growth rate were to halve over the decade to come then it would still be a sizeable economic power. Together, these matters justify further consideration of China as a potential pole of the world trading system.

In contrast the case in favour of Brazil and India's emergence as poles is less clear cut. Brazil and India

¹⁴ Using current exchange rates the relative size of China's economy looks slightly less large. China's economy recently overtook the United Kingdom's in size, the latter being the fourth largest economy in the world. China is expected to overtake Germany, the third largest economy, soon.

¹⁵ Please note that the data reported in Table 1 for the European Union excludes intra-EU trade.

Table 1
Principal Trade-related Statistics of Current and Potential Poles of the World Trading System

Indicator	Current poles of the world trading system		Potential poles of the world trading system		
	European Union ¹	United States	Brazil	China	India
Overall indicators					
Population, million	459	296	186	1304	1095
GDP, US\$ billion PPP	12097	12409	1627	8572	3816
Total merchandise exports²					
US\$ billion	1320	904	118	762	95
ranking in world ³	1	2	15	3	20
% world total	17.12	8.67	1.13	7.30	0.91
Total merchandise imports					
US\$ billion	1461	1732	77	660	135
ranking in world	2	1	19	3	11
% world total	18.03	16.07	0.72	6.12	1.25
Total services exports					
US\$ billion	432	354	15	74	56
ranking in world	1	2	21	4	6
% world total	27.08	14.66	0.62	3.06	2.32
Total services imports					
US\$ billion	384	281	22	83	52
ranking in world	1	2	17	4	7
% world total	24.39	11.98	0.95	3.54	2.22
Total trade, US\$ billion	3597	3271	232	1579	338
Total trade/GDP, %	29.7	24.4	29.5	64.5	36.7
Total trade per capita, US\$	7837	9714	1018	962	236
Percentage of merchandise exports shipped to EU and USA					
	-	-	42.4	40.3	38.0
Trade policy related indicators					
Tariff binding coverage, %					
Tariff binding coverage, %	100	100	100	100	73.8
Simple average applied tariff rate for agricultural goods, %					
	5.9	n.a.	10.3	15.9	15.4
Simple average applied tariff rate for non-agricultural goods, %					
	4.0	3.3	12.7	9.1	37.6
MFN duty free imports, % of total imports					
	53.1	46.8	22.2	34.0	2.1
GATS services sectors with commitments					
	115	110	43	93	37
Membership of goods-related (services-related) RTAs notified to WTO					
	23 (5)	9 (8)	4 (0)	4 (2)	5 (0)

¹ The data reported here for the European Union refers to its first 25 members. All extra-EU trade data is taken from the DG Trade website and refers to the year 2005.

² All trade data reported here (exports and imports) excludes intra-EU trade.

³ All rankings take the EU as a single trading entity.

Source: WTO Country Profiles, obtained from <http://stat.wto.org>, unless otherwise specified. Data relates to latest year reported in source.

are the 15th and 20th largest exporters of merchandise goods in the world, respectively (see Table 1). Moreover, neither country's trade-to-GDP ratio is exceptionally high. Even so, both countries are regional powers and have been keen to raise their profile globally. Both countries have played a central role in the Doha Round

negotiations and have built worldwide coalitions of WTO members, which is one important characteristic of leading trading powers. Their inclusion as potential poles is more of a reflection of this fact than because of their prior economic performance. Having said that, both countries (and India in particular) may in the future become global economic powerhouses.

The requirements of a sizeable economy and overseas commercial interests and, as far as trade diplomacy is concerned, global ambition and reach are arguably what disqualifies many other regional trading powers from being possible poles of the world trading system, at least for the moment. For sure, both Russia and Turkey are important trading partners of the European Union. Yet neither country has a particularly large footprint in the world trading system (and let us not forget that Russia has still to accede to the WTO). South Africa, Nigeria, and Egypt seem, at most, to be regional powers. Korea, despite its relatively large economy, has not asserted itself as much as India and Brazil in multilateral trade circles preferring, it seems, to focus its energies on negotiating free trade agreements. Much of the same could be said about Mexico. Other regional powers, such as Saudi Arabia, have a sizeable economic footprint but have not been particularly active in either bilateral or multilateral trade negotiations, at least as of now. For all of these reasons I focus my attention on just three new poles: Brazil, China, and India. In what follows I consider the implications of their current trading performance, development strategies, and overseas corporate interests for their potential long-term strategies towards the world trading system. In the short space available I can hardly do justice to each of these nations' rich and illuminating development experience. Instead I identify a number of common themes which may influence their commercial policies in the years to come. Before doing that, however, it is appropriate to dwell on the relative importance of the three new potential poles and the two existing poles (the EU and the USA)

