

## **Multilateralising twenty-first century Regionalism**

### ***New Trade Governance Rules, the WTO and Emerging Economies***

Suparna Karmakar<sup>1</sup>

#### *Abstract*

The salient features and underlying trends in global trade have undergone marked changes during the last quarter century. The most notable feature of the last decade from a trade policy perspective is the renewed interest in regionalism worldwide given the lack of progress in the Doha Development Agenda (DDA), despite the remarkable resilience of the multilateral trading system and the relatively mild increase in global protectionism in the face of a marked slowdown in global economic activity in the aftermath of the 2008 financial crash. The rise of regionalism worldwide, has implications for the large emerging markets, especially given that they are not party to the negotiations setting the initial rules. The preference for plurilateral, rather than multilateral, negotiations within the WTO system in key areas such as services and environmental goods trade is also on the rise. However, it is clear that in the long run, an integrated global trade governance regime will have to include these high-growth zones and large consumer markets, both from the legitimacy perspective as well as the economic imperatives.

It is in this above context that the paper explores the implications of the recent global turn to regionalism for the emerging markets. Comparing the impact of the super-regional trade agreements with that of WTO-led multilateralism, the paper analyses how the different twenty-first century regional agreements under negotiation may be multilateralised, and/or made compatible with the WTO regime. Finally, we conclude with some thoughts on the potential and ability of emerging market leadership in global trade governance in the coming decade, including their role in reviving the WTO.

*JEL codes: F02, F13, F15*

---

<sup>1</sup> Marie Curie Fellow at Bruegel (Project MULTITRADE, No. 328351). This Policy Contribution reflects only the author's views and the Union is not liable for any use that may be made of the information contained therein. Special thanks to my Bruegel colleagues and interviewees for their insights, and participants' comments during an in-house workshop on the subject. Author contact email: [suparna.karmakar@gmail.com](mailto:suparna.karmakar@gmail.com)

## 1. Introduction

The salient features and underlying trends in global trade landscape have undergone marked changes during the last two decades. While the European Union remains the world's largest trader, in 2013 China for the first time became the second largest merchandise trader, as the United States slipped to the third position. According to the WTO, even as globalisation resisted the crisis-induced protectionist tendencies, in addition to creating a permanent shift downward in the level of trade, the global recession of 2008 may have reduced its average growth rate as well<sup>2</sup>. World trade growth has been anaemic and much below par in 2014<sup>3</sup>, the third successive year of trade growth being at or below global economic growth rates, something that has not happened for decades. Pre-crisis global trade grew at an average rate of 6.0 percent during 1990-2008, a figure attained only once since onset of the crisis.

Economic growth and prospects have also been divergent between the advanced economies and the large developing countries; emerging market average growth rates have consistently been at rates twice that of developed economies, even in the aftermath of the 2008 crash<sup>4</sup>. The OECD has forecast that economic growth will remain weak in the major developed countries in 2014 and 2015, partly due to the array of risks that surfaced since last May, even as the leading developing economies grow at their usual brisk pace<sup>5</sup>. The most recent 2014 growth projections from the IMF (issued ahead of the G20 meeting in Australia) also suggest that the outlook is darkening further. The current climate of weak economic prospects has profoundly changed the liberalisation appetite of the west, now often bordering on fear of globalisation. Irrespective of their stated endorsement of support for globalisation, strong protectionist tendencies are surfacing, in part driven by popular disenchantment with globalisation and trade liberalisation at home. According to an international poll undertaken by the Washington-based Pew Research Center<sup>6</sup>, citizens in key developed economies, viz. the US, Japan and Europe, have become deeply sceptical about important elements of globalisation even as their governments push for further liberalisation. And across Asia, Eastern

---

<sup>2</sup> Global trade in goods fell by 12.2 percent in 2009, by far the largest decline since 1950.

<sup>3</sup> Donnan (2014a)

<sup>4</sup> According to the Economist Intelligence Unit, the OECD economies averaged annual GDP growth of 0.5 percent from 2008 to 2012, compared to the non-OECD economies' average 5.2 percent growth. We should however note here that despite the higher rates of economic growth, the emerging economies will take very long to catch up with the developed country rates of development. In fact, the World Bank's International Comparison Programme suggests that average income convergence has slowed down considerably in the 2010s compared to the earlier couple of decades. It has been argued by the Economist (2014) in its recent briefing that the rate of convergence a decade ago was due to exceptional circumstances which cannot be replicated easily, if at all.

