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Excerpt
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PART A

Global systemic transformations

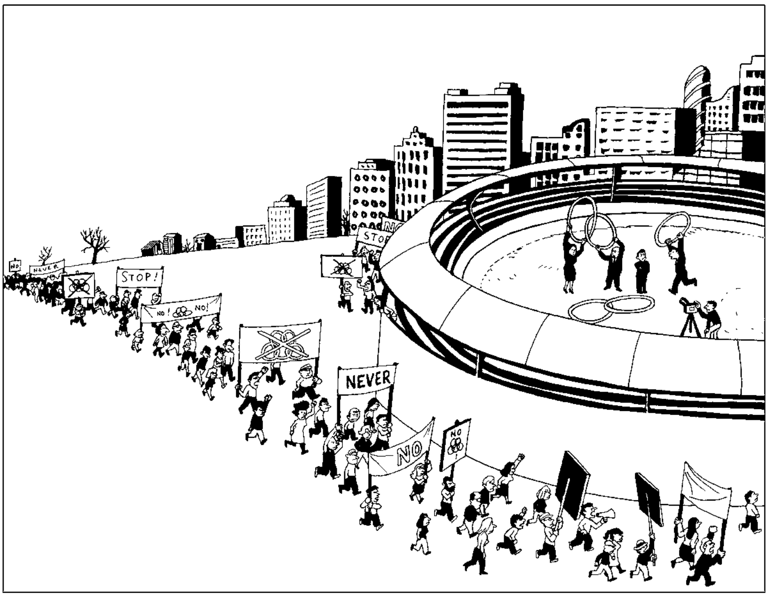
Editorial introduction

Global systemic transformations

The articles in this opening chapter assess the shift in global economic equilibrium from Western hegemony to Asian resurgence through different country and regional perspectives. It is probable that historians will see the 2008–2009 financial crisis as hugely significant in the relative redistribution of geopolitical and economic power. The robustness of the multilateral trading system over the next decade will partly depend on how we manage this transition. Established powers will need to accommodate newcomers whereas emerging powers will need to assume responsibilities to govern the international system.

Seven of the fourteen articles focus on Asia although we return in detail to other regions of the world in subsequent chapters of the book. As all of the articles demonstrate, the global scene is one of intense systemic shifts. The global trade chessboard is undergoing considerable transformations: new actors are emerging in more prominent roles and new trade and investment channels are being explored.

The first four articles chart the re-emergence of Asia, with an emphasis on China, look at dynamics within the United States, and offer an assessment of the benefits and interests of the USA–China trade relationship. We then turn to India's domestic reform path. Japan, Korea and Vietnam, countries that have all relied on the expansion of exports for development, are the subject of the following three contributions. Europe, a leading trading bloc and a unique model of integration, is then discussed. This is followed by an analysis of internal dynamics in the Russian Federation. The final four articles outline the trajectories and prospects of Latin America, the Arab region and Africa as the global landscape transforms.


STOP!
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A1 *Trade in the new Asian hemisphere*

KISHORE MAHBUBANI*

For over two thousand years, the rise of new great powers has been accompanied by rising tension and conflict. Today, we are witnessing the greatest shifts of power with the rise of China, India and other Asian powers. Yet, instead of seeing rising geopolitical conflict and tension, we are seeing a remarkable degree of geopolitical calm in Asia.

Why are we witnessing this strange phenomenon? We can find many complex explanations. But one key explanation will be trade. The creation of the 1945 open liberal international trading order, first under the auspices of the GATT and later under the WTO, is one key reason for the geopolitical calm.

To understand the impact of this 1945 liberal trading order, look at the history of Germany and Japan in the twentieth century when they emerged not once, but twice, as great powers. The first time they emerged before World War II. Then the only means to acquire great power status were by conquering and colonizing as they were the only secure ways of obtaining natural resources and commodities. This explains why Japan overran most of Southeast Asia, one of the most resource-rich regions in the world. However, when Germany and Japan re-emerged as great powers after World War II, they did so peacefully. Why? Simple. They could go around the world and buy any commodities they needed. In return, they could export their products to any corner of the world. It is not surprising therefore that Germany and Japan emerged as two of the leading exporters in the world. The average annual rate of growth of Japanese exports was 15.9% from 1950–1960, 17.5% from 1960–1970 and 20.8% from 1970–1980. In

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the same periods, German exports grew at 16.6%, 11.4% and 19.1% respectively. The key point to note here is that exports do not just produce wealth. They also generate peace.