In discussions of changing economic leadership, catching-up, and overtaking and the like it is sensible to keep some sense of proportion. Tables 1 and 2 provide information that may be useful in this respect. Table 1 implies that, at present, the US and the EU together create (in purchasing power parity equivalent terms) nearly \$25 trillion of value-added each year, nearly double the combined national outputs of Brazil, China, and India. Moreover, the EU and the US hold first or second place in the world as traders of both goods and services. The EU, for example, currently exports more in a month than India does in a year. The amount of trade per capita in both the EU and the US is seven times that of Brazil, and the comparable ra-

Table 2
Projected GDPs of Leading National Economies 2000-2030

(billions of 2003 US dollars)

Year	Potential poles of the multilateral trading system				Current poles			Total GDP of potential poles as a percentage of	
	Brazil	China	India	Total (Brazil, China, India)	Total for four largest EU nations (France, Germany, Italy, UK)	Total for four largest EU nations plus the United States of America	Total for four largest EU nations (France, Germany, Italy, UK)	Total for four largest EU nations plus the United States of America	
2000	762	1078	469	2309	5701	15526	40.5	14.9	
2010	668	2998	929	4595	7047	20318	65.2	22.6	
2020	1333	7070	2104	10507	8292	24707	126.7	42.5	
2030	2789	14312	4935	22036	9284	30117	237.4	73.2	

Source: Dominic Wilson, Roopa Purushothaman: *Dreaming With BRICs: The Path to 2050*, Goldman Sachs, Global Economics Paper No. 99, 2003.

tios are even higher for China and India. Clearly, the latter three countries still have a long way to go before they match the global economic footprint of the transatlantic trading powers. Some sense of how long is given in Table 2, which reports Goldman Sachs' now-famous long term economic growth predictions for Brazil, China, and India.¹⁶ Without doubt the precise predictions of such models should not be taken too seriously. Nevertheless they can provide approximate information about the relative economic size of different nations. For instance, these projections suggest that almost 10 years from now Brazil, India, and China's combined economic clout (as measured by their GDPs) will likely exceed the comparable total for the four largest EU economies (France, Germany, Italy, and the United Kingdom).¹⁷ The current size of the US economy will prevent it from being overtaken for decades after that. In sum, then, it seems reasonable to expect that Brazil, India, and China will continue to expand their shares of the world economy and will relatively soon have in aggregate roughly the same economic footprint as the European Union. This development does not imply that the EU and the USA will cease to be significant forces in the world economy. Indeed, both seem certain to retain considerable influence in the world trading system.

I now turn to the factors likely to shape Brazil, China, and India's external commercial policies in the decades ahead. In what is admittedly an ambitious undertaking, I shall emphasise certain economic and political factors which seem to be important in all three of these societies. I do not mean to suggest that these factors are equally important in each country or that other factors are unimportant. Instead, this kind of

¹⁶ The original study by Goldman Sachs (Dominic Wilson, Roopa Purushothaman: *Dreaming With BRICs: The Path to 2050*, Goldman Sachs, Global Economics Paper No. 99, 2003) included economic growth predictions for Russia as well and introduced the moniker for these four emerging markets of "BRICs".

¹⁷ This particular Goldman Sachs study does not present growth predictions for the entire European Union, just these four countries.

forward-looking and inherently speculative exercise is fraught with enough risks that I would prefer to identify a few factors that I am relatively more confident about than produce laundry lists of factors and caveats that the reader has a difficult time sorting through.

The first factor that is likely to be important is that all three economies have turned to external demand to stimulate economic growth (through exports) and are, therefore, relatively dependent on open markets abroad. Indeed, China has been sensitive in recent years to the amount of restructuring that its exports are causing its trading partners and is seeking to shift demand growth towards more domestic sources (including consumption growth and growing demand for non-traded services). Table 1 reports that approximately 40 per cent of each of the new trading powers' exports are shipped to the United States or to Europe; a percentage that, if current trends are to go by, is likely to increase. This finding suggests, amongst others, that the case could be made to Brazil, China, and India that they have a strong interest in ensuring that Western markets stay open and that currently WTO-legal loopholes to close markets (namely, antidumping, countervailing duties, and safeguard measures) ought to receive further scrutiny. The preservation of market access, an important function of the WTO, should at a minimum be of interest to these emerging trading powers.

