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Decker, Claudia; Mildner, Stormy

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»A New Geography in International Trade«

Global ambitions–regional responsibility

by Claudia Decker and Stormy Mildner

Brazil, India, and China (nicknamed, along with Russia, the "BRICs") are the new, fast-growing regional economic giants. And they know it.

CLAUDIA DECKER is a Fellow at the German Council on Foreign Relations and the director of its Globalization and World Economic Program.

STORMY MILDNER is a lecturer at the John F. Kennedy Institute at the Free University of Berlin and a Konrad Adenauer Scholar.

At present rates of growth, certain rapidly developing countries like China, India, and Brazil could overtake today's industrial states in 40 years. Developing countries are becoming correspondingly more assertive in international trade negotiations, and are dominating their regions economically and politically.

The times when the developing countries were passive objects in global trade talks are long gone. As early as the 1986-1994 Uruguay Round of the General Agreement on Tariffs and Trade they began to demand, if softly, that the developed world fulfill its promise to open markets to farm and textile imports. At the Doha Ministerial Conference of the World Trade Organization in 2001 they would have blocked the start of the next round of trade talks if they had not won some concessions in these sectors. Accordingly development issues like capacity building, were put on the agenda for the first time in Doha. In addition, against strong opposition from the United States and Switzerland in particular, they won the right to produce drugs under compulsory licensing agreements and to import cheap generic drugs from third-party countries through "parallel imports," despite existing patent protection.

By 2003, twenty developing countries formed the G20 to counterbalance the industrialized nations and coordinate their own positions in the run-up to the WTO Ministerial Conference in Cancún, Mexico. This birth represented "the rise of a new geography in international trade," as the former Secretary-General of the United Nations Conference on Trade and Development, Rubens Ricupero, put it. Brazil, India, and China are the giants of the G20 and constitute, with Russia, the "BRIC" bloc. No less a financial judge than the Goldman Sachs investment bank concluded in its 2003 report "Dreaming with BRICs: The Path to 2050" that the economies of the BRICs (whose combined production today still falls under 15 percent of the G6 economies of the United States, Japan, Germany, Britain, France, and Italy) could surpass the G6 in less than 40 years, leaving only the US and Japan among the globe's six largest economies.

In the end the Cancún talks broke up mainly over a North-South clash on the fundamental issues of market access in agricultural trade, the G20's maximalist demand for abolition of all trade-distorting subsidies, and the US and European Union's refusal to yield on these issues. By mid-2004, however, the US, EU, Australia, and Brazil and India as G20 representatives managed to work out a basis for a broad WTO framework agreement to allow trade talks to go ahead.

By last February representatives from Brazil, China, India, and South Africa were also invited to the summit of G7 ministers of finance–and this inclusion even led to speculation that the G7 might be enlarged.

At a regional level, the BRIC states are key political and economic actors, the so called "anchor states." They are

the locomotives in their own areas, but they can also drag others down in stagnation and cross-national economic instability. In South America, for example, Free Trade Area of the Americas (FTAA) negotiations are currently marking time because Brazil, which is co-chair with the US, is not willing to continue without basic concessions by Washington in the agricultural sector. Brazil is now focusing instead on the Mercosur group, in which it is associated with Argentina, Uruguay and Paraguay. Brazil hopes to bring the Andean region and the Central American states into Mercosur, and later to reach trade agreements with India and China, which is by now Brazil's third most important trading partner. Yet, here too the negotiations on deepening regional integration are slow, as Brazil repeatedly reverts to protectionist measures to coddle its own domestic industry and thus does not fulfill the role expected of a leading regional power.

For its part, China is gaining political and economic influence in Asia. This can be seen in its prominent role in Southeast Asian economic agreements. As discontent with the domineering manner of the US and interest in the Chinese market have both grown, Southeast Asian countries have begun reorienting themselves toward China. Last November China signed a trade agreement with the Association of Southeast Asian Nations (ASEAN), which wants to implement a free trade area by the year 2010. With a population of two billion, this would be the biggest free-trade area in the world. Even today China and the ASEAN states have strong economic links; during the first nine months of 2004 China-ASEAN trade increased 35 percent. If this dynamic continues, China will soon replace the US as ASEAN's most important trading partner. India too, which is emerging gradually from its self-imposed isolation, claims a stronger regional role and also aims to conclude a free trade zone with ASEAN–in part, as a counterweight to China.

Soft Power over Military Might

The growing power of the developing countries clearly comes from no overwhelming Weberian military clout. Modern power is exerted through the control and governance of international structures and institutions. Especially in the WTO what is far more important is Joseph Nye's "soft power" or Susan Strange's "structural power"–the ability to change existing structures to one's own advantage. At their core, the instruments of such power tend to be economic and cultural–and include the market power of the private sector. The economic size of a country, the competitiveness of exports, the attractiveness of a domestic market for foreign producers and exporters, and a technological edge are all typical elements of structural power.