<sup>5</sup> OECD interim forecasts, 15 September 2014, accessed online at: <http://www.oecd.org/eco/outlook/economicoutlook.htm> ; <http://www.oecd.org/newsroom/global-growth-continuing-at-a-moderate-pace-oecd-says.htm>

<sup>6</sup> Donnan (2014b); Stephens (2014)

Europe, Africa and the Middle-east, geopolitics is once again undermining commerce and the open trade and economic globalisation agenda crafted and nurtured in the past half century.

Given the above, and in view of the inability of the full WTO membership to come to an agreement on the Doha market access negotiations after 13 years<sup>7</sup>, the trade liberalisation focus seems to be shifting away from multilateralism, made evident by the recent spurt in bilateral and regional trade negotiations worldwide<sup>8</sup>. While the developments since the recent financial crisis indicate that the WTO is yet to lose its relevance as the multilateral referee of global trade relations, as least insofar as its rule-making and dispute-settlement roles are concerned, the world's major trading nations revived their preference for regionalism over WTO-led multilateral trade liberalisation, with negotiations for three new super-regional trade agreements (super-RTAs) taking place in different parts of the globe: the Trans-Pacific Partnership (TPP), the Transatlantic Trade and Investment Partnership (TTIP) and the Regional Comprehensive Economic Partnership (RCEP). Additionally, at the Asia-Pacific Economic Cooperation (APEC) meeting of trade ministers in mid-May 2014, China aggressively pushed the idea of a new free-trade zone in the region, despite objections from the US, Japan and some other TPP members. This rise of regionalism worldwide, has serious implications for the large emerging markets, especially given that they are not party to the negotiations setting the initial rules<sup>9</sup>. The preference for plurilateral, rather than multilateral, negotiations within the WTO system (in key areas such as services and environmental goods trade) is also on the rise. However, it is clear that in the long run, an integrated global trade governance regime will have to include the high-growth zones and large consumer markets, both from the legitimacy perspective as well as the economic imperatives<sup>10</sup>.

The outcome of these developments is that the old global power balance is changing simultaneously as new economic and trade alliances are being forged. Mistrust and a trend of insular policies are rife on both sides, as evidenced by the closer BRICS' union earlier this year and the perceived *west-against-the-rest* motivation and strategy of the TPP and TTIP negotiations<sup>11</sup>, which

---

<sup>7</sup> Some analysts view this failure of the WTO as an *outcome* of the massive shifts in the world economy that have challenged twentieth century power configurations and enhanced responsiveness to special domestic interests; as a result, WTO negotiations deteriorated into repeated declarations of unchanging positions.

<sup>8</sup> As of 31 January 2014, 435 physical RTAs (counting goods, services and accessions together) were notified to the GATT/WTO, of which 248 are currently in force. The overall number of RTAs in force has increased steadily since the 1990s, a trend likely to be buttressed by the many RTAs currently under negotiation.

<sup>9</sup> Karmakar (2014) points out that it is difficult now to imagine large emerging economies like India and China queuing up to join the new developed country-led RTAs any time soon. China's and India's recent decisions to join the plurilateral negotiations on information technology products, services, government procurement and environmental goods clearly indicate that these two Asian emerging economies are participating in these western initiatives based primarily on their domestic economic imperatives rather than the fear of being left out of global systems/markets. The Indian journalist Indrani Bagchi has [referred to their recent abstentions](#) during a resolution in the UN general assembly as a new form of *non-alignment*.

<sup>10</sup> The 525 million middle-class consumers in Asia today is expected to balloon upto 2.7 billion by 2030.

<sup>11</sup> Beyond the economic and commercial significance, TTP and TTIP are projects with strong geo-political and geo-civilising ambitions which, through the complete reconfiguration of the world commercial order aimed at re-conquering the geo-strategic position of the west which in the last decade and half lost the status of

may have potentially deleterious effects on multilateral cooperation and the global trade governance regime. Karmakar and Sapir (2014) argue in the context of the TTIP negotiations:

“The twenty-first century is bound to see a relative decline of the west and a return to a situation in which Asia plays an economic (and political) role more commensurate with its demographic weight, a situation that prevailed until the middle of the nineteenth century. The trick here is to avoid falling into the trap of thinking that TTIP will help the EU and the US retain their twentieth century positions as uncontested global economic leaders.”