The second factor to take into account is that, despite all of the trade reforms undertaken by Brazil, China, and India, to date there is still plenty of room for these countries to liberalise access to their markets further. Data reported in Table 1 indicates that the average applied rate of tariffs on agricultural and non-agricultural goods is multiples of the comparable numbers for the US and EU. In addition, comparatively fewer products enter Brazil and especially India duty free. Moreover, with the possible exception of China (which went through the one-sided WTO accession process) there is plenty of room for these countries to expand

their commitments to open their service sectors to international competition. The potential for trade reform, of course, does not imply an appetite for such reform. Indeed, a review of public statements made to national newspapers (and not to international audiences) by Chinese and Indian government officials during the second half of 2006 suggests little desire to liberalise agricultural import regimes or service sectors. India has also expressed concerns about liberalising goods trade further.

Notwithstanding developments in the last year or so, another similarity between Brazil, China, and India is just how relatively few free trade agreements they are members of (see Table 1). Perhaps more importantly, there is little or no evidence that any of these countries have been willing to substantially liberalise their economies within the context of reciprocal free trade agreements. China, for example, has to date signed FTAs that are confined principally to freeing merchandise goods trade and these accords do not include many (if any) service sector commitments or provisions on regulatory measures that tend to be of interest to industrialised countries.¹⁸ If anything, India's track record in FTA negotiations is worse. In addition to limiting the scope principally to goods trade, India has sought exceptions for literally hundreds of tariff lines (so much so that a number of its FTA negotiations have stalled¹⁹ or been suspended because of these demands for exemptions.)²⁰ Brazil's FTA initiatives have tended to fall into two groups: those that

are concluded with Latin American neighbours where the implementation record has been poor (e.g. Mercosur) and those with non-Latin American trading partners where the negotiations have not been completed (e.g. the EU-Mercosur negotiations.)

The conclusion I draw from this experience is that all three countries have little or no experience of agreeing to and implementing extensive trade reforms within the context of reciprocally-negotiated international trade agreements. In this regard it is worthwhile recalling that before the Uruguay Round of trade negotiations developing country members of the GATT (which included Brazil and India) were not expected to liberalise during multilateral trade rounds. The Uruguay Round did call for reciprocal liberalisation, but as noted earlier, this agreement is not held in high regard by many developing countries, including Brazil and India.²¹ In short, Brazil, China, and India have little or no track record of engaging in reciprocal trade liberalisation and, since these three emerging trading powers are taking centre stage in the WTO, the degree of future support for the liberalisation function of the multilateral trading system must be called into question. Worse still, the impressive growth of each of the three new trading powers' exports since 2000 may further convince them that their overseas commercial interests can flourish without further reciprocal trade liberalisation.²²

A fourth similarity concerns the use of industrial policy and the associated implications for business-government relations in Brazil, China, and India. As is well known, with the Washington Consensus moving out of favour with developing country policymakers, industrial policy's profile has risen. For better or for worse, desires not to leave corporate development entirely to the marketplace and to use large domestic markets to nurture national firms probably also account for the attention to industrial policy given by decision-makers in these three countries (and elsewhere for that matter).²³ As I argue below, what is also important is the implications of these policies for how states perceive the performance of "their" firms abroad for their offensive commercial policy agendas.

¹⁸ The China-Chile FTA is a good example. This FTA contains no provisions on service sector liberalisation or on national intellectual property rights law. In fairness provisions on sanitary and phytosanitary measures are included in this FTA and appear to go beyond existing multilateral disciplines. With respect to the liberalisation of trade in goods in this FTA, China ensured that 211 tariff lines were excluded outright from liberalisation. In addition a total of 1610 product lines were given 10 year phase-in times for tariff elimination.

¹⁹ India sought to put 840 items on a sensitive list (down from an initial demand of 1400 items) in its FTA negotiations with ASEAN, and rejected an ASEAN demand that India remove import duties on 90 per cent of its product lines by 2011. The ASEAN-Indian FTA negotiations were suspended soon after on 25 July 2006. Thailand faced similar challenges in its negotiations with India, with the latter seeking to impose very restrictive rules of origin that would have reduced the amount of goods able to enter India on a preferential tariff basis.

²⁰ Defenders of India's FTA strategy point to its FTA with Singapore, which includes measures to modestly liberalise India's service sector. (Even here certain restrictions on the establishment of commercial presence through foreign direct investment have been retained by India.) It should be noted that this agreement also contains numerous exceptions to liberalising goods trade between the parties. A total of 6551 tariff lines were excluded outright from tariff liberalisation. A further 2407 tariff lines will only see a phased reduction of 50 per cent in the applied tariff rates. Together these exclusions and phased reductions account for approximately 76 per cent of India's tariff line commitments in its FTA with Singapore. In my view the latter indicates a distinct reluctance by India to commit to across-the-board goods trade liberalisation in the context of a reciprocal trade agreement with a nation whose economy is less than five per cent of the size of the Indian economy (when these economies are measured in purchasing power parity terms.)