Exports also explain why China is similarly engaged in a 'peaceful rise'. For many years, Chinese exports were dwarfed by German and Japanese exports. From 1950–1980, China's share of world exports remained consistently less than 1%. On the other hand, Japanese exports, which accounted for only 1.3% of the total exports in the world, grew to 3.1% by 1960 and 6.1% by 1970. Similarly, Germany's share in world exports, which was 4.2% in 1950, grew to 7.4% by 1960 and 9.1% by 1970. But more recently, Chinese exports have grown much faster. Total Chinese exports grew from US$9.8 billion in 1978 to US$438 billion in 2003. China's share of world exports rose phenomenally, at more than four times from 1.8% to 7.5%. As long as China could grow successfully through exports, there was no reason for it to emerge as a militaristic power, like the Soviet Union (which incidentally exported very little). Indeed China learned a very powerful lesson from the collapse of the Soviet Union: that it was better to emerge as an economic power rather than a military power.

The great historical irony here is that China's peaceful rise may have been generated by several Western powers who were not aware that they had 'caused' it. When China applied to join the GATT/WTO in 1986, the Western states decided to set a very high bar for its entry. They forced China to open up many of its economic sectors and to abandon its protection of state-owned enterprises. Most observers expected China to baulk at these stiff conditions and walk away from joining the WTO. Russia's unwillingness to accept similar conditions illustrates well the traditional reluctance of great powers to make painful compromises to gain entry into a multilateral organization.

It was therefore a great surprise in 2001 when China willingly accepted the stiff conditions for entry into the WTO, which included judicial review, uniform administration and transparency, product specific safeguards, non-tariff measures and anti-dumping and tariff rate quota administration. It also undertook extensive reform of agriculture, industrial subsidies, technical barriers to trade, trading rights and trade in services. The tough, shrewd and astute prime minister of China, then Zhu Rongji, wisely calculated that the more China was forced to liberalize by the WTO, the more it would benefit in the long run as these processes of opening up would naturally make the Chinese economy more competitive.

This is exactly what has happened. Both America and Europe used to provide the workshops in the world. Today, the most competitive manufacturing industries in the world are found in China and East Asia. Accepting the rules of WTO has been hugely beneficial to China.

The success of East Asia has led to a change in mindset in India also. For decades, the Mumbai Industrialists Club fought against tariff reduction and trade liberalization because they were convinced that Indian industries would be 'raped' and 'destroyed' by Western multinational corporations (MNCs). Today, amazingly, the same Mumbai Industrialists Club is in favour of rapidly opening up the Indian economy because Indian entrepreneurs believe that Indian companies can compete against the best companies in the world.

This new openness to trade also explains why the fastest-growing trade flows in the world are in Asia. A recent Asian Development Bank (ADB) study has found that the value of total merchandise trade between East Asia and South Asia increased eightfold to about US$140 billion between 1990 and 2007. It also notes that there are around twenty cross-regional free trade agreements (FTAs) at different stages of implementation in Asia. These have significantly improved economic welfare. Take the case of China. At the end of the Cold War, China's trade with Japan totalled just US$16 billion; with South Korea, US$3.8 billion, and with India, US$260 million. In 2005, the trade with Japan had hit a whopping US$213.3 billion; with South Korea, US$111 billion, and with India, US$20 billion. Having spent fifty years after World War II as the arena for the world's biggest wars, Asia is now contributing more to the increase in global prosperity than any other region.

What is truly remarkable is how fast trade is growing between Asian powers who are potentially rivals and competitors. Take the case of China and India. While individually, trade in each country is growing at 20–25% a year, trade between the two countries is growing at the rate of 50% a year. Trade between the two countries increased from around US$300 million in 1992 to about US$2 billion in 1997 to US$12 billion in 2004, and crossed the US$50 billion mark in 2008. Similarly, trade between China and Japan has grown significantly. From 1990 to 2007, total bilateral trade between Japan and China increased from US$18.2 billion to US$236.7 billion.

This remarkable growth in Asian trade provides a powerful leading indicator of how and why the twenty-first century will become the Asian century. Trade also explains why these great shifts of power are happening peacefully in Asia.

The moral of this story is a simple one. Trade is too important a subject to be left to traders or trade policy makers. Since the benefits are enormous, trade should always become the first priority of global leaders whenever they meet. And they should work relentlessly towards reducing all trade barriers and ending all trade-distorting subsidies.

A2 US allegiance to the multilateral trading system: from ambivalence to shared leadership

JAMES BACCHUS*

Trying to discern the shape and the substance of the international trade policy of the United States of America can be almost as difficult as trying to discern the meaning of the 'covered agreements' of the World Trade Organization.