An added complication for global trade governance in the twenty-first century emanates from the increasingly important role that global value chains (GVCs) play today in determining production location, trade and investment flows across the world, as well as in setting trade rules and product and operational standards (including private standards) to suit the needs of globalised production and logistical systems. The large Asian emerging markets today are systemically critical given their: (a) increasing in importance as significant trade partners, both as export destinations and source of critical intermediate inputs, (b) rise in significance as final-consumer demand sources, and (c) key nodal status in the largely Asia-Pacific centred GVC production system. The role of trade and investment rules in this modern regime of global supply chains will necessarily need to differ from the past, and even lead to changes in the future of global trade relationships and challenges for national governments in their governance. The economic needs and compulsions of nations, both large and small, have become more complex and interdependent as a result of GVCs.

### *1.1 Research methodology and Plan of paper*

It is in this above context that the paper will examine the potential implications for the emerging markets of the recent global turn to regionalism. Comparing the impact of the mega-regional agreements vis-a-vis WTO-led multilateralism, this paper discusses ways of multilateralising twenty-first century trade regionalism (super-RTAs as well as the plurilateral negotiations), and the role of major emerging markets in bolstering trade multilateralism. An earlier analysis of potential scenarios on implications of regulatory convergence in the new super-RTAs on global trade and regulatory integration<sup>12</sup> had indicated that in the medium term we are to expect that the west will continue to lead global rules and standard setting, but that we are likely to experience an era of multilateralism at multiple speeds as emergence of distinct regulatory blocks is a strong possibility. We conclude with some thoughts on the ability and acceptability of emerging economies (in particular Brazil, India and China) to exercise leadership in global trade governance going forward, including in reviving the WTO's credibility.

This paper builds on the findings of the earlier papers in the MULTITRADE project and theoretically evaluate (based on scholarly literature in international relations and regional

---

unchallenged global rule-makers. In a statement, the US President had pitched the transatlantic partnership as an “economic alliance as strong as the diplomatic and military alliance that is NATO” ... an “economic NATO” in progress (Gray 2013). Also, Marshall (2013).

<sup>12</sup> Karmakar (2014), *op cit*

integration, multilateral governance and political economy of international economic cooperation) how the new multilateral trade negotiation systems like the super-RTAs and plurilateral agreements (viz. in services and environmental goods negotiations) may affect the credibility and supremacy of the WTO as the premier global trade negotiating forum. The paper will extrapolate the experience of the Asia Pacific Economic Cooperation (APEC) group to assess the credible threat the TPP or non-MFN plurilaterals may pose to the WTO regime in the longer-term. The rest of the paper is structured as follows. In section 2 we briefly discuss (building on Karmakar, 2014) whether the new zeal for regionalism will end up undermining WTO-led trade multilateralism. This is followed by an analysis in section 2.1 on how the super-RTAs and the plurilateral agreements under negotiation can be made compatible with the WTO regime/amenable to future multilateralisation. Section 3 discusses the role and preparedness of the emerging economies in taking a bigger leadership role in the design and continuation of the open multilateral trade governance regime and their acceptability by the rest of the major global players. The final section offers some concluding thoughts.

## **2. WTO-led trade multilateralism - R.I.P.?**

As argued in Karmakar (2014), "(g)iven their design and structuring, these (super-RTA) negotiations are not held on a global multilateral basis, although they are being negotiated between rather large and diverse groups of economic entities that together account for over 60 percent of global trade. This latter feature makes them somewhat multilateral and "brings to mind the early GATT Rounds"<sup>13</sup>. These negotiations aim to achieve 'gold standard' deep and comprehensive trade agreements, setting new rules and regulatory standards that are expected to put pressure on the large emerging economies left outside the deals to adapt or suffer the consequences. Furthermore, like NAFTA which in early 1990s helped to bring closure to the WTO's Uruguay Round negotiations because of fear of being crowded out of export markets – ie trade diversion effects – the proponents of the super-RTAs hope that these will (1) add to the urgency of the WTO Doha Round's conclusion, and (2) establish forward-looking global rules that address current and prospective trade concerns that the present WTO round is not mandated to redress. As discussed earlier, the super-RTAs are also designed to counteract the increasing loss of influence of developed countries in world trade matters.