²¹ Both of these nations have called for certain Uruguay Round trade agreements to be renegotiated.

²² According to WTO statistics Brazil, India, and China each saw their combined exports of goods and services grow on average (in nominal terms) by at least 20 per cent per annum since 2000.

²³ The reader should not interpret the following emphasis on China and India's industrial policies and the extensive nature of their business-government linkages as suggesting that these countries' circumstances are particularly egregious or unique. The resurgence in recent years of policies towards national champions from certain European governments, including for example its manifestation as "economic patriotism" in France, demonstrate that the new trading powers are not alone in their pursuit of industrial policies and the like.

China, for one, adopted a policy in the 1990s of developing a so-called National Team of firms capable of competing in world markets.²⁴ According to Sutherland²⁵, 113 of China's 2692 industrial groups were selected for special treatment and have strong links to China's State Council, the most senior governmental decision-making body. A Vice-Premier of China, Wu Bangguo, once rationalised this policy in the following terms:

"In reality, international economic confrontations show that if a country has several large companies or groups it will be assured of maintaining a certain market share and a position in the international economic order. America, for example, relies on General Motors, Boeing, Du Pont, and a batch of other multinational companies. Japan relies on six large enterprise groups and Korea relies on 10 large commercial groupings. In the same way now and in the next century our nation's position in international economic order will be to a large extent determined by the position of our nation's large enterprises and groups."²⁶

"If we use our strong large-scale enterprises and groups and they all fight alone, everyone will still find it difficult in the ever intensifying domestic and international competition to compete on equal terms with large international companies. We must therefore unite and rise together, develop economies of scale and scope and nurture a 'national team' capable of entering the world's top 500."²⁷

It is doubtful whether, having nurtured these large firms and encouraged them to cultivate links with the highest reaches of central government, that Chinese officials will be prepared to let them fail in foreign markets or have their overseas strategies thwarted without some form of intervention on the firm's behalf.²⁸

Matters are slightly different, however, in India. In a pair of penetrating articles published in 2006 Kohli describes how a pro-business, rather than a pro-market, strategy guided both business-government relations in India and the course of economic reforms

in recent years.²⁹ In his concluding observations Kohli notes:

"The evidence is more consistent with the view that the development model pursued in India since about 1980 is a pro-business model that rests on a fairly narrow ruling alliance of the political and economic elite."³⁰

Kohli contends that an influential group of Indian businesspeople agreed that the state should take measures to facilitate export expansion. Indeed so influential was this group in the early 1990s, at the time of India's reforms, that it was referred to as the "junior partner" of government on account of its close ties to the Indian civil service.³¹ Even so, the elaborate steps taken by the Chinese government to promote its National Team (as documented by Nolan) appear to have gone far beyond those taken by Indian counterparts towards their own private sector firms (at least as documented by Kohli).

Two developments in the past year suggest a different form of Indian state intervention on behalf of "its" firms, in particular when those firms encounter difficulties abroad. The first development concerned the hostile takeover by Mittal Steel (a London-based but Indian-run company) of Arcelor, a Continental European steel company partly owned by France, Luxembourg, and Spain. This takeover met with considerable criticism from politicians in Luxembourg and France, raising the prospect of overt or covert discrimination against the bidder. So concerned was the Government of India about Arcelor's treatment that its Prime Minister is reported to have raised the matter in person with the French President, surely the first time the holders of such offices have discussed a corporate takeover.³² During the dispute it is worth noting what Indian Commerce Minister, Mr. Nath, had to say about this matter, as reported in the Financial Times:

"This is an era of globalisation, cross-border investment and liberalisation, not one in which investors are judged by the colour of their skin in breach of . . . national treatment rules. If the colour of the shareholder, the nationality of the shareholder, or the passport of the shareholder is to be looked at, then we will have to give new definitions to national treatment."

²⁴ For details see Peter Nolan: *China and the global business revolution*, Palgrave 2001.

²⁵ Dylan Sutherland: *China's Large Enterprises and the Challenge of Late Industrialisation*, Routledge 2003.

²⁶ Peter Nolan, *op. cit.*, p. 71.

²⁷ Peter Nolan, *op. cit.*, p. 81.

²⁸ For a recent analysis of the corporate performance of the Chinese National Team see Paul Guest, Dylan Sutherland: *How Has China's 'National Team' Of Enterprise Groups Performed? An Evaluation Using Aggregate and Firm Level Data*, Centre for Business Research, University of Cambridge, Working Paper, 2006.