Both seem ever in need of clarification.

The USA is the largest trading nation in the world. No other country has a greater volume of imports and exports. Therefore, no other country has as great an interest as the USA in increasing the flow of trade, or as great an interest in ensuring the continued flow of trade by upholding the rules for trade on which it and other countries have agreed.

Yet the USA has seemed increasingly reluctant, in recent years, to do all that needs to be done to remove the remaining barriers to trade, and to uphold the international rule of law in trade.

Why is this?

Why is it that the USA, which did so much through long decades to establish the multilateral trading system under the auspices of the WTO, now seems so ambivalent about that system, and so hesitant to help provide the leadership it so much needs?

Part of the answer lies in the changed nature of the world economy as we waken to the realization that a new century has brought a new world. The USA remains the world's leading trading nation, to be sure. But other nations have recently emerged as 'major players' in the global economy and, as a result, in the trading system. The USA has

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not yet learned the subtle skills of shared leadership in a new world in which US leadership is not automatic.

Part of the answer lies, too, in the passion with which many in the USA cling to traditional notions of sovereignty. Unlike, say, Europeans, Americans are unaccustomed to being second-guessed by 'foreigners', in international tribunals and otherwise. They overlook the important fact that the USA itself is a 'common market' of individual commercial states united by the US Constitution. The USA has not yet fully comprehended that, just as Americans can be most effective when they act nationally as one, in a globalized world, national sovereignty often can only be effective through the exercise of shared sovereignty internationally.

Part of it, too, can be found in the way many Americans cling – often unconsciously – to the illusion that America's trade and other economic challenges can be overcome through purely American solutions to what are, by definition, international trade issues. It might be assumed that recent events would have shattered this illusion. Most of the rest of the world has wakened to the fact that global economic concerns are precisely that – global. The USA is – as we Americans say – 'talking the talk'; but politically, and psychologically, it is not yet 'walking the walk'.

Then, too, there is the tendency of those in positions of leadership in the USA to favour short-term over long-term interests in the pursuit of trade policy. For members of the US House of Representatives in particular, there is always another election just around the corner of the next trade vote. (Nothing else can explain, for example, the short-sighted recalcitrance of the USA in the seemingly endless series of 'zeroing' cases in WTO dispute settlement relating to the application of anti-dumping remedies. This is especially so at a time when, increasingly, the majority of such remedies are being applied by other countries against US exports. On this issue especially, the USA seems unable to look to its long-term interests.)

In its inability to look to the long term, American policy makers are, of course, no different from policy makers of other WTO members. Short-sightedness can be found everywhere within the world trading system nowadays. But, because of the key role of the USA in the system, its short-sightedness exacts a higher price for the USA and for all other WTO members.

Not to be forgotten, there are as well the pressing demands of domestic politics. Trade politics, like all politics, is local. And, locally, within the USA, the forces that oppose trade, though still outnumbered nationally, are deeply entrenched politically in pivotal electoral states and in crucial senior posts in the Congress (and especially in the House of Representatives).

These political pressures are intensified by calls for protection of domestic workers and industries that increase exponentially during a time of economic crisis. And protectionist pressures, for any politician who must face the voters, are hard to resist. The foreign traders who favour free trade do not vote in his district.

All of this makes it difficult for the earnest and well-intentioned new President of the United States, Barack Obama, to do what he seems personally inclined to do – support trade and support the world trading system. Now that he is President, Obama has, not surprisingly, put behind him the occasional campaign rhetoric that seemed at times to cast doubt on his devotion to trade. He seems increasingly desirous of moving forward on trade – if he can only get the members of his own political party, especially in the House, to go along with him.

Somehow, he must find a way to do so.

Adam Smith taught us that an international division of labour increases 'the wealth of nations'. Smith's follower, David Ricardo, taught us that the wealth of nations will be maximized if all nations pursue their comparative advantage in the global marketplace. The USA, for the most part, has learned these economic lessons through the generations. But Americans need to be reminded from time to time of the truth of these fundamentals of the global economy. At this time, it falls to Barack Obama to remind them.

President Obama seeks recovery from the current historic economic crisis (2008–2009). Economic recovery will not be achieved for the USA if Americans are denied the improved productivity and the higher standard of living that results from trade. The important reforms advocated by President Obama – in healthcare, in climate change, and in much more – will not work if trade is not part of America's overall economic plan.

Trade means broader consumer choices and lower consumer prices. Initiative, incentive, innovation and efficiency are inspired by the additional competition provided by trade. Without these gains from trade, Americans will fall behind others globally, no matter what may be done domestically to hasten America's recovery.