*Prima facie*, the new super-RTAs run the risk of exacerbating the divergence between regional and WTO trade rules by continuing to erode the WTO's centrality in trade liberalisation negotiations (Karmakar 2014 argued that WTO's premier position in multilateral trade dispute settlement is likely to continue till the RTA dispute settle mechanism arbitrations gain wider legitimacy and their enforcement mechanisms strengthened), and might emerge as game changers in the global trade governance. Clearly, the overriding concern from the WTO's perspective is the prospect that it will increasingly become irrelevant as a trade liberalisation platform, should the

---

<sup>13</sup> Dadush (2013)

super-RTAs manage to achieve their ambitious liberalisation and regulatory harmonisation targets before the Doha Round is formally concluded.

However, contrary to the initial expectations, the super-RTA negotiations have also run into delays and other hurdles in the current hyper-polarised political climate in developed countries, as mounting domestic political pressure has driven western governments to adopt increasingly insular policies that leave little or no room for negotiation among equals. It has often been argued that the WTO at present is too diverse to result in any meaningful convergence during discussions. However, the TPP and TTIP negotiations are proving equally difficult to conclude, especially as the continued economic weakness in the west is breeding discontent and further hardening positions against liberalisation; economic hardship leads naturally to xenophobia, frequently inducing anti-trade and anti-immigrant policies. Also, meeting the timelines are already proving to be impossible unless the scope of the agreements is considerably diluted and the US Congress renews the Presidential fast-track for trade negotiations, also known as the Trade Promotion Authority (TPA)<sup>14</sup>. The experience of missed deadlines for conclusion of the TPP (and also potentially the TTIP) highlight the fact that negotiating outstanding tariff peak and quota issues, and that of regulatory cooperation and convergence, is sufficiently contentious even among a small group of like-minded countries, and require very strong political push to conclude. In that sense, albeit less fatalistic, both the US-led super-RTAs have run into problems that resonate with the experience of the Doha Round of WTO negotiations.

In the end, therefore, whether and how much deleterious impact the super-RTAs inflict on the WTO-led multilateral trade track negotiations will depend on the credible threat of economically meaningful discriminatory outcomes that the new regional agreements can actually create within a definite timeline (i.e. the ability to negotiate and implement ambitious agreements before the WTO Doha agreement is signed). But once the members of super-RTAs have accepted the new norms, they will naturally press, along with the US, for other countries to adopt them. However, as argued earlier<sup>15</sup>, it will not be very easy for countries to sign agreements with the members that do not go so far. If China, India or Brazil felt that these disciplines were too arduous or just did not fit their current domestic requirements, the world trading system would be effectively be split with arguably the most dynamic areas excluded. Even at the WTO, recent experience vis-à-vis China and India's decision to join the plurilateral negotiations on information technology products, services, government procurement and environmental goods trade clearly indicate that the two Asian emerging economies are participating in these western initiatives based primarily on their domestic

---

<sup>14</sup> While technically it is possible that the US can conclude trade agreements even without the TPA, given the bi-partisan nature of the US legislative systems trade partners fear that without it, neither can the US make serious offers nor its partners be assured that their honest best-offers during negotiations will get unravelled by the Congress voting and negotiated deals would not unravel. In some quarters, the absence of TPA has been interpreted as US political ambivalence towards trade deals, including the TPP, TTIP and also TISA (the services plurilateral negotiations in the WTO) that the US leads.

<sup>15</sup> Karmakar (2014), *op cit*, noted that it is difficult to imagine large emerging economies like India and China queuing up to join the new developed country-led RTAs anytime soon.

economic imperatives rather than the fear of being left out of global systems/markets. This trend is further entrenched due to largely Asia-Pacific centred GVC production system and larger and growing domestic markets that has led global MNCs to adjust their export product portfolio to fit the demand (and regulatory) structure in these Asian markets.

This therefore makes for an optimistic assumption that a twenty-first century NAFTA effect from these super-RTAs under negotiation is an inevitable or even highly plausible outcome. A conjecture here is that in light of the increasing global *dis-order* on multiple fronts, there's a strong possibility that the leading global economies will realise the commerce-led short-sightedness of jettisoning multilateralism and multilateral institutions crafted and nurtured in the past half century in favour of regionalism; geopolitics is increasingly coming in the way of business, and regional forums are inadequately equipped to deal with geopolitical crisis. Also, globalisation (in particular the GVC-centred variety of our age) is best served by multilateralism, irrespective of the many short-term economic benefits that regional trade agreements offer; the latter is also almost always less welfare enhancing when compared to the former. Given the relatively higher overall benefits, it is possible that leading trading economies will once again be the champion of WTO-led multilateralism.