²⁹ Atul Kohli: *Politics of Economic Growth in India, 1980-2005. Part I: The 1980s*, in: *Economic and Political Weekly*, 1 April 2006; Atul Kohli: *Politics of Economic Growth in India, 1980-2005. Part II: The 1990s and Beyond*, in: *Economic and Political Weekly*, 8 April 2006.

³⁰ Atul Kohli: *Politics of Economic Growth in India, 1980-2005. Part II: The 1990s and Beyond*, *op. cit.*, p. 1368.

³¹ *Ibid.*, p. 1362.

³² See "India asks Chirac to be fair to Mittal," in: *Financial Times*, 21 February 2006.

Advising protectionist EU countries to take account of the rise of India and China as economic powers, Mr. Nath said governments should allow shareholders to determine the bid's outcome. "Countries must wake up to the new economic architecture," Mr. Nath said. "The Indian government is very concerned. I raised this with Peter Mandelson (EU trade commissioner) on February 1 and will raise it again."

"Mr Nath's intervention reflects growing concern in India that non-tariff barriers are being erected in Europe and the US that will slow its emergence as a global economic powerhouse."³³

The second development concerns the reaction in India to Tata's very recent takeover of Anglo-Dutch steel group, Corus. The jubilation expressed in India at this corporate deal strongly suggests that many identify Indian well-being with the performance of its multinational firms and raises questions as to whether New Delhi could withstand entreaties by Indian multinationals to intervene abroad on their behalf.

Industrial policy in Brazil does not appear to have taken on the same virulent forms as in India and China. Government measures to bolster exports, in particular to diversify exports (away from agriculture and raw materials) have been taken. Arguably, Brazil has defended internationally its industrial policy interests before, as the long-running Bombardier-Embraer dispute with Canada demonstrated.³⁴ Moreover, India and Brazil have made joint submissions to the WTO membership to relax certain multilateral rules on trade-related investment measures. Yet, these steps appear to be the exception rather than the rule. Overall, then, for two of the new emerging trading powers there appears to be a strong nationalistic link between their multinationals' performance and perceived state interest which, in turn, may well influence their external commercial policies.

What light can the available facts on multinationals' activity shed on the strength of Brazil, China, and India's likely interest in the overseas performance of their national firms? Table 3, which was compiled from United Nations sources, provides some information that may be useful in this regard. The first potentially significant finding is that, together, these three countries have over 6,000 multinational corporations operating

overseas already.³⁵ Nearly 5,000 of these corporations are Chinese and Indian. Moreover, in the latest year for which data was available, China has nearly as many multinational companies operating overseas (3429)³⁶ as the United States (3857). (This is not to say, though, that Chinese multinationals are on average the same size as their American counterparts.)

The second finding in Table 3 is that almost all of Brazil, China, and India's outward foreign direct investment is in the form of cross-border mergers and acquisitions, making the manner in which these firms are treated by foreign governments, regulators, and politicians a recurring potential concern for the three governments. Firms from Brazil, China, and India purchased or merged with a total of 490 foreign firms during the years 2003-2005. Overall, the total overseas stock of foreign direct investments held by these three countries rose from \$82 billion in 2000 to \$128 billion in 2005. While this represents a substantial expansion in the overseas footprint of Brazilian, Chinese, and Indian firms, the data presented in Table 3 also indicates how small (relatively speaking) these sums are compared to the existing operations of US and EU multinationals. However, for my purposes what matters is not whether parity in multinational activity between the new trading powers and the US and EU has been achieved, but when overseas multinational activity becomes sufficiently large so that it begins to markedly influence the trade policies of Brazil, India, and China. As the raw nerves sparked in India by the Mittal-Arcelor takeover can attest, that point may well have already been reached. Further expansion of multinational activities by these three nations' companies is likely to reinforce the priority given to defending the overseas corporate interests of "own" firms.

The purpose of the above was, first, to identify three potential new poles in the world trading system and to justify their choice and the exclusion of other candidate countries. Essentially, the combination of actual economic clout (or the serious likelihood thereof) and the development of a global profile in the multilateral trade arena (in particular during the Doha Round) were the selection criteria. The discussion then proceeded to identify four shared characteristics of these emerging trading powers, namely, a high dependence on Western export markets, overseas investments and

³³ "Racism alleged over Mittal's Arcelor bid – New Delhi criticises European governments opposed to Euros 18.6bn move for Luxembourg-based group," in: *Financial Times*, 11 February 2006.