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In this respect those developing and emerging countries that have not rejected globalization have benefited greatly from it and gained political influence. Many of these so-called globalizing countries have thereby learned from the failures of earlier development strategies of import substitution, subsidizing of infant industries, and the debt crisis of the 1980s–as well as from the positive examples of some Asian countries with export-oriented economies like Malaysia, South Korea, and Thailand. They have liberalized their markets and implemented economic and political reforms. The globalizing developing countries that chose this route reached an average growth rate of 3.5 percent in the 1980s and 5 percent in the 1990s, along with a significant reduction of poverty. Between 1981 and

2001 the percentage of people living on one dollar a day dropped from 40 percent to 21 percent. In that period fast economic growth in East and Southeast Asia helped more than 500 million people escape poverty. In China alone the number of those living in poverty dropped from 600 million to 200 million. In India, since 2000, urban poverty has fallen 24 percent, rural poverty 30 percent.

By contrast, non-globalizing countries that still seal off world markets have experienced a relatively low growth rate, with an average of 0.8 percent and 1.4 percent in the 1980s and 1990s respectively. In sub-Saharan Africa per capita income shrank by 15 percent between 1981 and 2001.

China

A look at the three developing giants illustrates the dynamic. With a market of 1.3 billion consumers and an enormous pool of inexpensive labor, China will change today's global investments and trade flows. Over the past quarter century China has grown by a striking 9 percent per annum. If this rate continues, the Goldman Sachs report expects China to pass stagnant Germany in the next four years–and the US in 2041.

With a market of 1.3 billion consumers and a huge pool of inexpensive labor, China will change today's global investments and trade flows. Over the past quarter century China has grown by a striking 9% per annum. If this rate continues, Goldman Sachs reports expect China to pass stagnant Germany in the next four years–and the US in 2041.

Such growth is generated primarily by Beijing's explosive trade. From 2000 to 2002 trade accounted for more than 50 percent of GDP; in 2003 alone total exports grew by 23 percent, while imports rose 31 percent, to make China the sixth-largest national economy, with a GDP of $1.4 trillion and the fourth-largest trading nation, with exports of about $342 billion. In 2003 investments of some $54 billion flowed into China. By now Beijing holds the second-largest currency reserves worldwide, at $600 billion.

China is a market with great potential–including, of course, risk potential. In spite of swift economic growth, China is still a developing country, with an average per capita income of no more than $1000. And China's transition to a free-market economy is still incomplete. China's accession to the WTO at the end of 2003 has confirmed its commitment to free-market principles, but the way from a closed to an open market economy and from a conspicuously rural society to an industrial and service society remains long and arduous. Planned reforms include another restructuring of the 170,000 state-owned enterprises, which accounted for half of the country's industrial output in 2002. Also on the agenda is a restructuring of the banking sector; today bad loans constitute more than 25 percent of the whole asset portfolio. Furthermore, China's exchange-rate policy must be revised. By pegging the yuan to the dollar, the Chinese government deliberately stimulates domestic growth–but in the long run this could lead to overheating. By accelerating global competition and increasing resentment of Chinese imports–particularly in the US–the undervaluation of the yuan invites international irritation.

China's big challenge is thus to find some way to close the gap between economic reforms and sluggish political modernization, while avoiding social unrest from the high costs of adjustment. The gap between the relatively rich eastern provinces and the poor western provinces with their sluggish growth, continuously rising unemployment, and economic decline, aggravates China's social problems.

In India, growth averaged 6 percent annually from 1992 to 2002 and after a favorable monsoon in 2003 rose 8 percent to a GDP of $599 billion. In the fourth quarter of 2003 India's growth

of some 10.4 percent even surpassed China's for the first time, and India should grow faster than China over the next 15 years, according to Deutsche Bank Research projections. Over the next 50 years India's economy is expected to expand at an average 5.5 percent, well above the performance of either China or Brazil. This pace would double GDP over the next 13 years and make India the world's third-largest national economy after the US and China by 2020. More than half of the Indian population is younger than 25 years, and India is the only one of the emerging giants whose labor force will grow over the next half century.

Statistically, India is still a rural country, with agriculture producing a quarter of GDP. The industrial and tertiary sectors are becoming more important, however. Today manufacturing accounts for 27 percent of GDP, the service sector for more than 50 percent. Manufacturing–including information technologies and pharmaceutical products–is competitive globally. Indian research, primarily in such areas as space travel and biotechnology, has advanced to world class.