### *2.1 Multilateralising the Super-RTAs*

In this section we discuss whether and how the current regional agreements can be multilateralised, and outlines the different ways of effecting such multilateralisation. The relevant sub-theme here is that it is becoming increasingly evident that the western economies need to manage the rise of new economic powers in order to repel the ghost of 1920s. It is absolutely critical that the increasing eminence of high-growth emerging markets and large consumer blocs is accommodated peacefully, in addition to maximising the potential gains from the regional initiatives undertaken. Sustained economic growth and prosperity calls for stability in the global systems, and in turn managing geopolitical rivalries and reintegrating the defectors into a common global system has become an important challenge at a time when the architect of the present era of globalisation is no longer willing to be its guarantor.

For many key global leaders, the super-RTAs are the most complex and highest-profile dossier they have inherited given their focus on transnational regulatory cohesion on sensitive issues, and which must somehow be lead to a satisfactory conclusion<sup>16</sup>. With Doha negotiations in a comatose state, economies prioritised regional negotiations. However, ensuring that the new large regional agreements remain amenable to future multilateralisation requires additional steps to be taken (and appropriate legal languages built-in) before the agreements are signed.

First, it is critical that proponents of super-RTAs become more vocal and active in underlining the non-exclusivity of these agreements. In particular, the US and the EU should strive to

---

<sup>16</sup> This is equally true for the new Indian government led by Mr Modi and the WTO's Bali agreement dossier it inherited from the earlier government. Reneging on a promise made by a sovereign government can only breed more distrust and lead to further fracture of the tenuous global cooperation that countries are trying to stitch together.

avoid that super-RTAs are viewed, as is often the case not only in the EU and the US but also in third-countries, as part of a *the-west-against-the-rest* strategy. Governments and supporters should also push back more firmly against the misinformation that is circulating. Similarly, the leading global economic powers can and should act in a manner to help push the conclusion of the Doha Round, and make the necessary compromises (and sacrifices) that benefit them. In attempting to bring a rapid closure to the super-RTAs and the current WTO Round negotiations, they should lead in ensuring that the new trade rules continue to enshrine the core WTO principles of inclusiveness and flexibility. To that end, while encouraging that the WTO continues to adopt the more nimble mode of negotiating plurilateral agreements in new areas with a critical-mass group of interested parties (as in the Tokyo Round), they must strive to ensure that these plurilateral agreements remain open to all interested parties that may wish to join at a later date. Specifically, TPP and TTIP partners should reassure other countries that these partnerships are not directed competitively or punitively against anyone, and that they will be open for expansion. The US and its TPP and TTIP partners should also begin to articulate how their negotiations might evolve to complement various efforts at regional integration under way elsewhere, as well as work at the WTO.

Second, all the negotiating partners must build stronger domestic support in favour of market liberalisation, the opportunity to set modern rules for trade, and the chance to strengthen further their middle classes and create more inclusive growth; it is time to explore whether there can be more common ground established among business, labour and other stakeholder interests, to propel reforms. Globalisation needs an enforcer – a hegemon, a concert of powers or global governance arrangements sufficient to make sure the rules are fairly applied. But more importantly, without a political architecture that locates national interests in mutual endeavours, the economic framework is destined to fracture and fragment. At a time when continued weak economic prospects and increasing inequality worldwide have turned the popular sentiments against globalisation and inciting xenophobic-nationalism, the moderate political forces need to exert to recalibrate expectations and renew dialogue with the different stakeholders and their own colleagues. And that effort calls for revamping the socio-political contract for globalisation in the sceptical populace in developed economies and an acknowledgement that old axiomatic beliefs of allocative efficiency of markets may need to be jettisoned in favour of complementary (although not necessarily redistributive) policies and structural reforms designed to compensate the losers from globalisation. The past few decades of globalisation experience has proved that markets do not rebalance adequately, at least at the speed required to maintain social stability, leading to conditions such that unless those who lose out from reforms/liberalisation are helped, they will create hurdles for their implantation/deepening in other states and at different times.