³⁴ For an account of this dispute and the associated government policies see Andrea E. Goldstein, Steven M. McGuire: *The Political Economy of Strategic Trade Policy and the Brazil-Canada Export Subsidies Saga*, in: *The World Economy*, Vol. 27, No. 4, April 2004.

³⁵ This count is likely to be an underestimate as it refers to the number of parent companies that are based in a given economy and so excludes multinational companies perceived to be "ours" even though they are based abroad. Therefore, India's count would not include the Mittal Steel Company, whose headquarters is based in Europe.

³⁶ This statistic does not include the 948 multinationals based in Hong Kong, China. Whether the Chinese government feels the same degree of affinity for Hong Kong-based multinationals as it probably does for mainland Chinese counterparts is another matter and worth considering further.

Table 3
Various Indicators of the Extent and Nature of Overseas Investments

Country	Number of own Multinationals ¹	FDI outflow (total 2003-2005), value ²	Cross-border M&A purchases (total 2003-2005), value ³	Cross-border M&A purchases (total 2003-2005), number ⁴	Total stock of outward FDI, 2000 ⁵	Total stock of outward FDI, 2005 ⁶
Brazil	1225	12.6	16.0	88	52	72
China	3429	13.1	8.0	190	28	46
India	1493	4.9	4.7	212	2	10
Total (potential poles)	6147	30.6	28.7	490	82	128
European Union member states	39018	1176	673	6259	3050	5475
United States	3857	351	340	3776	1316	2051
Total (current poles)	42875	1527	1013	10035	4366	7526

Source: United Nations Conference on Trade and Development: World Investment Report. FDI from Developing and Transition Economies: Implications for Development, New York and Geneva 2006. ¹ Annex table A.I.6., number of parent corporations, latest year available. ² Annex table B.1., billions of US dollars. ³ Annex table B.4., billions of US dollars. ⁴ Annex table B.5., number of deals. ⁵ Annex table B.2., billions of US dollars. ⁶ Annex table B.2., billions of US dollars.

corporate activity, industrial policies, and business-government relations that could very well shape their external commercial policies in the years to come, with potential implications for each of these countries' role in the world trading system. In the next part the implications of the foregoing observations for the European Union's trade policy and its place in the WTO as well as for the possible form of future multilateral initiatives will be discussed.

The European Union's Commercial Policy in a Multipolar Trading System

A number of internal and external factors are likely to influence the role that the European Union is likely to play in the world trading system over the medium to longer term, and not all of them are related to the rise of a multipolar WTO. Addressing the EU's likely role is quite a different matter from considering the role it should play and my focus here is on what those external and internal factors imply for what the EU is likely to do. I discuss a number of such factors in turn.

In recent years and for a variety of reasons many European voters have tended to side with those interest groups opposed to further economic reforms. There is, for sure, variation across Europe in the support for trade and other forms of economic reform.³⁷ This opposition has manifested itself in the paring back of a European Commission initiative to liberalise the service sector (the so-called Bolkestein Directive), in the watering down of an important takeover directive, in the belief that insufficient attention was given to "social" provisions in the draft European Constitution (which contributed considerably to the eventual defeats of referenda to ratify the proposed Constitution in France and in the Netherlands), and in widespread

³⁷ See German Marshall Fund: Perspectives on Trade and Poverty Reduction. A Survey of Public Opinion, Key Findings Report 2006, Washington, DC 2006, for a recent survey of European and US public opinion on globalisation, economic reform, and related matters.

resistance to liberalising the Common Agricultural Policy. Fears about the effects of import competition from emerging markets, from East Asian nations in particular, have been expressed. All of these considerations are likely to raise doubts as to the extent to which the European Union can liberalise substantially further within the context of reciprocal trade agreements. The opposition to reform may well change over time, in particular if economic growth in Europe rises and there is a sustained reduction in the numbers of unemployed.

European political pressures to resist, or limit, serious liberalisation in the context of reciprocal trade agreements, mirroring similar earlier remarks about India and China, have a number of implications for European Union commercial policy. First, it must call into question what can seriously be accomplished in bilateral FTAs between the European Union and the new poles of the world trading system. The EU's economic footprint is still too big to avoid demands from trading partners that it reform, demands that it would be (on the basis of recent debates within Europe) hard pressed to meet in agriculture and in services. Interestingly, the European Commission is about to launch FTA negotiations with India. Realistically, the prospects of the latter amounting to much are limited, especially as neither party to the negotiation has prepared their respective publics for any of the reforms that might come with this initiative.³⁸ Moreover, if the public statements of Indian ministers are anything to go by, then the Indian government has already successfully painted the European Union as the demandeur in this negotiation. Finally, both parties appear to have very different ideas about the desirable timetable for the talks (with the Europeans wanting a shorter timetable for the conclusion of the negotiations and the Indians indicating a

³⁸ For example, have EU officials made the case for allowing more temporary workers into Europe, which is almost certain to be a key demand of the Indian government?

preference for a more relaxed posture). A substantial amount of optimism is needed to overcome the gloom raised by these considerations.