Some caution is in order, of course. Like China, India faces a series of challenges. India is still a closed national economy, in which exports of goods and services amount to only 15 percent of GDP. Exports increased by some 12 percent annually from 1995, to 2003, but India is still only the 31st-largest exporter of goods worldwide and only the 21st-largest exporter of services. Although 17 percent of the world's population lives in India, the country produces only 1 percent of international trade and less than 2 percent of global GDP. In addition, India continues to isolate itself from the world economy by high customs duties. The average Indian tariff is 29 percent, with the average tariff for non-agricultural products running to some 28 percent and for agricultural products to some 37 percent. At the same time, India initiated the most anti-dumping cases in the WTO between 1995 and 2003.

With a per capita income of about $454 in 2003, India is still a developing country, lagging behind China by 10 to 15 years. A fourth of the Indian population still lives under the absolute poverty line of less than one dollar per day. About 9 million people enter the job market every year. To provide them with workplaces, India needs a growth rate of about 8 percent. Furthermore, feeble domestic demand and the absence of internal and external investments is a serious problem. Investments are especially needed for infrastructure, most crucially in community health and education in rural areas.

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Brazil

The third of the trio of emerging giants, Brazil, is also a power regionally and globally. It is the world's biggest producer of orange juice, the third-biggest exporter of sugar, and it has the tenth-largest economy. But more than a third of its 190 million live below the poverty line, the unemployment rate is over 10 percent, and income is unequally distributed.

In 2004 Brazil recovered from the slump of the preceding years. GDP grew by 4.6 percent, the highest rate in a decade. Exports, investments, and domestic demand all increased palpably. Agriculture is still one of the most dynamic sectors; in 2003 it generated 42 percent of Brazilian exports. Today the sector contributes 10 percent of GDP, along with 40 percent of Brazilian jobs. It is growing fast; in the past three years acreage has increased 15 percent, while harvests have increased by almost 50 percent. Brazil is thus keenly interested in opening up farm

commodity markets. Additionally, Brazil is rich in resources. It has the most iron ore of any country in the world, and because of its low labor costs it is also the world's cheapest producer of steel for the increasing demand in China and elsewhere.

Brazil too, however, faces huge risks. Its high $250 billion debt equals 56 percent of GDP. Other problems are excessive bureaucracy, widespread corruption, and the falling competitiveness of many branches. Brazil's infrastructure urgently needs upgrading; transport costs are double those in Russia or China. Besides, the Brazilian economy is not as open as that in other emerging giants. Investments from abroad in 2004 equalled only 2 percent of GDP. Brazil ranks only 25th among world exporters and only 35th in export of services. Brazil's high tariffs stand at 12 percent for agricultural and 14 percent for non-agricultural goods.

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In recent years President Lula da Silva has initiated a macroeconomic stabilization program of strict monetary and budgetary policy and deceleration of inflation and accumulated debt. If this strategy of reforms continues, Brazil's GDP could grow 3.6 percent over the next 50 years, overtaking Great Britain and Germany by 2036 on its way to becoming the world fifth-largest economy, after China, the US, India, and Japan.

Given their economic, demographic and geographic size, all the BRICs–along with other regional "anchor states" like Indonesia, South Africa, and Turkey–are indispensable partners for solving current global problems. Their ascent in becoming political and economic world powers implies a corollary acceptance of responsibility to reform themselves and to help pull others in their regions out of poverty.

Domestically, internal reforms are urgently needed in all these countries, not only to ensure macroeconomic stability, good governance, rule of law, transparency and an end to parasitic corruption, but also to enable them to play a constructive role internationally. Effective and transparent fiscal systems are essential to allow greater opening of markets and reduce reliance on tariffs as a primary source of revenues. Regionally, the new economic powers should become anchor states in a positive sense, helping to draw weak neighbors out of penury. At this stage it is important for them to open their own markets to agriculture and textile imports from the least–developed countries.

One such South-South cooperation program is the New Partnership for Africa's Development (NEPAD), launched in 2001 by the Organization of African Unity (now called the African Union) to promote mutual help in development, good governance, and reforms in countries with similar interests and structural problems.

India, Brazil, and South Africa too are pioneering South-South cooperation. Making their own donations and best practices available to others, they have recently started an International Banking Security Association (IBSA) Fund under the UN Development Program to finance small-scale projects in the least-developed countries.

Finally, the developing counties that are now surging ahead must not pull back and limit their roles in international organizations only to blocking proposals they do not like. They also need to facilitate negotiations actively–including by making concessions. The BRICs will not learn this new role overnight; they will have to grow slowly into their new political position. In this they must be actively supported by industrial countries, both technologically and financially.