### **3. Emerging Economies and twenty-first century trade multilateralism**

What about the new emerging powers? To get an insight on the possible contours of a more constructive engagement and leadership from major emerging market economies in international trade and investment negotiations/ governance, we conducted interviews with trade policy experts

and practitioners in the national capitals of the selected economic powers, viz. Brazil, China, India, the EU and the US, as well as those based in UK and Geneva. It became clear that while the architect of the present era of globalisation was no longer willing to be its sole guarantor, China, India and the rest were apprehensive and also reluctant to step up as guardians of multilateralism.

Today, clearly, the US does not see a vital national interest in upholding an order that redistributes power to rivals; in fact, a surprising revelation was that responses of US analysts and experts from both the republican and the democratic sides were identical in that they felt that many of the recent trade liberalisation initiatives of the US “were erroneous and hasty actions in defence of its super-powerdom”<sup>17</sup>. On the other hand, there seemed to be an equal wariness in accepting/allowing the emerging powers to advance with their leadership actions and reform proposals in case they were at odds with the expectations of powerful vested interests in the developed countries. There seems to be an unhappy situation prevailing where the western powers expect the emerging ones to take leadership on global issues, but on norms and frameworks drafted/approved by them in the past<sup>18</sup>. This strangely echos Birdsall and Kapur’s (2014) comment in the context of the stalled financial sector reforms: “an internationally diminished US is loath to relinquish its dominance of global institutions, yet unwilling to shoulder the associated financial and political costs”. The US market’s enduring weight amplifies its bargaining power in plurilateral trade agreements, which also serve the country’s immediate commercial interests, and while this has prompted its leadership in the super-RTAs, the domestic political system doesn’t allow its negotiators any leeway to negotiate agreements unless the terms are approved by the industry stakeholders (and rules that lock in US competitive advantages), either at the regional forums or the multilateral ones.

Simultaneously, the emerging powers are equally uncertain and wary of taking on global responsibility; their state of poor development makes them afraid of being egged onto *biting-off-more-they-can-chew*. Not surprisingly therefore, even ambitious emerging powers like China (as opposed to the more ambivalent Brazil and India) maintain that China can only take global responsibilities and obligations commensurate with both the level and approach of its development; it’s only very recently that China has started to jettison such rhetoric used to justify its ambivalence to international cooperation and leadership in global issues. What are really driving the policy shift are the fundamental geopolitical changes and the instability in multiple parts of the world this year. But as yet, our discussions with the representatives of the emerging market groups revealed that the emerging economies are yet to have an explicit strategy nor a clear understanding of what they may

---

<sup>17</sup> Based on interactions with experts and panellists at the SIIS-FES workshop *on Restructuring of International Trade and Investment System: What Role for China?*, 8<sup>th</sup>-9<sup>th</sup> May 2014 in Shanghai.

<sup>18</sup> El-Erian (2014) further elaborates: “In this sense, it is the countries that spearheaded the creation of the Bretton Woods institutions that pose the greatest threat to their legitimacy, impact, and, ultimately, relevance. After all, emerging economies cannot reasonably be expected to support institutions that offer unfair advantages to countries that so often preach the importance of meritocracy, competition, and transparency. That is why they are now determined to use their collective economic weight to circumvent these institutions.”

reasonably do to provide leadership, in a manner that has buy-in from the larger membership. And unless they are able to articulate their vision for the new global governance architecture, it is unlikely that they will find supporters or acceptance for their proposals/worldview. Generally, therefore, it is not clear that developing countries as China, India and Brazil will be willing, able or allowed anytime soon to take a leading role in the management of international economic problems – for one, their interests and perspectives are likely to be very different from those of the incumbents.

#### 4. Concluding thoughts

It cannot be stressed more that the world desperately needs a robust rules-based global trade regime. The world is experiencing profound and turbulent transformations in a time of increasingly fragile and contested global governance. The fact that currently there is no major global crisis should not be taken to mean that the institution does not matter. In fact, a number of recent developments seem to indicate that the world may once again be “sleepwalking” into a crisis; the recent robustness of the financial sector performance and their seeming nonchalance about the weakened real economic systems echo the confidence of early 1920s.