With respect to an FTA with China, the European Commission recently ruled this out, presumably because it would scare too many horses in Europe. China's economic prowess, especially as it relates to exports, may now make it "too big" for the European Union to negotiate an FTA with, unless there is a marked increase in European self-confidence. Indeed, so long as fears about the rising of emerging markets persist in Europe, India and Brazil may too find that their aspirations for economic growth are a double-edged sword in their dealings with the European Union. On the one hand, a larger market may make the EU keener to negotiate an FTA with them. On the other hand, if greater economic size has come about through exports then European fears about the impact of import competition may block a negotiation from starting or from being successfully concluded. Plus, EU policymakers will take into account that the larger the trading partner the more likely politically painful demands will be made of the EU during any FTA negotiation. If the latter considerations dominate, then the window of opportunity for Brazil and India to sign FTAs with the EU may be short-lived.

The second implication is that, given the limited prospects for successful EU bilateral trade initiatives with Brazil, China, and India, whether the EU likes it or not, all roads lead back to the WTO. However, the very difficulties that the EU, China, and India, in particular, may have in making substantial reforms in the context of reciprocal trade agreements, suggest that the market-opening role of the WTO is likely to be demoted in the years to come.³⁹ Instead, the EU may find common ground with the new trading powers in the development of certain rules that protect their respective overseas commercial interests. To see why recall that the new trading powers are heavily dependent on access to the EU and US markets for their exports and could, therefore, be willing to support measures that constrain the use of trade defence instruments.⁴⁰ Moreover, the

³⁹ Another reason for doubting a market access agenda will gain broad-based support is that the OECD nations' merchandise trade is almost open and that the remaining market access interests of the new trading powers (including agriculture and national labour markets, the latter through the movement of national persons) remain politically sensitive matters in the USA and the EU.

⁴⁰ A contrary argument is that in recent years China and India have increasingly sought recourse to antidumping investigations to protect their domestic firms. During the period 2000-June 2006 China and India initiated 125 and 316 antidumping investigations respectively. The comparable numbers for the EU and the US were 159 and 232 respectively. (Some have argued, however, that with all concerned targeting each others' exports then the case for stronger multilateral disciplines on antidumping measures may become more attractive. There may be something to this argument, however, on the basis of prior experience it seems to me to be yet another triumph of hope over experience.)

concerns of China and India with respect to the overseas operations of their multinationals may lead them to seek new and stronger rules on non-discrimination (on national treatment in particular) in a number of the regulatory arenas that their firms operate in.

Given that Europe has a very large number of multinationals of its own and seeks to secure a greater share of commerce in emerging markets, a rules-based agenda for the WTO may be more appealing than market access-improving initiatives. No one should be under any doubt, however, about the opposition to such an agenda, which would likely have a number of sources. Nationalistic sentiments may well be aroused by an agenda to reform national regulatory policies. Furthermore, if history is anything to go by, the United States for one is likely to vigorously oppose any tightening of rules on trade defence instruments. Moreover, a shift away from the market-opening role of the WTO towards rules development is, at first, unlikely to excite US corporate interests (including its influential agricultural interests), although presumably the case could be made that US multinational corporations would gain. Brazil too may resent foregoing its ambitions to liberalise agricultural trade. These considerations suggest that there is a risk of no coincidence of wants emerging among the five likely future trading powers, with three powers probably disinclined to pursue market opening and two wanting such liberalisation. At this stage, however, perhaps the main point to stress is that a multilateral negotiation based principally on rules may well deserve a closer look, especially if the Chinese and Indian governments continue to identify closely with the overseas performance of their multinationals. On this logic rules strengthening and widening the application of national treatment disciplines could provide one foundation for future multilateral trade accords.⁴¹

The third implication concerns the nature of any future EU leadership at the WTO. Perhaps the right place to start is to reiterate that even though Europe's economy may be slow growing its very size will ensure that it can take a leadership role, should it wish to. For sure, it will be shared leadership. What the EU will have to get used to, however, is a diminution of its power as an agenda setter and as a compromise broker, and its ability to single-handedly advance its interests. The EU will likely retain an effective veto on measures that it does not like and can play a strong role in ensuring that WTO rules are adhered to by others and, perhaps

⁴¹ Bernard Hoekman reminded me that international cooperation on such matters need not take place within the confines of binding multilateral agreements and that alternatives, including soft-law alternatives, could be considered. Pointing to the latter logical possibility is perfectly proper and, in turn, raises the question of the relative effectiveness of potential future binding and non-binding initiatives.

more importantly for credibility-related purposes, by itself. Coalition formation will become more important and above I have attempted to identify certain potential commonalities of interest between the EU and the new trading powers.

It should be stressed, however, that certain key parameters may well change over the years to come, which may alter how the EU pursues its interests at the WTO. The current proliferation of FTAs may have two consequences in this regard. First, Brazil, China, and India may, as a result of signing FTAs, become more comfortable about liberalising markets in the context of reciprocal trade agreements; a process that could well take some time given these countries' track records to date. Second, the proliferation of RTAs may result in growing demands to develop multilateral rules to offset the discriminatory effects of FTA provisions.⁴² Alternatively, there may be sufficient convergence in the language of certain provisions that their codification into multilateral trade agreements may well be less challenging than appears at present. In my view much depends on the specifics of the latter provisions and their overall commercial significance.

Another important parameter is the reaction among principally Western electorates to further international market integration. In addition to the woes expressed in Europe, in the United States over the past 12 months there has been a remarkable amount of hand-wringing by the centre-left supporters of globalisation about its consequences for what is often referred to as the economic security of the middle classes and for wage stagnation.⁴³ Just how much open borders are really responsible for these developments can be debated, but should the mood towards economic reform and openness sour further on both sides of the Atlantic, then EU trade policy may take on an even more defensive posture. This could involve deterring protectionist measures at home as well as abroad and trying to conserve the WTO rules that already exist. Taken together, these arguments highlight the variety of factors likely to influence EU trade policymaking in the coming decade or so.

⁴² Richard E. Baldwin: Multilateralising Regionalism: Spaghetti Bowls as Building Blocs on the Path to Global Free Trade, in: *The World Economy*, Vol. 29, No. 11, November 2006.

⁴³ See, for example, the op-ed piece by Lawrence Summers titled "Only fairness will assuage the anxious middle," published in *The Financial Times* on 11 December 2006. Arguably concerns about the wellbeing of the middle classes played a role in the mid-term Congressional elections in November 2006, which saw a large number of trade sceptics elected (see Simon J. Evenett, Michael Meier: *The U.S. Congressional Elections in 2006: What Implications for U.S. Trade Policy?*, 14 November 2006, mimeo). Finally, see press reports of, and recent testimony given at, a Hearing on Trade and Globalization held by the U.S. House Ways and Means Committee on 30 January 2007.

Concluding Remarks

The shift from a bipolar to a multipolar trading system certainly marks a diminution in the clout of the European Union along a number of dimensions and calls for a review of the ends and means of its commercial policy. The emergence of three more trading powers was considered at some length in this paper because it is likely to condition trade policymaking in Europe and elsewhere. European officials may find that signing free trade agreements with these three emerging trade powers (Brazil, China, and India) is a lot less satisfying than they currently think; with the implication that all roads probably lead back to the WTO in Geneva, irrespective of the detours taken *en route*.

Turning to the potential content of future multilateral initiatives it was argued that a sizeable constituency for the further development of certain multilateral rules, in particular those to limit discrimination against corporations operating inside foreign borders, may well develop and arguably this would be in the European Union's interest. Strengthening and widening the application of national treatment principles could on this logic receive much more attention. In contrast, the priority given to using WTO agreements to open markets could diminish precisely because Brazil, India, and China have little experience to date in undertaking significant commercial reforms in the context of reciprocal trade agreements and are experiencing considerable export growth with their existing access to the markets of the industrialised world. The latter attitude may well change over time⁴⁴, as might public attitudes towards international market integration in Europe and the United States, both of which may relax the constraints facing European trade policymakers in a multipolar world trading system.

All of these considerations point to a potentially different mix of obligations in future multilateral trade accords and highlight the need for further careful consideration of where the common ground actually lies between the key players in a multipolar world trading system. In particular, such consideration will require greater understanding abroad of the important domestic political factors, policy formation processes, and socio-economic and industrial development strategies of the new poles of the world trading system.

⁴⁴ In an email to me Robert Wolfe took this point and developed it in a different way. The challenge as Wolfe sees it is to understand how reciprocal trade liberalisation could be internalised in the policy making processes of the new trading powers so as to give fresh impetus to the liberalisation function of the WTO. My emphasis, of course, has been on the potential for rule development – in particular, strengthening and widening disciplines on national treatment. Rule development can complement liberalisation, but I would argue that the former could go forward on its own (just, as in principle, the latter can).