Lessons from our experiences a century earlier seem to suggest that it is time all the major economies of the world shed their sense of complacency and display long-term strategic thinking and political-economy initiatives on matters of global economic and trade governance. A grand vision on future trade policy and a longer-term governance strategy is sorely lacking in all the major players, and the current thinking seems to be largely dominated by short-termism and protectionist-nationalist mindsets. As the panellists argued in a [Bruegel workshop on the subject](#) in July, a lack of long-term strategic thinking may have grave consequences for the future of the global trade governance system, which if evolves in favour of fractured regional trade governance regimes will harm most the weaker developing countries, including emerging markets with large populations of poor low-skilled workforce. For it is becoming painfully apparent that in the current geo-political and economic context, doing nothing/ maintaining *status quo* in the multilateral forums is likely to extract a very stiff price in the future from everyone.

Past experience also teaches that economic interdependence need not provide automatic insurance for sustained global peace and cooperation; hence, the key world economic players must make conscious efforts to maintain and improve the global economic and trading system that has brought prosperity and stability for so many in the last half century. A decline of multilateral economic governance will have adverse effects for global trade prospects in countries across the development spectrum, not least of which is the potential demise of the familiar rules-based multilateral order and its consequent implications for developed countries in dealing with large emerging economy powerhouses that may prefer to settle matters through unilateral action or at best bilateral deals. The latter often tend to be both arbitrary and unequal in the negotiating status of the participants, in contravention of the fairness and legitimacy that WTO-led multilateralism

provides. Thus, crafting an appropriate trade strategy to manage this shift is as important as creating the right narrative which addresses the sensitivities of the unequal gains from globalisation and perceived benefits from regional agreements with less disparate trade partners. This in turn calls for recalibrating expectation from the proposed trade agreements, both at the global and regional levels. And as we argue in this paper, such an effort calls for revamping the socio-political contract for globalisation in the developed economies and an acknowledgement that old axiomatic beliefs of allocative efficiency of markets may need to be jettisoned in favour of complementary (although not necessarily redistributive) policies and structural reforms designed to compensate the losers from globalisation.

## References

- Birdsall, Nancy and Devesh Kapur (2014): 'America's Neglected Financial Children', March 28 post; accessed online at: <http://www.project-syndicate.org/commentary/nancy-birdsall-and-devesh-kapur-ask-why-the-us-is-turning-its-back-on-the-multilateral-institutions-that-it-founded>
- Dadush, Uri (2013): 'The Accidental Trade Policy', The Carnegie Endowment for International Peace, May 9 post; accessed online at: <http://m.ceip.org/2013/05/09/accidental-trade-policy/g2wm>
- Donnan, Shawn (2014a): 'Global trade makes a slow start in 2014', June 22, Financial Times.
- Donnan, Shawn (2014b): 'Advanced economies take a dim view of globalisation, survey finds', September 16, Financial Times.
- Economist (2014): 'Economic convergence - The headwinds return', Sep 13th print edition.
- El-Erian, Mohamed A. (2014): 'The Fragmentation of Bretton Woods', Aug 15 post; accessed online at: <http://www.project-syndicate.org/commentary/mohamed-a-el-erian-says-that-refusal-to-reform-the-imf-and-the-world-bank-is-making-the-world-more-dangerous>
- Frieden, Jeffrey A., Michael Pettis, Dani Rodrik and Ernesto Zedillo (2012): *After the Fall: The Future of Global Cooperation*, ICMB & CEPR Geneva Report series No.14, 26 July e-book.
- Gray, C. Boyden (2013): En Economic NATO - A New Alliance for a New Global Order, February 21 post, available online at <http://www.atlanticcouncil.org/en/publications/issue-briefs/an-economic-nato-a-new-alliance-for-a-new-global-order>
- Karmakar, Suparna (2014): 'Rulemaking in Super-RTAs - Implications for China and India,' Bruegel Working Paper 2014/03.
- Karmakar, Suparna and Andre Sapir (2014): Bruegel Memo to the EU Commissioner for Trade, 2014-19, available online at <http://eu2do.bruegel.org/trade/>
- Marshall, A.G. (2013): Large Corporations Seek US-European "Free Trade Agreement" to Further Global Dominance, available online at <http://www.alternet.org/world/large-corporations-seef-us-european-free-trade-agreement-further-global-dominance>
- Stephens, Philip (2014): 'The world is marching back from globalisation', September 4, Financial Times.
- Sapiro, Miriam (2014): Why Trade Matters, Brookings Paper, September.
- Shiller, Robert J. (2014): Parallels to 1937, September 11, Project Syndicate post.
- Lamy, Pascal (2014): Is Globalisation in Need of Global Governance?, *Tribune*, Notre Europe – Jacques Delors Institute, January.